KPMG

cutting through complexity

TAX

Good, Better, Best

Spain

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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 Spain

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

- **Adopting company-wide, board-approved strategies for their tax departments** that are in line with and support their broader strategies of international business expansion.
- **Improving their global tax risk management through formally documented approaches** in response to regulatory change and rising levels of tax audit and controversy activity.
- **Driving the efficiency and effectiveness of their tax department's performance through extensive centralisation and process and technology improvements,** in part due to intensifying pressure to reduce costs.
- **Making less use of external advisers to conduct tax department activities in most cases,** although one-third of the more forward-thinking Spanish companies are increasing their use of outsourcing to access specialised and/or local knowledge.
- **Expected to devote increasing proportions of their time and resources to managing tax compliance and tax authority audits** at the expense of activities that proactively support the business and influence the bottom line, unless they make additional investments to improve the efficiency of their tax processes and controls.

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 have progressed in these areas, especially given on-going economic uncertainty and continuing regulatory reform.

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

Clarifying accountabilities – board interest in tax matters increases

As companies based in Spain have sought to internationalise their operations and processes to grow beyond national borders in a difficult economic environment, it has become common practice to implement a global tax strategy that is consistent with the company's overall business strategy – 94 percent of respondents in Spain say they had such a strategy currently, an increase from 80 percent in 2009.

94%
of Spanish global tax departments have a strategy that aligns with their overall business strategy

Respondents from Spain also report greater interest and interaction between boards, upper management and tax departments in developing the company's tax strategy. The percentage of respondents who say their tax strategy has board-level approval rose from 38 percent in 2009 to 86 percent currently. For 84 percent of Spanish-based respondents, the board and/or corporate leadership are directly involved in providing guidance on the tax strategy – an increase from 2009 (38 percent) and slightly higher than the global average (73 percent).

86%
of tax department strategies are board-approved

As the economic crisis has continued in Europe and particularly in Spain, it appears that many Spanish companies are embarking on strategies to grow beyond their borders to strengthen or alter the scope of their international presence and to take advantage of opportunities available in emerging countries. These companies are recognising the importance of ensuring their financial and tax department processes are in line with their globalisation strategies, now and in the future. The majority of them have sought to clarify accountabilities and improve the efficiency of their global tax management processes by establishing centralised tax departmments. The percentage of respondents who say their company has a headquarters tax department that directs, manages and coordinates the global tax department rose from 35 percent in 2009 to 88 percent currently.

Additionally, companies based in Spain are responding to heightened tax audit and controversy activity, which has increased markedly since 2009. Governments in Spain and throughout Europe are stepping up their audit activity and the Spanish government has introduced new tax regulations in order to increase tax revenues. Spain's tax administration has also promoted a voluntary Code of Good Tax Practices, which encourages boards of Spanish companies to be more accountable for overseeing their companies' tax management.

In this environment, reported levels of disputes from Spanish respondents have risen sharply in the past three years as a result. Currently, 56 percent of respondents in Spain are involved in some form of tax controversy. For example:

- 38 percent are involved in indirect tax (sales/use or VAT/GST) controversy, up from 28 percent in 2009
- 30 percent are involved in federal (national) corporate income tax controversy, up from 25 percent in 2009
- 30 percent are involved in disputed involving transfer pricing, up from only 3 percent in 2009.

As governments in Europe work ever harder to improve their finances, tax audit risk and controversy is expected to rise even higher. Boards and upper management of Spanish global companies are clearly responding: 82 percent of respondents in Spain say their approach to tax risk management is board-approved (compared to 75 percent globally), and 76 percent have formally documented their risk management approach.

Over 1/2
of Spanish-based companies are involved in tax controversy

28%
are involved in transfer pricing controversy, up from **3%** in 2009

Driving efficiency – high focus on centralisation and standardisation

Compared to their global counterparts, Spanish global companies are investing more in improving their efficiency and accuracy of their tax and finance controls and processes. For example, 78 percent of them have process-related projects in progress or under consideration (compared to 61 percent globally); 68 percent are improving tax staff training (also 61 percent globally); and 68 percent are now or considering overall tax strategy and operation reviews (62 percent globally).

Spanish companies are also more likely to report finance function transformation initiatives, for example, in undertaking strategic reviews (78 percent, compared to 61 percent globally), risk management and/or control improvements (78 percent versus 69 percent globally), and process improvements (76 percent versus 68 percent globally).

Presumably as a result of these investments, respondents in Spain say higher levels of standardisation of their global tax departments and activities than their global peers. The most standardised areas of global tax department for Spanish companies are in tax processes, followed by tax policies, procedures and staff accountabilities. In terms of the annual tax compliance cycle (from forecasting through financial reporting, filing of returns and reconciliation), reported standardisation was also well above global averages.

Perhaps due to pressure to reduce costs, respondents in Spain appear to be outsourcing somewhat less of their tax department activities and bringing more of them in-house. Currently, 26 percent of respondents in Spain say they use other finance resources to carry out or support tax department responsibilities, compared to 15 percent in 2009. Additionally, 36 percent of respondents say they use a finance or accounting shared service centre to support the tax department, while 32 percent use outsourcing for this purpose.

The one-third of respondents that do outsource have greatly increased their use of third party service providers. Improved management and visibility over compliance activities, lack of availability of internal resources, and freeing up internal resources for other tasks were named as the most important characteristics driving decisions on what compliance activities to outsource or co-source.

The type of work outsourced reflects both the increasing globalisation of these Spanish companies and the heightened tax risk of their operating environments. Currently, three-quarters of these respondents rely on external providers for tax controversy support, up from just over one-half in 2009. The next most commonly outsourced activities currently are tax planning and business support, overseas corporate income tax compliance, and indirect tax (sales/use, VAT) compliance.

Overall, these results suggest that these Spanish companies recognise the benefits of accessing tax resources with highly specialised and/or local knowledge when a business need arises. Doing so allows them to efficiently manage compliance in the jurisdictions in which they do business while allowing their in-house tax teams to focus on other, more value-adding pursuits.

30%
of respondents in Spain outsource tax department activities to external advisers

75%
of these respondents outsource tax controversy support

69%
outsource tax planning and business support, overseas tax compliance, and indirect tax compliance

Promoting connectivity – room for improvement

Companies based in Spain are making significant progress in establishing a global, strategic overview of their finance and tax functions, supported by efficient management processes. Nevertheless, further improvements are needed to encourage and enable tax departments to contribute their full value.

Survey results show that tax departments are highly focused on compliance and reporting activities, while other, more value-adding activities, such as integration with the business, are lower in priority. Without strong connectivity between the tax department and other departments, tax teams will be limited in their ability to collaborate as proactive business partners in setting and advancing business objectives and contributing value to the company.

When asked where they expect their tax department would devote its time over the next 12 months, respondents in Spain gave the highest rankings to tax compliance and financial reporting. These activities are expected to occupy 20 percent and 16 percent of tax department time respectively, while managing tax audits is expected to take up 12 percent.

However, integration with business groups and early indication of non-routine transactions is expected to occupy only 7 percent of tax department time. Other value-adding pursuits are also allotted less time in the coming year: only 13 percent of tax department time will be spent on optimising the effective tax rate and 10 percent will be spent on cash tax savings and tax deferrals.

48%
of tax department time will be spent on tax compliance, financial reporting and managing tax audits

20%
of time will be spent on integration with the business, optimising ETR and cash tax savings/tax deferral

In light of rising tax audit scrutiny and controversy and continued pressure to reduce costs, it seems likely that tax departments in Spain will have to devote an even greater proportion of their resources to compliance and managing tax audits in the future. As a result, they could soon have even less time and resources to devote to proactively supporting business activity and influencing the bottom line.

In the short term, most tax departments do not appear likely to undergo significant additional change. Only a 20 percent of respondents in Spain expect changes in the structure of their tax department. Of these companies, the primary reasons for the change are to reduce costs (70 percent) or to improve controls (60 percent) to accommodate the expanding scope of their international presence.

Given the challenges ahead, global companies based in Spain should reconsider whether their tax departments are well equipped to balance managing tax risk, ensuring compliance and creating value by foreseeing or anticipating risks and by providing the necessary resources in order to cover the fiscal requirements, in line with the company's global strategy. By taking action to improve the tax department's connectivity, while continuing to improve the efficiency of their tax processes and controls, tax departments in Spain have significant opportunities further enhance their value to and profile within the company.

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 current survey, 1,150 heads of tax in 22 countries, including 50 respondents in Spain, 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.

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