KPMG

cutting through complexity

TAX

# Good, Better, Best

Singapore

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# Contents

# Introduction

For the KPMG network, a top priority is helping member firm clients manage tax transformation and position their businesses for future success. Since 2006, we have conducted regular surveys of tax executives around the globe to uncover their most pressing issues. Our purpose is to gain insights on how these issues influence changes in structure, investments in people and processes, and overall objectives and priorities.

Now, in this updated survey conducted in late 2012, the environment in which tax directors operate has changed dramatically. Lingering economic uncertainty is increasing pressure on companies to cut costs and on tax authorities to boost revenue. Globalisation continues to spur Centralisation of finance, tax and other functions. Companies are expected to improve their governance, accountability and transparency in all areas. Further, political attitudes toward taxation are shifting, with much more focus on civic responsibility and public demands that companies should pay their "fair share" of tax to the jurisdictions where they earn profits.

With this environment as a backdrop, we sought to identify trends and benchmarks on the following fundamental questions:

- How are tax departments changing their operations to address emerging economic, business and regulatory trends?
- How are they progressing on aspects of governance and performance such as strategy, risk management and measurement?
- How are they approaching process and technology investment and improvement, including the impact of cloud computing?
- How are they addressing the pressure to more effectively resource how they do their work?
- How are they responding to rising tax authority scrutiny and demands?

The survey now shows that tax departments have made good progress in several of these key areas. However, in a rapidly changing business and regulatory environment, the results also suggest that there is still work to do if tax departments are to meet the dual challenges of effectively managing risk while providing more effective, real-time support to business activity and influence on the bottom line.

# Focus on Singapore

**Based on KPMG International's 2012 survey of tax executives, tax departments of multinational companies based in Singapore are:**

- **gaining more interest and guidance from directors and upper management** in developing tax strategies that are in line with the company's overall business strategy
- **less focused on tax risk management than their global peers,** presumably due in part to the more business-friendly approach and compliance assistance practices of Singapore's tax authority
- **still likely to be perceived primarily as service providers to the finance function,** focused primarily on compliance, rather than as value-driving business partners to the wider business
- **highly satisfied with current administrative budgets and investments in technology and process improvement,** displaying little appetite for tax transformation projects that would free resources from compliance activities and shift the status quo
- **at risk of having to draw on more resources to serve rising compliance needs** at the expense of currently under-served activities that provide effective, real-time support to business activity and influence the bottom line.

KPMG's series of benchmarking surveys of tax department structures and operations has shown that leading tax departments – those that add the most value to their businesses – do so by putting high priority on three areas:

1. Ensuring clarity of accountabilities
2. Driving standardisation and efficiency
3. Promoting connectivity with their colleagues across the business through a proactive, outward-reaching tax department.

In conducting the survey in late 2012 on behalf of KPMG's member firms, we were keen to see how tax departments in Singapore have progressed in these areas, especially given ongoing economic uncertainty and continuing regulatory reform.

This report highlights insights from the survey on how Singapore tax departments have advanced since our last survey in 2009. For analysis of the global survey results, read *Good Better Best* 2012, and visit kpmg.com/goodbetterbest for more country reports, industry-related data, interactive tools and more.

## Clarity of accountabilities – board and tax interaction rises

Currently, virtually all Singapore-based respondents report having a tax strategy that is consistent with their overall business strategy. Since 2009, survey results show that upper management and directors have started taking more interest in and responsibility for tax matters within the company: 80 per cent of respondents in Singapore say their board has approved their tax department's strategy currently, compared to 68 per cent in 2009, and 72 per cent say their board or upper management was directly involved in guiding the strategy's development.

**80%**
of Singapore-based tax departments have a board-approved strategy that aligns with their overall business strategy

Compared to their global counterparts, Singapore-based companies are somewhat less focused on tax risk oversight. While 70 per cent of respondents report having a documented approach to risk management, slightly below the global result of 71 per cent, only 66 per cent say that their board or corporate leadership had approved their tax risk management approach, compared to 75 per cent globally.

**66%**
have a board-approved approach to risk management

These results may reflect the fact that formal tax risk management approaches are somewhat less of a concern for Singapore-based companies, which is likely due to the approach of Singapore's tax authorities. Compared to most other tax authorities, Singapore's tax authorities are perceived to be less adversarial and more business-friendly. The Singapore tax authorities believe that taxpayers are generally compliant, and they seek to create a tax environment that encourages voluntary compliance and builds community confidence in the tax system. They maintain a constant focus on simplifying the tax system, sharing and clarifying tax positions and interpretations, and engaging the community for feedback and collaboration. This approach toward compliance may have resulted in less focus on tax risk management for Singapore-based companies, at least as far as domestic taxes are concerned.

However, this situation may change in view of the risk-based approach adopted by the Singapore tax authorities and their stepped-up audit efforts, as well as the amended SGX listing Rule 1207(10) and revised 2012 Code of Corporate Governance (which require the boards of listed companies to provide opinion on the adequacy of internal controls, addressing financial, operational and compliance risks of their companies).

Additionally, Singapore-based tax departments have undergone rapid centralisation in the past 3 years, which is important in clarifying accountabilities and ensuring clear reporting lines. Currently, 84 per cent of respondents say their company has a headquarters tax department that directs, manages and coordinates the global tax department, up from 58 per cent in 2009. The result is in line with the global trend (76 per cent report having a headquarters tax department currently, up from 56 per cent in 2009), but tax department centralisation appears to be occurring in Singapore among more companies and at a faster rate.

**84%**
of respondents from Singapore say their company has a headquarters tax department that directs, manages and coordinates the global tax department

Singapore-based respondents also are more likely than their global peers to report having employees with tax responsibilities for particular regions or multiple countries, for single countries, and for business units or divisions. The majority of these employees report directly to the headquarters' tax department. These results may be due in part to Singapore's success in setting business- and investment-friendly policies designed to make it an attractive destination for locating international headquarters.

## Driving efficiency – finance functions still take the lead

Singapore-based respondents report higher levels of standardisation in the areas of tax controls, responsibilities and accountabilities of tax personnel, and tax compliance processes. In other areas, reported levels of standardisation are near or below those reported globally.

Overall, survey results suggest that, unlike tax departments of companies based in many other companies, tax departments in Singapore are still considered an adjunct to the finance function. Tax is still being perceived as primarily compliance oriented, rather that as a value driver within the organisation, and Singapore-based tax departments appear to be receiving less priority and investment than the broader finance function.

**18%**
of respondents from Singapore say finance leadership drives global standardisation of tax processes "relentlessly"

For example, it appears that the progress on standardisation and automation reported by Singapore-based tax departments has resulted from changing priorities of finance functions in the past few years, rather than of tax departments. Nearly all Singapore-based respondents agreed that their company's finance leadership drives standardisation of the global tax department to some extent, with 18 per cent saying finance leadership drives standardisation "relentlessly".

Further improvement of tax department activities and processes does not appear to be a high priority. Currently, only 54 per cent of Singapore-based respondents say they have process-related improvement projects in progress, down from 67 per cent in 2009 and below the current global result of 61 per cent. Only 48 per cent say they are engaged in or plan to undertake an overall tax strategy and operational review, compared to 62 per cent globally.

**48%**
are engaged in or planning a tax strategy and operational review

However, Singapore-based respondents are much more likely than their global peers to report global or regional finance function initiatives: 78 per cent of Singapore-based respondents are undertaking finance function strategic reviews (compared to 61 per cent globally), 64 per cent are undertaking benchmarking reviews (46 per cent globally), and 62 per cent are undertaking Enterprise Resource Planning (ERP) implementations and reviews (46 per cent globally).

**78%**
are undertaking finance function strategic reviews

## Promoting connectivity – Moving tax departments to add more value

Even though Singapore-based tax departments are interacting more with boards and upper management, there seems to be little desire to improve interaction with other parts of the business–which is crucial for tax departments to achieve their full potential as contributors to business strategy and drivers of value.

When asked where they expect their tax department would devote its time over the next 12 months, Singapore respondents give the highest rankings to tax compliance and financial reporting. These activities are expected to occupy 19.8 per cent and 23 per cent of tax department time respectively, which are higher than the global results and have increased since 2009.

**Over 1/2**
of Singapore-based tax departments' time is expected to be spent on tax compliance and reporting in the next 12 months

Integration with business groups and early indication of routine transactions rank low in priority, both in terms of how the tax department is measured and where tax department time is expected to be spent. That tax compliance and financial reporting activities take priority over value-adding activities is another indication that Singapore-based tax departments are still seen as primarily service providers to the business, as opposed to value-adding business partners.

However, there appears to be little appetite among Singapore-based respondents for change: 72 per cent are satisfied with their current administrative budgets, 84 per cent are satisfied with levels of investment in tax technology and process improvement, and only 6 per cent expect the structure of their tax department to change in the near future.

**72%**
are satisfied with current tax administration budgets

For organisations seeking to derive the most value from their tax departments, this satisfaction appears to be misplaced. Further, without additional investment in tax process improvements and automation, there will be increasing challenges for tax departments as rising tax complexity and pressure to reduce costs continues to mount.

**6%**
expect their tax department to be restructured in the near future

Singapore-based tax departments that continue with the status quo risk having to devote even more time and resources to compliance than they do now, leaving less time and resources to provide effective, real-time support to business activity and influence the bottom line. Through additional standardisation, implementation of robust tax risk control frameworks, process improvement and tax technology, Singapore-based companies will be better able to boost efficiency, keep up with their compliance demands, and continue building on the minor gains they appear to have made in improving integration and adding value.

## Blueprint for change

As tax departments struggle to cope with mounting regulatory and cost pressures, leading organisations are seeing that a transformational approach can show the way forward. KPMG International's research has distilled the following steps as crucial elements in a tax department's blueprint for change.

1. Establish a common purpose by aligning strategic goals and objectives of the tax department with those of the wider company.
2. Define one view of performance to monitor effective tax management by clarifying requirements and how performance is measured and valued, through agreed-upon KPIs.
3. Ensure the tax department has high-performing teams with the right number of tax professionals and the right mix of training, skills and experience.
4. Embed processes to realise the tax management strategy in a way that is measurable and sustainable for the long-term.
5. Set systems and procedures to produce, exchange, and distribute timely and accurate information to the right people, at the right time, and in the right format.
6. Employ enabling technologies (e.g. enterprise resource planning systems, tax software) to automate labour-intensive processes that consume resources and increase risk.
7. Influence stakeholders by understanding their goals and constraints and communicating with them to help achieve the goals.
8. Set processes and priorities and align the tax department's structure to promote connectivity and collaboration between tax teams and other departments.

## About the survey

- KPMG International's global survey of people in charge of tax policy and operations of businesses worldwide is one of the largest surveys of its kind.
- Iterations of the survey have been conducted regularly since 2006, charting the evolution of leading tax departments and identifying operational benchmarks for high-performing tax teams.
- For the 2012 survey, 1,150 heads of tax in 22 countries, including 50 respondents from Singapore, took part in blind telephone surveys to share their opinions on how tax departments are adapting to current business challenges. About 700 of respondent companies are Fortune 500, Forbes 2000 or equivalent companies.
- To gain more clarity on the telephone survey results, additional in-depth interviews were conducted with several clients of KPMG member firms and tax professionals worldwide.

## Contact us

**TAY Hong Beng**
**Partner, Head of Tax**
**KPMG in Singapore**
**T:** +65 6213 2565
**E:** hongbengtay@kpmg.com.sg

**MAK Oi Leng**
**Partner, Tax**
**Head of Tax Risk &**
**Dispute Management**
**KPMG in Singapore**
**T:** +65 6213 7319
**E:** omak@kpmg.com.sg

**kpmg.com/socialmedia**



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