A look inside tax departments in the Asia Pacific region and how they are evolving

Summary report:
Asia Pacific tax department benchmarking

KPMG International

home.kpmg/taxbenchmarking

As a seasoned tax leader, you make key decisions every day to evolve your tax department and keep pace with unprecedented pressures, disruptive technological advancements, heightened compliance obligations and more — all while seeking to demonstrate value within your organization and beyond.

For tax executives of multinational organizations, benchmarking against comparable tax departments can be a powerful tool for reflecting on your current position and planning how to prepare your department for the future. To help, KPMG International conducts an ongoing survey of multinational tax departments. While the number of participants continues to grow, the resulting database is already believed to be the most robust of its kind on a global scale, with input from some 400 multinational tax leaders in more than 50 countries.

In this special report on tax departments within companies based in the Asia Pacific, we zero in on data from over 90 tax leaders of organizations headquartered in the region. The data offers insights into how these tax departments are evolving in their structure, governance, priorities and performance measures, through the use of technology and more.

What do the latest results tell us? Compliance and risk management are clearly the top priorities for today's tax leaders, and the tax department's contribution to strategic value now seems to take priority over cost minimization in many areas.

Looking ahead, companies based in the Asia Pacific region appear more or less satisfied with their current sourcing models but unsatisfied with the ability of their companies' enterprise resource planning (ERP) systems to provide tax data. Many respondents expect their companies to invest in technology changes and, to a lesser extent, tax software. When asked what investments they'd most like to see, however, investments in tax technology tops the list, followed by additional people and process optimization.

This report presents a brief overview of selected key findings from the survey data through to summer 2019, and offers some important takeaways for Asia Pacific tax leaders.

Contents

About the survey

— KPMG International's Global Tax Benchmarking Survey charts the evolution of leading tax departments and identifies operational benchmarks for high-performing tax teams.

— The selected findings in this summary report are based on a survey of over 90 leaders in charge of tax policy and operations of companies in major sectors, with participants from 19 Asia Pacific countries.

— About two-thirds of respondent organizations are public companies. Over 40 percent of organizations have more than US$5 billion in annual revenue or turnover. A similar proportion of respondent organizations have more than 10,000 employees globally. Over half have branches, subsidiaries or other permanent establishments in more than 10 countries.

— Tax leaders can still participate in the survey. By doing so, you will have the opportunity to receive personalized insights into how your tax department compares across key areas. Please visit home.kpmg/taxbenchmarking or email tax@kpmg.com to learn more.

Tax departments today

KPMG International research has shown that the most effective, highly valued tax departments are those that manage tax risk and compliance while identifying opportunities for adding value through core tax management skills and proactive collaboration with all parts of the business in advancing the overall objectives.

For many organizations, having a tax department structure that centralizes management and resources can help to achieve these ends. Centralization can help ensure accountabilities are clear, the right mix of dedicated and shared resources are available, and processes and technologies are leveraged to improve consistency, quality and efficiency.

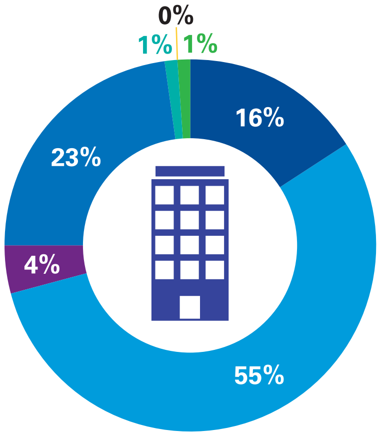
Survey results show that many companies headquartered in the Asia Pacific region are moving toward greater centralization of tax resources and activities, especially in the area of transfer pricing. However, these companies may have opportunities to further centralize accountabilities and activities — for example, through greater use of shared service centers or other centralized sourcing models.

> **"A transformation strategy relies on technology, as well as the need for the right people. In order to effectively transform the tax function, organizations must have the right people in place who possess the skillset required to maintain a technologically advanced workplace that pushes their organization along on their transformation journey."**
>
> **David Linke**
> **Regional Leader Tax & Legal, Asia Pacific**
> **Partner, KPMG Australia**

Reporting lines

For Asia Pacific-based companies, the majority of tax functions still fall within the finance function. Fewer than one in five is independent. Over two-thirds of tax leaders report to the CFO or head of finance (other than CFO), while only 5 percent report to the CEO directly.

In your organization, which department does your central tax department fall within?

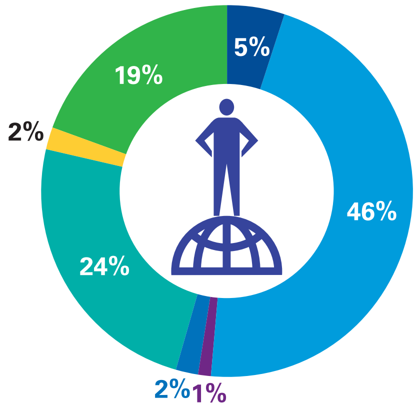


- As an independent department directly under executive management (e.g. directly reporting to CFO)
- As part of finance
- As part of treasury
- As part of accounting
- As part of legal
- As part of operations
- Other

Note: Totals might not add up to 100% due to rounding.

Source: 2019 Tax Benchmarking Survey, KPMG International.

Who does the tax leader report to?



- Chief Executive Officer
- Chief Financial Officer
- Chief Operations Officer
- General Counsel
- Head of Finance (other than CFO)
- Head of Treasury
- Other

Note: Totals might not add up to 100% due to rounding.

Source: 2019 Tax Benchmarking Survey, KPMG International.

Staffing and sourcing

On average, tax functions of respondent organizations have 23 full-time employees (FTE) at their tax department headquarters location, and an average of 33 FTEs at other locations.

A high majority of tax departments (83 percent) are responsible for domestic reporting, while just over half have responsibility for global reporting. For the majority of respondents, the tax department has primary responsibility for:

— tax department administration

— business unit support and consulting

— transaction taxes (VAT, indirect tax, GST, etc.)

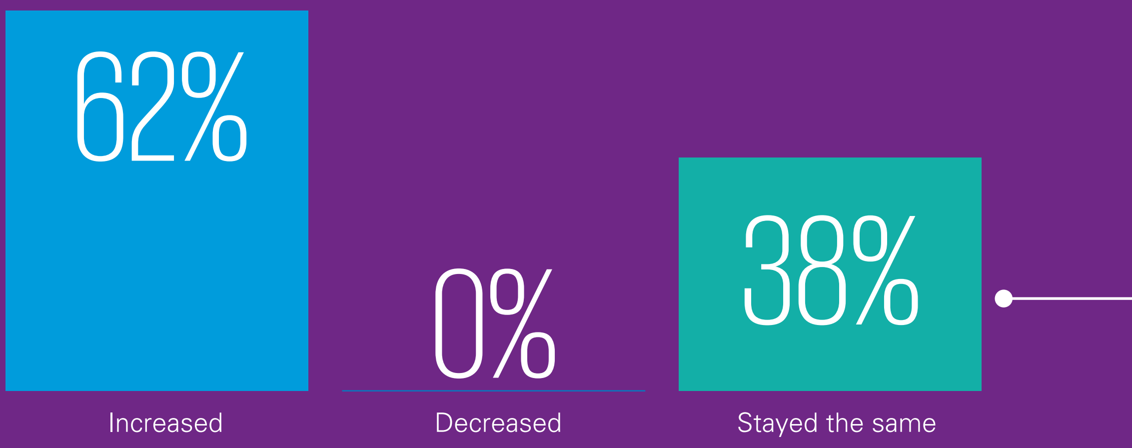
— research and planning

— risk management and governance.

Two-thirds of tax departments do not use a shared service center (SSC) to handle any of their activities. Of those that do, almost two-thirds of respondents have increased their SSC use in the past 2 years, while none say they have decreased it. The processes most commonly delegated to SSCs are accountancy/general ledger, sub-ledgers (creditors, debtors, capital assets), fiscal declaration processes (e.g. for value added tax (VAT) purposes) and tax return preparation.

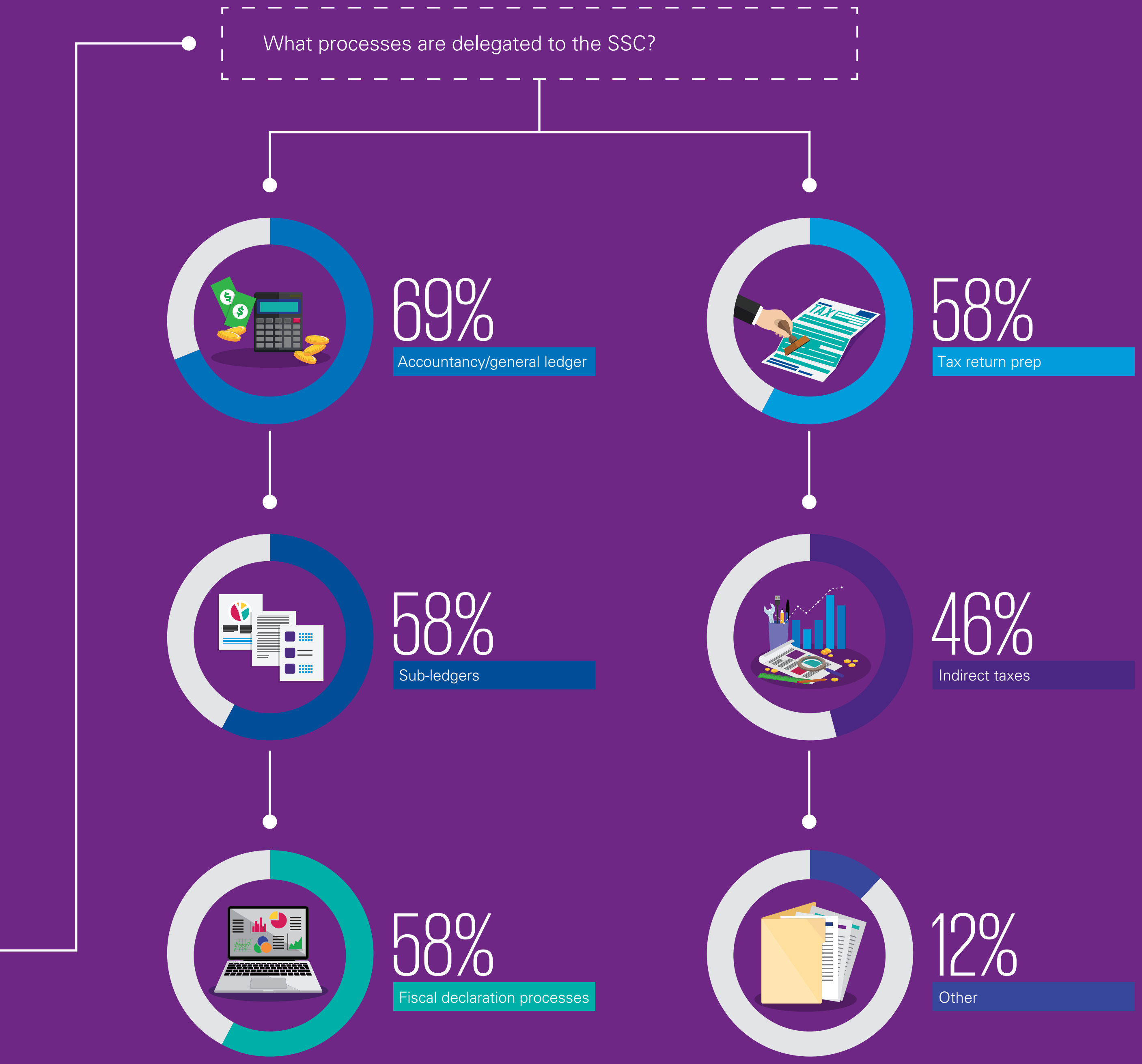
Does your tax department utilize a SSC to handle any part of its function?

If so, would you say that utilization of the SSC has increased, decreased or stayed the same in the past 2 years?



Note: Totals might not add up to 100% due to rounding.

Source: 2019 Tax Benchmarking Survey, KPMG International.



Source: 2019 Tax Benchmarking Survey, KPMG International.

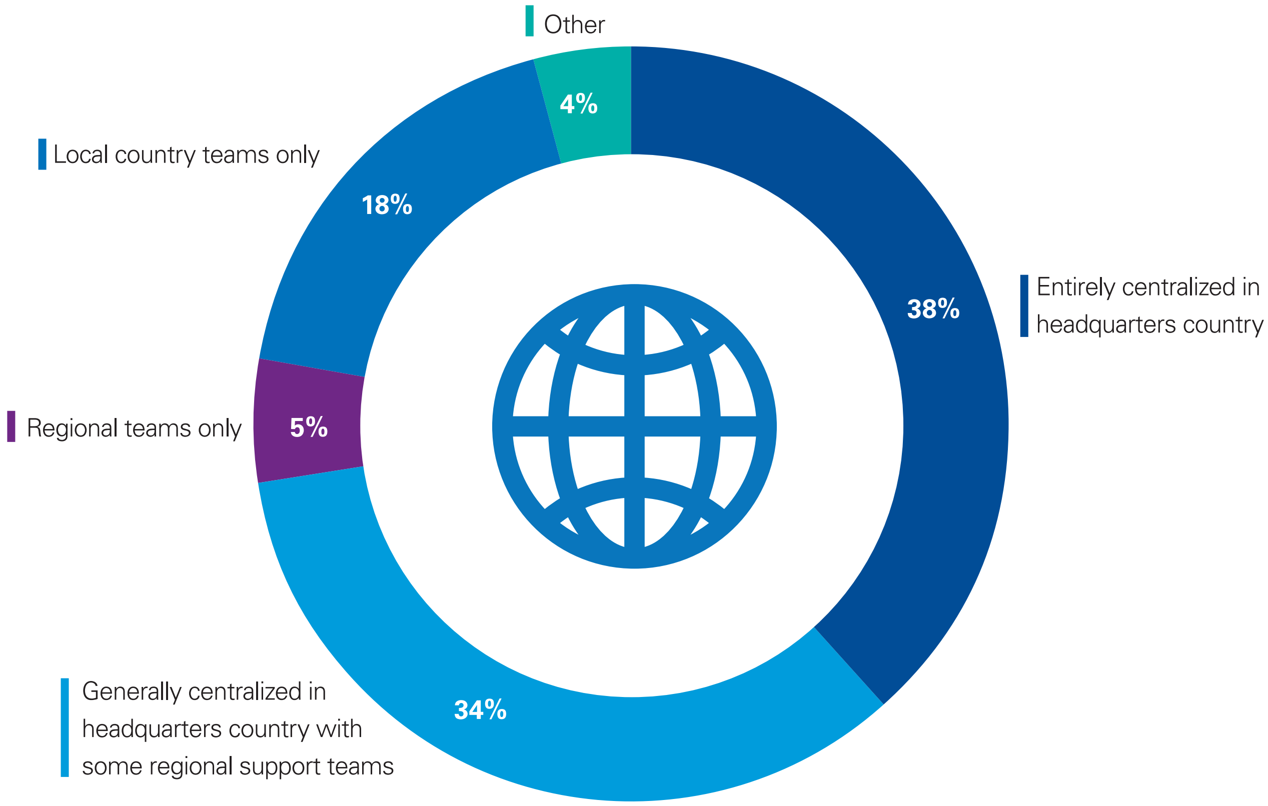
Structure of the transfer pricing function

Due to increased tax authority interest and activity in recent years, transfer pricing risk has been rising. This area is expected to put even more demands on tax teams in the coming years now that many countries have implemented the transfer pricing recommendations arising from the Organisation for Economic Co-operation and Development's (OECD) Action Plan on Base Erosion and Profit Shifting (BEPS). With tax authorities worldwide now engaged in automatic exchange of tax information, centralizing transfer pricing activities may facilitate better compliance globally with country-by-country reporting and master file/local file documentation requirements.

In this light, it is encouraging to see that the transfer pricing functions of most respondents surveyed are either entirely or generally centralized in the headquarters country. Under a quarter of transfer pricing functions are local or regional.

Sixty-two percent of central tax departments are responsible for transfer pricing documentation for associated domestic entities, and a third of them are responsible for associated foreign entities. Further, as discussed later in this report, a significant number of companies plan to invest in transfer pricing and/or country-by-country tax reporting software in the next 5 years.

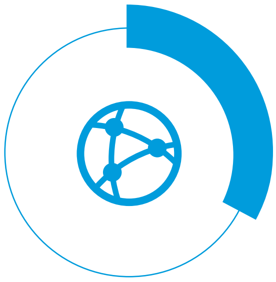
What is the operating model/organizational structure of your transfer pricing function?



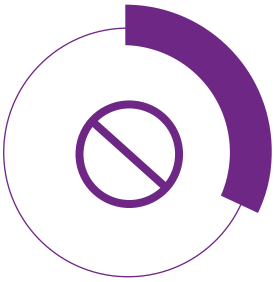
Note: Totals might not add up to 100% due to rounding.
Source: 2019 Tax Benchmarking Survey, KPMG International.

Is your central tax department responsible for transfer pricing documentation for associated entities?

62%
Yes, for domestic entities



33%
Yes, for foreign entities



32%
No, for neither domestic nor foreign entities

Source: 2019 Tax Benchmarking Survey, KPMG International.

Key takeaways:

- Among Asia Pacific based companies, most tax functions still fall within the finance function, although a significant proportion are independent. Only 5 percent of heads of tax report to the CEO directly.
- Many companies with headquarters in the region are moving toward greater centralization of tax resources and activities, especially in the area of transfer pricing.
- Companies may have opportunities to further centralize accountabilities and activities — for example, through greater use of shared service centers or other centralized sourcing models.
- The transfer pricing functions of most respondents surveyed are either entirely or generally centralized in the headquarters country. This result is encouraging given the significant challenges arising from new transfer pricing requirements developed under the OECD’s Action Plan on BEPS.

Governance, risk management and tax responsibility

The amounts of tax that global companies pay in total and in various jurisdictions have captured the spotlight in recent years. Tax leaders are being asked to explain their companies' tax affairs to senior management, boards and other stakeholders. Tax authorities are looking at the quality of companies' tax governance and strategies as they evaluate tax compliance risk. Investors, the media and the public are calling on companies to be more transparent and show they are socially responsible in their policies and approaches to taxation.

At the same time, tax leaders are challenged to spot strategic opportunities and partner with the business so that taxes are managed effectively and the data collected for reporting and compliance obligations can, in turn, be used to offer valuable insights for the business.

Survey results show that many companies in the Asia Pacific region have recognized and responded to the need to demonstrate strong frameworks for tax governance, risk management and tax responsibility. These frameworks often mandate board-level involvement in tax governance. Most tax leaders in the Asia Pacific region say they are well involved in strategic decision-making. However, tax involvement is suggested, but not required, in decisions involving many high-profile risk areas, and some high-profile risk areas may be overlooked.

> **"With the global trend toward increased transparency, there is a need for tax professionals to be exceptional communicators and brand ambassadors. Many tax leaders are conscious that they need to be able to articulate internally and externally the ways in which their departments embody the values of the organization and contribute positively to society, while also adding value to the business."**
>
> **Jane McCormick**
> **Global Head of Tax & Legal**
> **KPMG International**

Tax approaches and risk management

Nearly 60 percent of respondent companies have a documented tax strategy or overarching tax policy document covering tax risks. Of these companies, half of respondents review and update this strategy at least annually. Respondents say the most important objectives within their tax strategy's scope are (on average; in ranked order):

1. tax compliance
2. risk minimization
3. group tax rate

The majority of respondent companies have a tax code of conduct to frame their risk tolerance and tax decisions. As part of their approaches to corporate social responsibility (CSR), 20 percent disclose their tax information publicly, while an additional 24 percent disclose some limited tax information. Thirty-five percent of respondents intend to increase public disclosures about their tax information in the future.

Board and business involvement in tax strategy

In over two-thirds of respondent companies, a board member (or board-level individual) has been assigned responsibility/accountability for tax.

Within tax strategy or overarching government policy documents, other parts of the business are instructed to involve the tax department most commonly in the high-profile risk areas of reorganizations/merger and acquisition (M&A) transactions, transfer pricing and setting up foreign permanent establishments. However, fewer tax strategy documents instruct other departments to seek tax department involvement in some areas that could bear equivalent tax risk, such as product launches, personnel secondments, and changes in information technology (IT) structures.

For any of these matters, involving the tax department is usually optional. Under one in five have documented guidance on involving the tax department and, of these, the requirement is legally binding in only 39 percent of respondent companies.

Tax involvement in planning and strategy

Almost two-thirds of tax departments contribute to operational business planning/business strategy, with 15 percent completely involved. Fifty-seven percent say this involvement increased in the past 2 years.

Does a board member (or board level individual) take responsibility/accountability for tax?

Note: Totals might not add up to 100% due to rounding.
Source: 2019 Tax Benchmarking Survey, KPMG International.

Do you have a tax code of conduct to frame your risk tolerance and tax decisions? If so, is it public or private?

16% Yes, we have a tax code of conduct and it is publicly available

53% Yes, we have a tax code of conduct for internal use

31% No, we do not have a formal tax code of conduct

Note: Totals might not add up to 100% due to rounding.

Source: 2019 Tax Benchmarking Survey, KPMG International.

Does your organization currently disclose your tax information publicly (e.g. as part of your CSR approach)?

20%

Yes, we do this already

55%

No

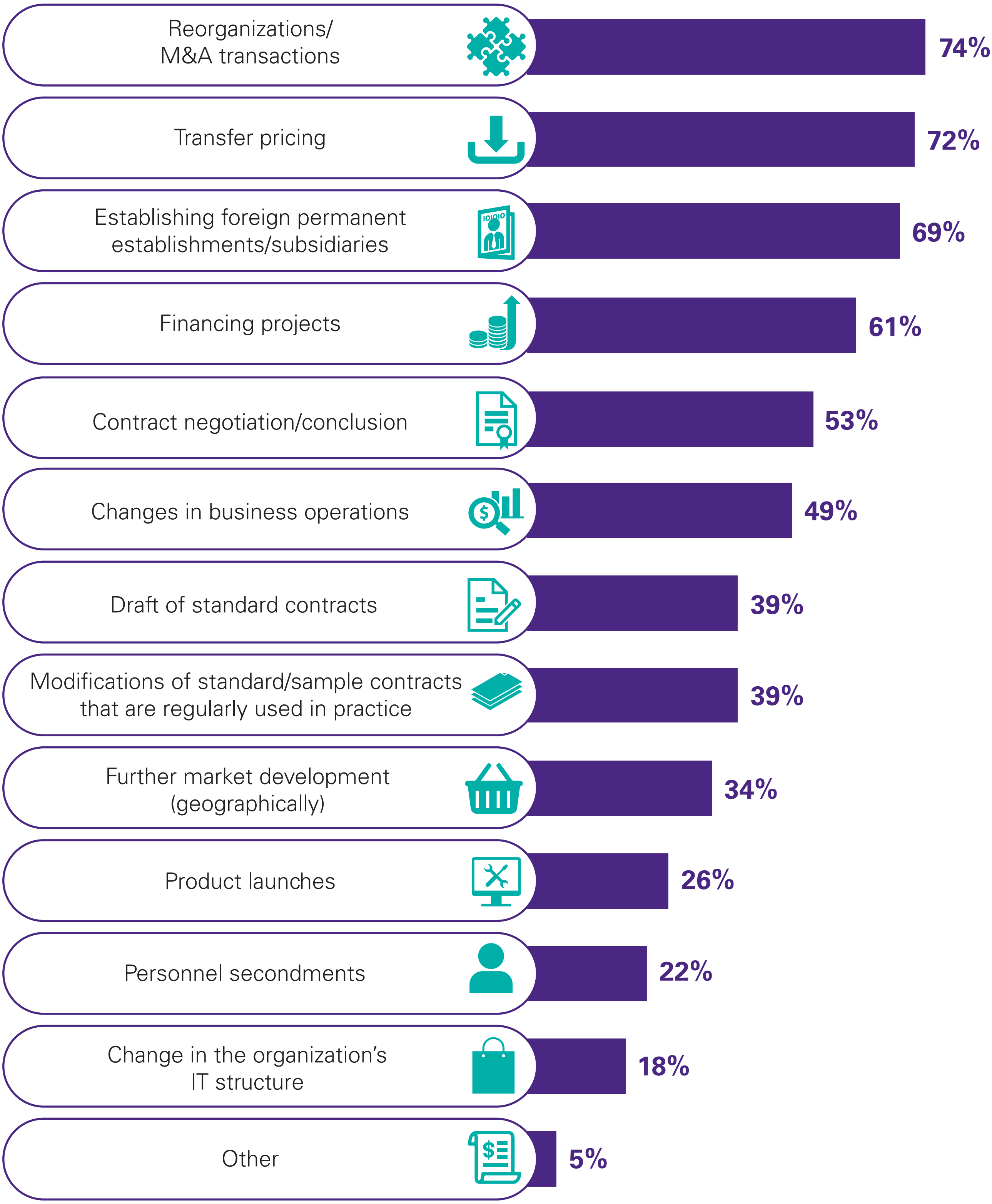
24%

Somewhat, we disclose some limited tax information as part of our CSR efforts

Note: Totals might not add up to 100% due to rounding.

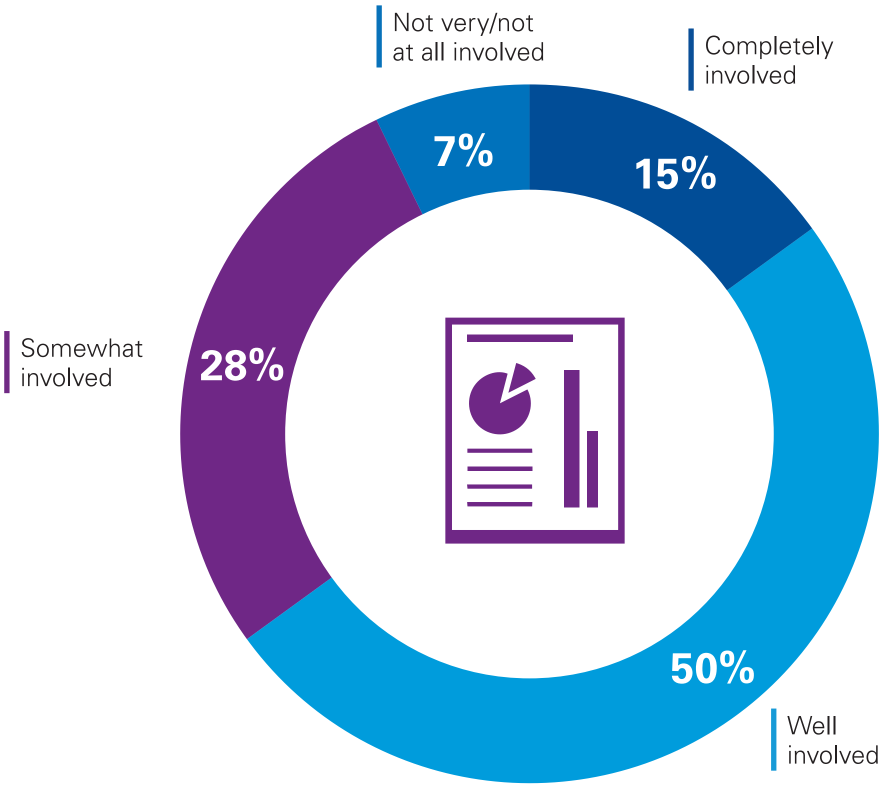
Source: 2019 Tax Benchmarking Survey, KPMG International.

In which of the following areas does the tax strategy or overarching governance policy document instruct other organization entities to involve the tax department?



Source: 2019 Tax Benchmarking Survey, KPMG International.

How involved is the tax department in overall operational business planning/business strategy for the organization?



Note: Totals might not add up to 100% due to rounding.

Source: 2019 Tax Benchmarking Survey, KPMG International.

Key takeaways:

— Many companies based in the Asia Pacific region have recognized and responded to the need to demonstrate strong frameworks for tax governance and risk management.

— About 60 percent of respondents have some form of documented tax strategy. Tax compliance, risk minimization and group tax rate are the most important objectives within the tax strategy's scope.

— Other parts of the business are often instructed, but not formally required, to involve the tax department in high-profile risk areas. The most common of these areas are reorganizations/M&A transactions, transfer pricing and setting up foreign permanent establishments.

— Nevertheless, almost two-thirds of tax departments are well involved or completely involved in operational business planning/business strategy, and this involvement has increased in the past 2 years in the majority of cases.

Measuring performance

Measurement drives performance and informs leadership of the tax department's effectiveness. Clear, commonly understood performance measures are important for demonstrating the tax department's worth and quantifying the value it brings. Metrics can also be used to support the case for investment in new technologies and process efficiencies to derive more value from tax processes.

To measure the performance of their tax function, the five most important metrics used by management of respondent companies are:

1. accuracy of returns and avoidance of penalties (66%)
2. tax compliance deadlines (internal and jurisdictional) are met on schedule (61%)
3. appropriate tax risk management (59%)
4. tax risks consistent with corporate risk profile (46%)
5. results of tax jurisdiction audits are as expected (43%).

These responses appear to be in line with respondents' priorities within their tax strategy's scope. All of the top five metrics are primarily risk- and compliance-oriented, while traditional tax department metrics are lower priorities.

The rankings for business unit satisfaction, supporting corporate strategy and adding value suggest some attention is being paid to how tax functions are interacting with the business and contributing to strategic decision-making. It seems that companies in the region may plan to put more effort in these areas. As discussed later in this report, when it comes to process improvements, consulting with business or operating units tied with process standardization as the top named priority for process improvements.

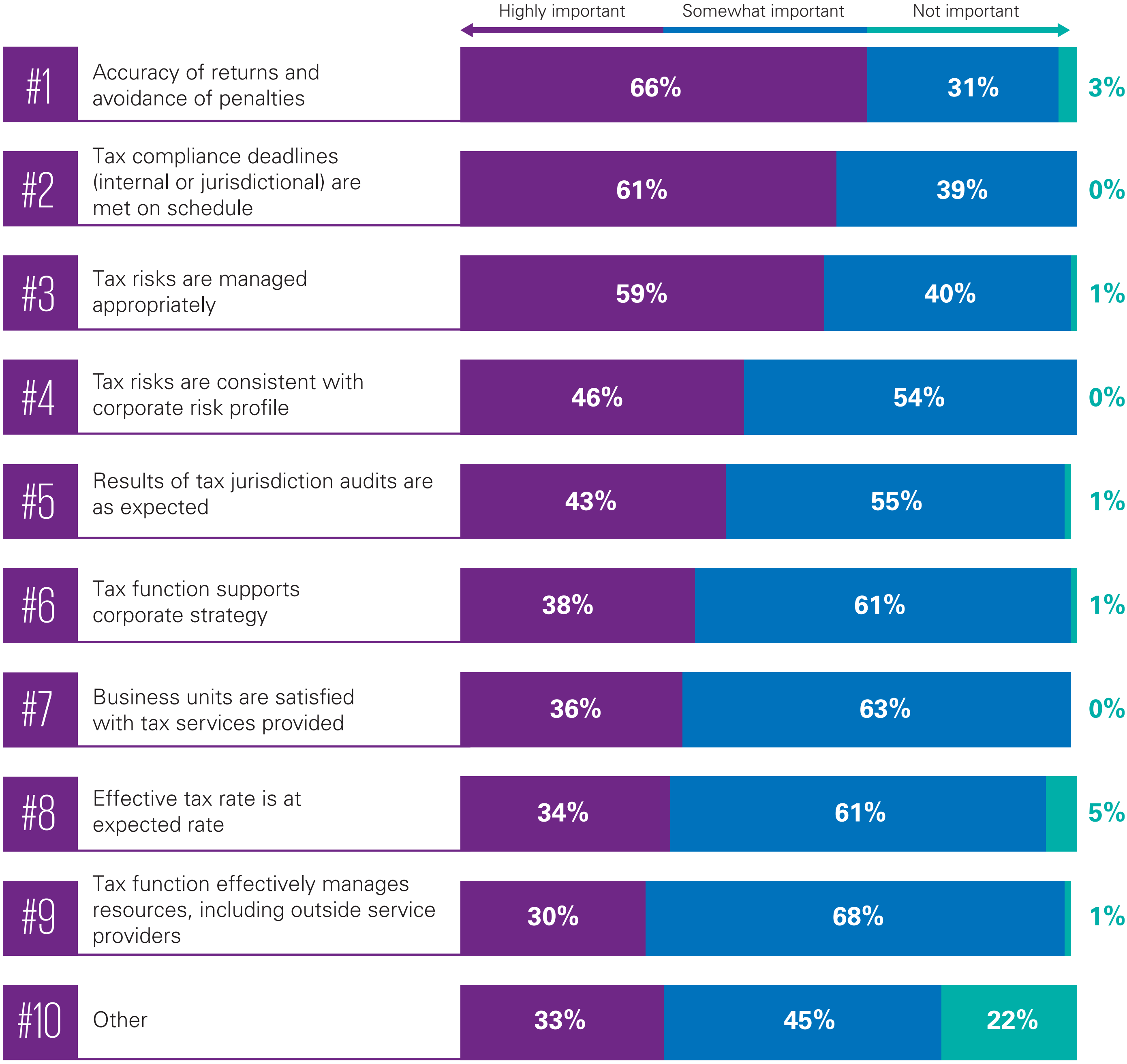
Key takeaways:

— Clear, commonly understood performance measures are important for demonstrating the tax department's worth and quantifying the value it brings.

— Results from companies based in the Asia Pacific region suggest risk management and compliance management are considered as the most important measures of tax department performance.

— Attention is also being paid to measuring how tax functions interact with the business and add strategic value, and it seems this will increase in the future.

Respondents ranked how important the following performance metrics are to management (on average; in ranked order of importance):



Note: Totals might not add up to 100% due to rounding.
Source: 2019 Tax Benchmarking Survey, KPMG International.

Tax departments of the future

At the beginning of this report, we noted that an efficient and effective tax department is structured to ensure that accountabilities are clear, the right mix of dedicated and shared resources are available, and processes and technologies are leveraged to improve consistency, quality and efficiency. Are today's companies prepared to make the investments in people, processes and technology needed to create tax departments designed to meet the challenges of the future?

Survey results suggest that, for Asia Pacific based companies, the trend toward greater centralization and standardization will continue. Increasing the number of tax staff members is one of tax leaders' top priorities for investment, and the number of tax department FTEs is expected to increase in half of respondent companies. With the notable exceptions of country-by-country and transfer pricing software, however, companies may be missing out on opportunities to drive efficiencies by increasing their use of tax-related software.

Priorities for improvement

Nearly three-quarters of respondents say that tax departments are moving towards greater centralization within their organizational structure.

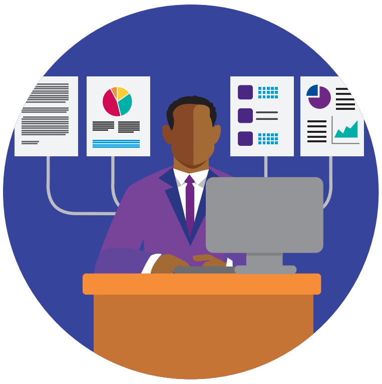
When we asked respondents what are their top priorities for process improvements in the next 5 years, consulting with business or operating units and process standardization tied as the most common answers.

Staffing and sourcing

Over one-third of respondents expect tax head counts to remain the same over the next 5 years. Half of respondents expect their number of FTEs to increase — with almost one in five projecting their head counts will grow by more than 20 percent.

Many respondents expect their use of co-source resources from finance SSCs (40 percent) and tax providers (38 percent) to increase over current usage. Forty percent plan to increase their use of centers of excellence for key functions such as transfer pricing and transactions. Relatively few companies plan to decrease their use of any of these sourcing options.

The most important process improvement areas to focus on over the next 5 years:



Consult with business or operation units

Standardize processes

Formalize risk management

Tightly connect provision and compliance processes

Paperless environment

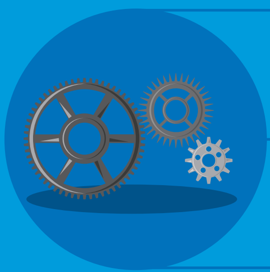
> **"Finance departments have always been challenged to do more with less, and tax is no different. Today, we see many tax departments working to automate repetitive processes and outsource standard compliance activities so they can focus more on the value-add aspects of the tax function. When done right, their tax professionals can concentrate on interpretation and analysis, decision making and strategy, leveraging their deepest skills and adding more value to the business."**
>
> **Sean Bloodwell**
> **Head of Global Compliance Management Services**
> **KPMG International**

What will your resource model look like in the next 5 years?

Total tax head count

Increase	Stay the same	Decrease
50%	37%	12%

Use of co-source resources from tax providers



Increase	Stay the same	Decrease
38%	57%	5%

Use of offshore resources to take advantage of wage arbitrage

Increase	Stay the same	Decrease
19%	80%	1%

Note: Totals might not add up to 100% due to rounding.
Source: 2019 Tax Benchmarking Survey, KPMG International.

Use of center of excellence for key functions

(e.g. transfer pricing, transactions)

40%	58%	1%
Increase	Stay the same	Decrease

Use of finance SSCs within your organization

40%	59%	1%
Increase	Stay the same	Decrease

Reliance on a global tax department resource model

(e.g. virtual work environment that permits use of resources in remote locations not motivated by wage arbitrage)

32%	68%	0%
Increase	Stay the same	Decrease

Note: Totals might not add up to 100% due to rounding.
Source: 2019 Tax Benchmarking Survey, KPMG International.

Tax technology

Companies based in the Asia Pacific region may be missing out on opportunities to drive efficiencies by increasing their use of tax-related software. Compliance software is currently the most commonly used tax software. Twelve percent of companies that now use it plan to change their current software, while 24 percent of other companies plan to acquire compliance software in the next 5 years.

Off-the-shelf provision systems, document management systems and workflow tools are the next most commonly used software. However, there appears to be little enthusiasm to change tools or increase usage among current users. The majority of companies do not currently use tax software for tax audit support or global trade.

Two types of tax software that are expected to see significantly more use are software for country-by-country reporting and transfer pricing. Only 17 percent of companies use software for country-by-country reporting now, but 42 percent plan to acquire it in the next 5 years. Similarly, about a quarter of companies now use transfer pricing software, and another 38 percent plan to acquire a tool within 5 years.

In terms of satisfaction with their companies' ERP systems in providing necessary tax data, half are unsatisfied and a third are ambivalent. Only 18 percent of respondents are satisfied with their current ERP systems.

In the next 5 years, technology changes to systems that supply tax data are expected to increase in the following areas (in ranked order):

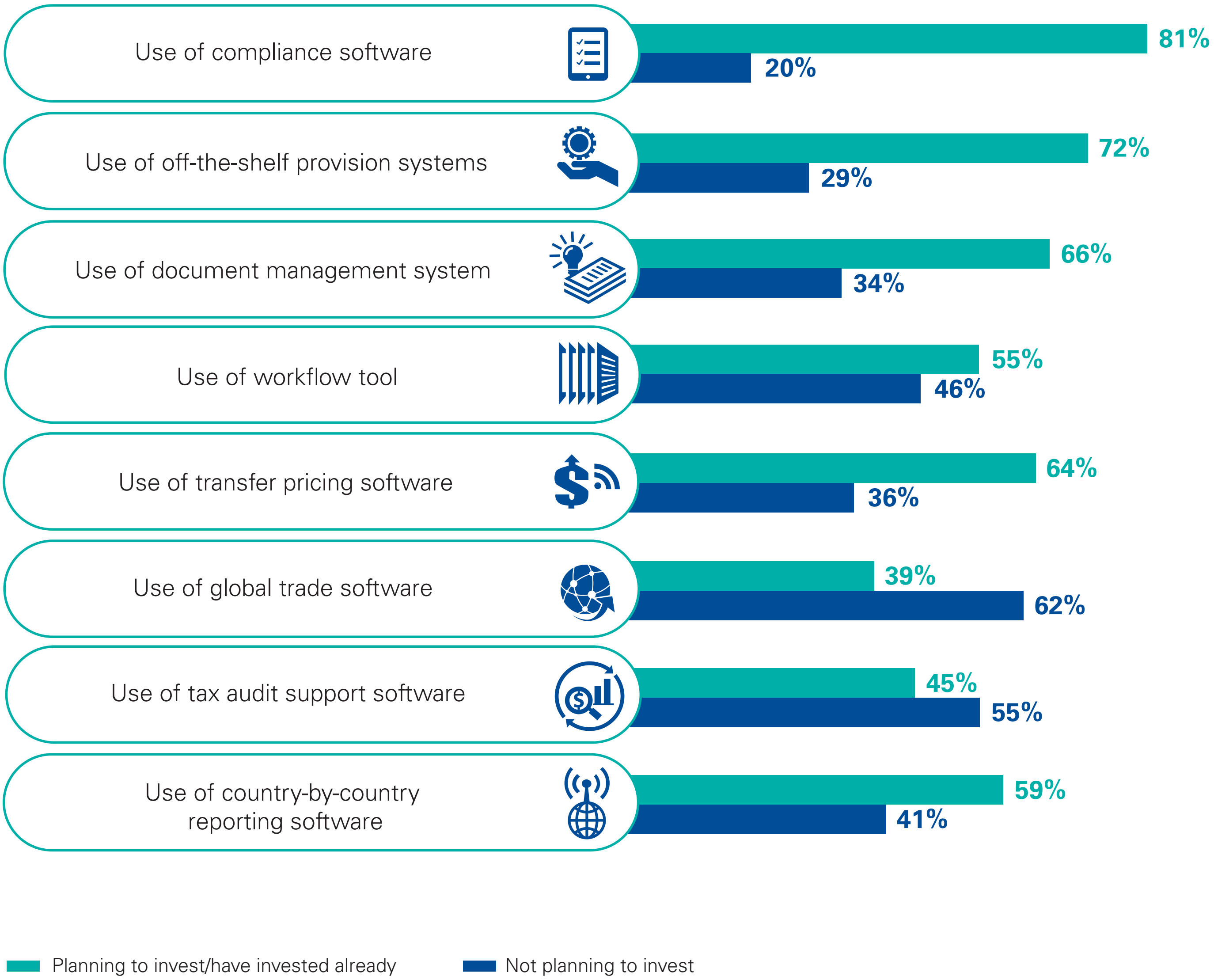
1. overall leverage of enterprise finance IT systems for tax purposes
2. use of consolidation system data for tax purposes
3. understanding of tax data needs by IT resources
4. investment in tax-specific technologies
5. use of tax data warehouse
6. tax sensitization of G/L and other accounts
7. tax sensitization of business forecasting systems.

> **"Tax authorities face the same issues that organizations do in terms of attracting and retaining the right skill sets and finding the right technologies they need to achieve their goals, but they are making real strides by building capacity through technological advancements and sharing of best practices across jurisdictions. The tax policy decisions seen over the past few years — the transparency requirements of the Foreign Account Tax Compliance Act and country-by-country reporting, the information-sharing requirements like automatic exchange of information, and tax reforms around the globe — are largely fueled by what can now be accomplished by technology. Tax leaders need to leverage these capabilities in their own departments not only to keep pace but also to realize value."**
>
> **Brad Brown**
> **Global Head of Tax Technology & Innovation**
> **KPMG International**

“Organizations should adopt a `walk before you run’ approach to the introduction and implementation of technology solutions within their tax functions. Most tax functions will achieve greater success by focusing on improving processes, and applying a modular approach to the implementation of new technologies, rather than a `big bang’ approach which can bring with it significant risks and costs.”

Lachlan Wolfers
Global Head of Indirect Tax
KPMG International

As tax departments leverage technology for their processes to differing degrees, which tax technology tools are key areas of investment for your company now and in the next 5 years?



Note: Totals might not add up to 100% due to rounding.
Source: 2019 Tax Benchmarking Survey, KPMG International.

What changes do you expect to see in the systems that supply tax information over the next 5 years?

Overall leverage of enterprise finance IT systems for tax purposes

62% Increase

37% Stay the same

1% Decrease

Use of consolidation system data for tax purposes

60% Increase

37% Stay the same

3% Decrease

Understanding by IT resources of tax data needs

57% Increase

41% Stay the same

1% Decrease

Investment in tax-specific technologies

55% Increase

43% Stay the same

1% Decrease

Note: Totals might not add up to 100% due to rounding.
Source: 2019 Tax Benchmarking Survey, KPMG International.

Use of tax data warehouse	Tax sensitization of G/L and other accounts	Tax sensitization of business forecasting systems
50% Increase	45% Increase	41% Increase
49% Stay the same	55% Stay the same	59% Stay the same
1% Decrease	0% Decrease	0% Decrease
		

Note: Totals might not add up to 100% due to rounding.
Source: 2019 Tax Benchmarking Survey, KPMG International.

If tax leaders of Asia Pacific-based companies were to receive a generous budget increase to invest in one area, the top beneficiaries would be tax technology (32 percent), followed by process optimization (26 percent) and additional personnel (25 percent).

1. tax technology
2. process optimization
3. additional personnel

If you received a generous budget increase to invest in one key area of your tax department, in which of the following would you invest?

Note: Totals might not add up to 100% due to rounding.
Source: 2019 Tax Benchmarking Survey, KPMG International.

Key takeaways:

- The trend toward increasing centralization of tax departments will continue for Asia Pacific-based companies, and process standardization is among tax leaders' priorities for process improvements.
- Half of respondents expect their number of FTEs to increase — with almost one in five projecting their head counts will grow by more than 20 percent.
- Compliance software is currently the most commonly used tax software. Almost one in four respondent companies do not use it now but intend to acquire it in the next 5 years.
- A significant percentage of respondents plan to invest in country-by-country reporting and transfer pricing software in the next 5 years.
- Only a handful of tax leaders of Asia Pacific-based companies have confidence in the ability of their companies' systems to provide tax data.
- Tax leaders' top three priorities for new investment are tax technology, additional personnel, and process optimization.

Resources

For further information and resources, please explore the links below or visit kpmg.com/tax. You might also consider attending an upcoming event designed to address issues of interest to tax leaders. As always, please feel free to contact a KPMG professional to discuss these strategies and tools, or to speak about the tax issues you face today.

Global Tax Department Benchmarking Survey

home.kpmg/taxbenchmarking

The Global Responsible Tax Project

home.kpmg/responsibletax

Future of Tax

home.kpmg/futureoftax

Future of Tax — Podcasts

Available on iTunes, Google Play and Spotify

Contacts

David Linke
Regional Leader Tax & Legal, Asia Pacific,
KPMG International and
National Managing Partner, Deals, Tax & Legal
KPMG Australia
E: davidlinke@kpmg.com.au

Jane McCormick
Global Head of Tax & Legal
KPMG International
E: jane.mccormick@kpmg.co.uk

Brahma D. Sharma
Global Head of Clients and Markets, Tax & Legal
KPMG International
E: brahmasharma@kpmg.com.sg

home.kpmg

home.kpmg/socialmedia

Designed by Evalueserve.

Publication name: A look inside tax departments in the Asia Pacific region and how they are evolving

Publication number: 136516-G

Publication date: October 2019