KPMG

# Tax risk management in the financial sector

An international KPMG survey

# Foreword

Regulation and wider awareness of corporate governance issues are forcing groups to confront all aspects of risk in their business. Tax is not immune from this. Increasingly, tax is coming under scrutiny as an area of risk that needs to be understood and managed, while multinational businesses are having to deal with ever more complex tax legislation. At the same time national governments are looking for ways to protect their domestic tax revenues and tax authorities are becoming more robust in their approach to tax collection and enforcement.

Against this background, KPMG has commissioned this internet–based survey of global, regional and national heads of tax. The survey focuses exclusively on the financial services sector and looks at attitudes to, and trends in, tax risk management.

We should like to thank all respondents for their participation in the survey. They have provided valuable insights into the progress that many of the world's leading financial services businesses have been making in this emerging area. Equally they have shown there is still work to be done in improving the way that tax risk is identified and managed and in getting tax risk firmly on to the board room agenda.

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# Executive summary

Tax has always been a significant factor in the overall risk profile of a business: it can eat into the revenues, swell the expense base and erode one third or more of profitability, so you have to get it under control.

The growth in cross-border transactions, the tight focus of fiscal authorities around the world and the increasing sophistication of tax regimes have all made international taxation more complex in recent years. In some shape or form, tax is embedded in almost every aspect of the key financial data which a company publishes. It is also an area where significant judgment is required – itself a generator of risk.

But even though risk management is pervasive and tax is a key component, there is a historical tendency for tax to be viewed as a complex area which should be left to the tax professionals. This can lead to tax becoming isolated from the rest of the business. It has certainly not commonly been subject to independent review or oversight by Boards. Under the influence of new legislation like the Sarbanes-Oxley Act 2002, this approach is no longer tenable.

This poses interesting questions. How can senior management – and the business as a whole – ensure they are clear about what the tax function ('Tax') is doing? And are the same standards of risk management applied to tax as to other material areas of the business?

Tax experts should now accept that their strategies and processes will have to be subject to the same rigor as every other area of business. Similarly Boards and tax directors should take charge of the tax risk assumed by their corporations, before they become aware of it for the wrong reasons.

## Key themes from our survey

- Tax departments cannot afford to be isolated from the rest of the business. Tax is a function like any other: it requires a strategy on risk that is well understood within the organization and takes into account the whole risk spectrum, rather than focusing solely on tax technical issues.
- Boards need a clear understanding of the work Tax is doing and its effect on overall risk. Boards must keep asking questions about controls and the tax consequences of major transactions, and ensure that reliable independent reviews are in place.
- Tax directors need to re-focus their attention to ensure they do not remain rooted in corporate tax. A significant part of the overall tax function is often not under the control of tax directors, so they must be sure they are fully informed on all issues – at global, national and local level.
- The Sarbanes-Oxley Act has been instrumental in increasing the level of attention paid to tax risk. Our survey revealed that the organizations directly affected by the Act have focused greater attention on internal controls relevant to tax.
- Perhaps not surprisingly, our results revealed the financial industry's innate conservatism. Nearly a half of our respondents said that either they would not do anything to provoke the tax authorities in the first place, or alternatively that their organization would not go to court to defend its tax planning.
- Respondents felt too much time was spent on compliance and not enough on planning. Better use of technology and other efficiencies would enable tax professionals to re-focus their efforts.

## Our approach

The KPMG survey was published on the Internet in December 2003 and senior tax personnel from major financial organizations around the world were invited to take part. Just under 100 responded. Questions covered:

- responsibility for different taxes within the organization;
- preparation of a strategy for tax and the Board's involvement;
- appetite for risk and the adoption of risk management techniques;
- the issue of independent review of the tax department;
- interaction of the tax department with any front office tax function;
- compliance processes.

Our analysis of the results comments on strategy, risk management and operations and for each of these main areas we identify suggested industry best practices. We do stress, however, that different organizations will of course take different views on what they consider optimal performance.

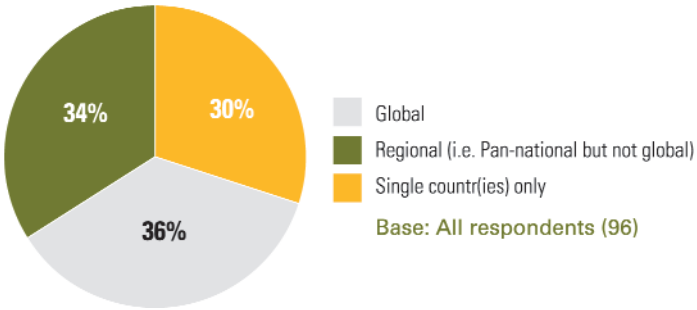



**Figure 1: Geographical responsibility of the tax department**

**Of the 96 respondents, 34 had global responsibility for tax, 33 regional, and 29 national.**

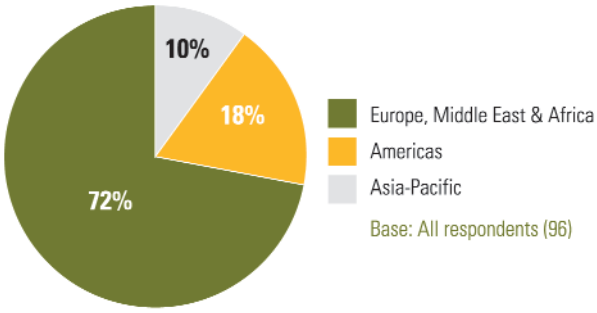



**Figure 2: Location of respondents' Ultimate Holding Companies**

**69 worked for corporations whose ultimate holding company was based in the EMA region, 10 ASPAC, and 17 in the Americas.**

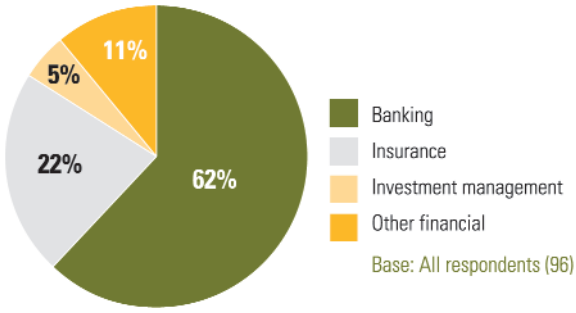



**Figure 3: Primary Business Sector of respondents' Companies**

**59 regarded banking as their organization's primary business sector, 21 insurance, and 16 investment management and 'other financial'.**

# Strategy

The starting point in managing and controlling a group's tax should be to define its tax strategy. The tax director – with approval from his Board – needs to set out the principal objectives, all of which should tie into the underlying business objectives.

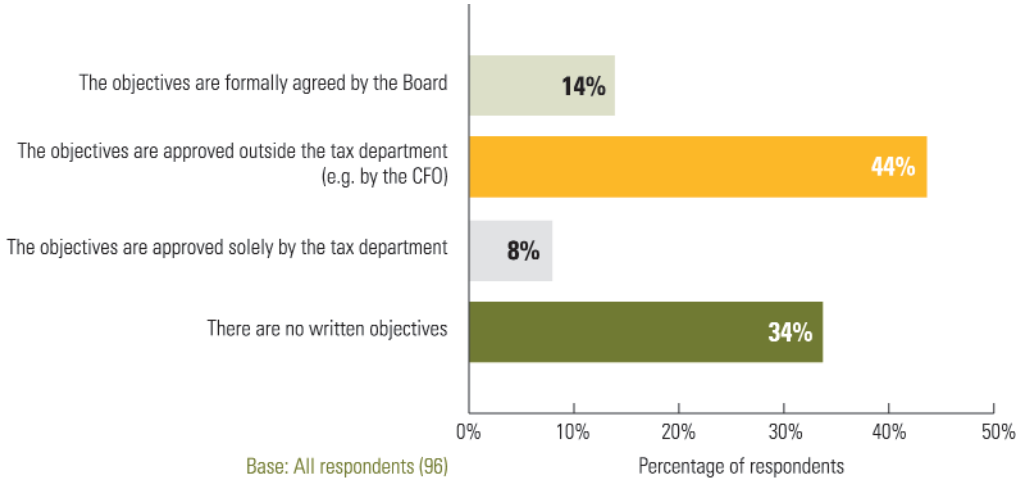
65 percent of our respondents had written objectives. The survey did not ask whether these were part of a broader strategy document, or part of individual appraisals, but on the surface the result is encouraging. 86 percent of those with written objectives agreed or strongly agreed that their objectives supported the overall business objectives and were suitably aligned.

However, while this suggests that objective setting is becoming more prevalent, a necessary postscript is that there are still 34 percent for whom written objectives remain an unknown luxury. Yes, for some the objectives may be understood from conversations or 'osmosis', but are these respondents really expected to manage the tax function's performance, and be judged, on such a basis?

**Only a small minority of respondents had obtained the Board's formal approval of their objectives**

Only a small minority of those responding (14 percent) had obtained the Board's formal approval of their objectives (fig 4).

**Figure 4: How tax departments' objectives are set and approved**




A greater number had received approval from outside Tax, often from the CFO, but the overall picture is one where the most senior management has either not signed off on what Tax is trying to do, or believes it to be something which can be delegated. Yet tax can erode a third or more of a company's profitability. Is it likely that such a level of trust would be placed in other areas of the business which have such a potential impact on the bottom line?

Because of its specialized nature tax is seldom subject to close oversight by the board of directors. This is causing concern in some quarters. In Australia, the Commissioner of Taxation is writing to the chairmen of publicly listed companies[1], advising them to take a greater role in the management of tax risk.

[1] *Source: Australian Taxation Office*

One issue the Commissioner apparently has in mind is that company Boards should have a view on the level of tax risk that is acceptable, rather than have others determine it for them. The survey found that 67 percent of respondents believed that their corporation's tax risk strategy either did not exist or was not widely understood within the organization as a whole (fig 5), and one can infer that a number of Boards are among those who do not understand it. Boards might well respond that because of its complexity, they cannot hope to understand the detail of their tax position, but it is still possible to ask relevant questions and establish relevant guidelines.

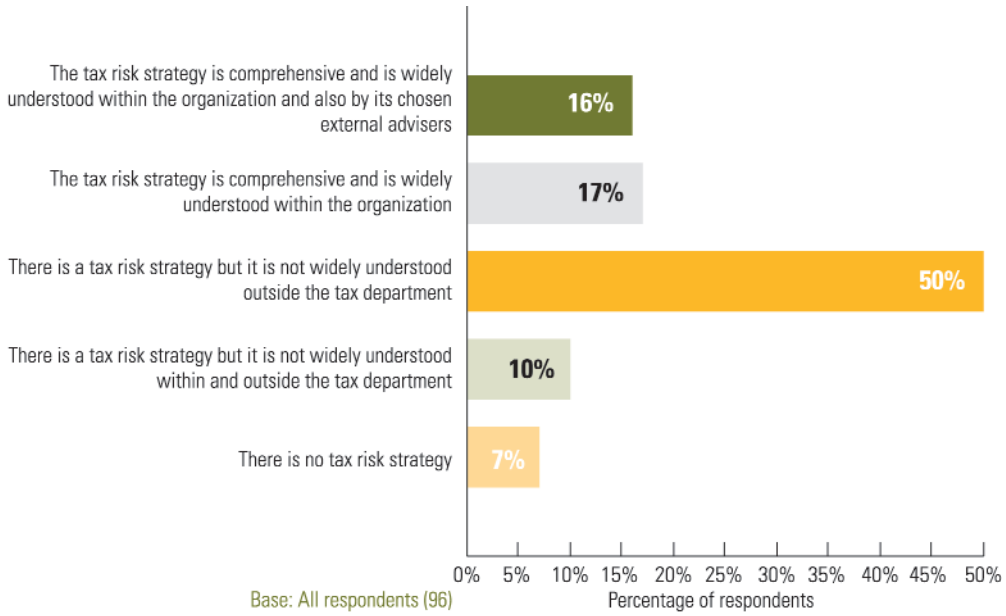



**Figure 5: The current status of organizations' tax risk strategies**

## Industry best practice – tax strategy

- Prepare a tax strategy, including a risk strategy, and get approval from the Board.
- Set key performance indicators (KPIs), which align to business objectives.
- Tax should be seen as a business partner by the rest of the business and be integrated with the business.
- Ensure external advisers are aware of strategy so that their contribution is relevant and so that they can operate as part of the overall tax team.

# Risk management

What do we mean by tax risk? The broad answer is that it is the risk that something may go wrong, so that the tax consequences of a transaction or business may not be those expected. However one can be more specific than this. For financial organizations, tax risk can be better understood if it is divided into the general risks that most commercial organizations are likely to face, and the specific risks attached to financial products offered by the industry. These are illustrated in Tables 1 and 2 below.

**Table 1 – General risks**

| Type of risk | Nature of risk |
|---|---|
| **Compliance** | Technical or factual inaccuracies<br>Miscoding of expenditure<br>Late submission of returns<br>Late payment of tax<br>Poor presentation of tax planning |
| **Planning** | Failure to plan<br>Technical imperfections in planning<br>Excessive aggression in the planning<br>Failure to implement planning correctly |
| **Accounting** | Incorrect recognition of tax liability |

**Table 2 – Transaction risks**

| Type of risk | Nature of risk |
|---|---|
| **Technical** | The technical basis of the tax treatment is successfully challenged |
| **Accounting** | The tax analysis is dependent on an accounting treatment which is not accepted |
| **Change of law** | A change of law affects the transactions before maturity, break even point or the required return is met |
| **Inconsistency** | The treatment adopted and arguments to support one transaction prejudice arguments in another transaction |
| **Concentration** | Multiple transactions fail as a result of a single technical failure |
| **Implementation** | The risk that the transaction will not be implemented as required so that it fails on a question of fact |
| **Administrative** | The ongoing administration of the transaction is not correctly recorded in the accounts, or the tax return; elections are not made; or there is some operational failure |
| **Reputation** | The transaction or approach significantly prejudices the relationship with the fiscal authority<br>Publicity concerning the transaction adversely affects standing with shareholders, counterparties, policyholders and other customers |

## Finance industry generally risk averse

The survey indicates a general aversion to taking on tax risk among the finance community. Nearly one half of responses indicated that either nothing would be done which provoked the tax authorities in the first place, or alternatively that the organization would not be prepared to defend its tax planning in the courts (fig 6). Most of the remainder would require the comfort of a strong opinion in support of the tax planning in question, with at least a 70 percent chance of success. Only 3 percent would be prepared to accept any degree of reputational risk; such a low percentage is not surprising in an industry with a high public profile.

**Nearly one half of responses indicated that the organization would not be prepared to defend its tax planning in the courts**

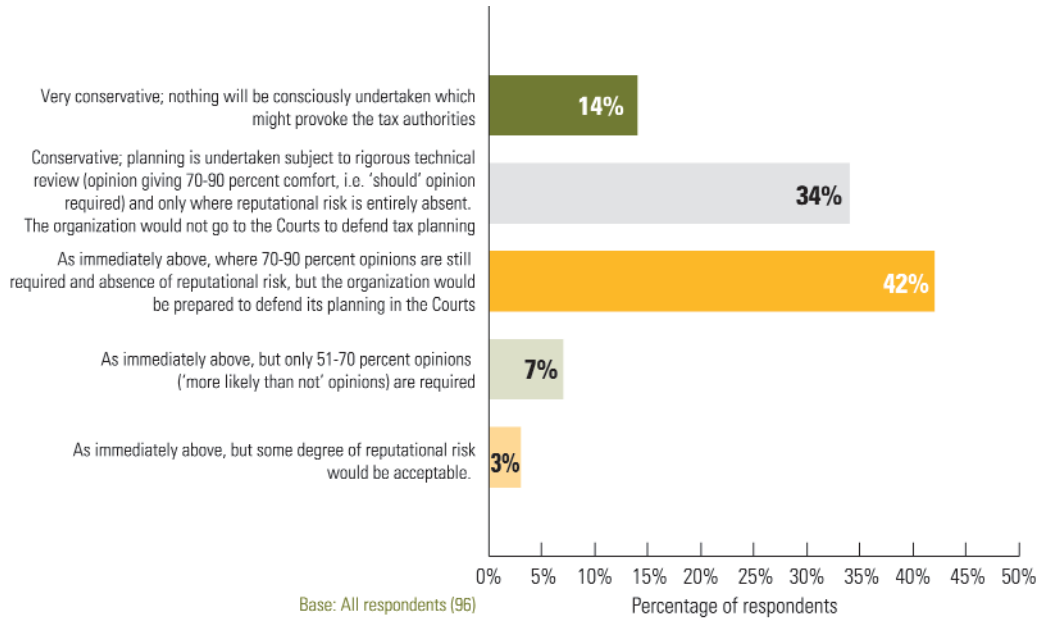



**Figure 6: How aggressive or conservative are organizations' tax risk strategies?**

The survey did not test the respondents' reaction on every type of risk outlined in the tables above, but it is clear from the different types of risk described that simply to base one's judgment on the likelihood of technical success would be a very 'one-dimensional' approach and therefore inadequate.

Breaking down the responses, it is interesting to note that those respondents who had a national responsibility were amongst the ones taking the most conservative line. This may be because they do not feel in a position to express a more aggressive view, given the limitation on their role, or because people generally are more reluctant to take an aggressive line when dealing with their own fiscal authorities than they are when planning for tax internationally. It is also interesting to note that insurance groups tended to show a greater willingness to litigate than the banks (fig 7).

**Insurance groups tend to show a greater willingness to litigate than banks**

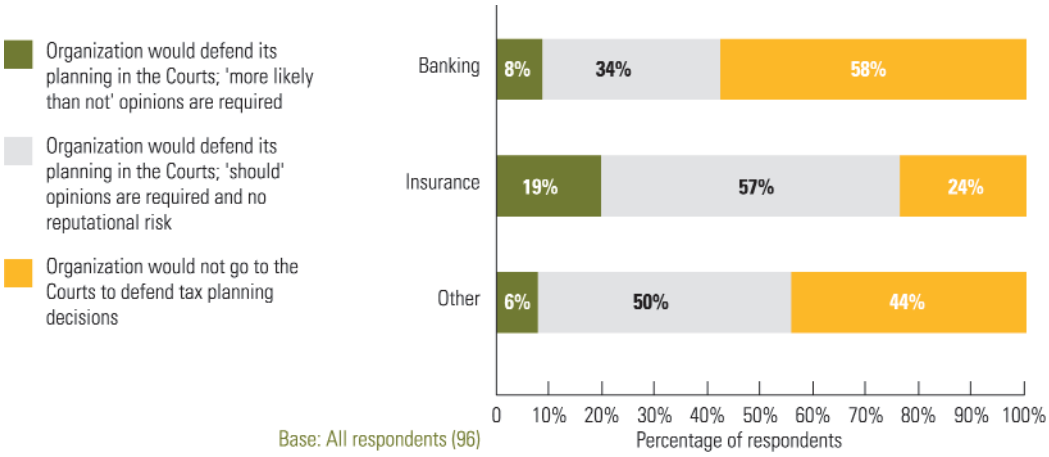



**Figure 7: How aggressive or conservative are organizations' tax risk strategies by sector?**

**Boards should actively take an interest in setting out acceptable parameters for the adoption of tax risk, and should monitor compliance**

Observation of the industry does suggest that some who profess a very conservative line on taking tax risk will, in reality, undertake transactions which appear more aggressive. While not tested in the survey, this observation suggests either a degree of difficulty in judging the level of aggression that a transaction implies, or a failure to adhere to the corporate principles laid down. In either event, it reaffirms the suggestion made earlier that Boards should actively take an interest in setting out acceptable parameters for the adoption of tax risk, and should monitor compliance.

## Front office more aggressive on risk

Many financial institutions, in particular the banks with global coverage, have a front office tax function developing or selling tax-efficient transactions to customers. Another feature of the responses on risk appetite is that those groups with a front office tax function (41 out of the 96 responses) take a more aggressive stance than those without; 58 percent of those 'without' would not go to the courts to defend their position, against only 34 percent of those 'with'.

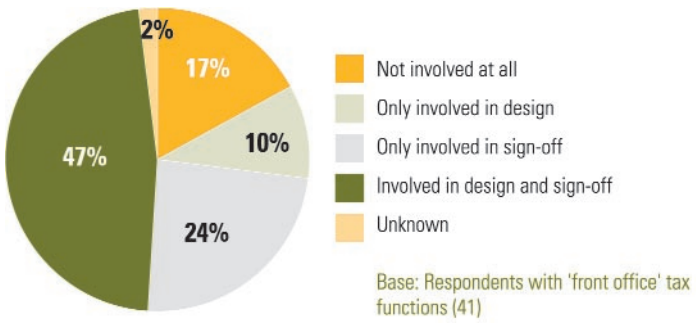
Of course it might be natural to anticipate this to some extent, because the front office might be expected to stand behind transactions it is entering into with third parties; however, note that the responses deal with the organization's own position rather than covering any intent to defend the counterparty's position. In the same vein, of those tax departments who get involved in signing off front office transactions, only half claim to consider the counterparty's risk, in addition to their own.

## Conflicts on sign-off?

Many suppose that front office tax functions would always have to liaise with the tax department, either in terms of the design of the financial products they sell, or to obtain a risk sign-off. Sign-off is a good idea because the tax department is normally in a better position to judge the element of compliance risk that the transaction might originate.

However, it appears (fig 8) that only 29 of the front office tax functions out of 41 ask Tax to sign-off – typically in the larger institutions. 19 of those 29 tax departments are put in the potentially invidious position of being involved in both the design of the transaction and the sign-off, which clearly gives rise to a potential conflict of interest. One hopes these organizations reduce this conflict by using different personnel for each of the two stages.

**Figure 8: Involvement of the tax department in the design and sign-off of 'front office' transactions**




Also with a view to avoiding conflicts of interest, it is comforting to note that nearly 90 percent of groups with front office functions do not reward their tax staff by reference to the success of their transactions.

It is a feature of front office tax functions that they operate largely outside the control of the mainstream tax department. Only 12 percent fall under the control of the tax director. This is not a surprising finding, because it is largely consistent with observation of the industry, but it does raise interesting questions in terms of risk management. Under the Sarbanes-Oxley Act 2002, many tax directors will be faced with the need to sign-off on tax internal controls so that their senior management can in turn give the required public assurances; however, a significant part of the overall tax function will not be under their control. The survey suggests that the front office function is on average only slightly smaller than the 'mainstream' department (10 people in the front office against 15 in the mainstream department). Add to that another eight people who, on average, deal with tax issues such as personal taxes, sales taxes, and operational taxes from within the finance or HR functions, and it is clear that the tax director only has direct control over a minority of the average financial organization's tax personnel.

**Under Sarbanes-Oxley, many tax directors will have to sign-off on tax internal controls, even though a significant proportion of the overall tax function may not be under their control**

## Patchy adoption of risk procedures

What procedures do financial institutions use to control their tax risks? The survey proposed a series of steps which might be taken to control risks and asked respondents to agree or disagree (fig 9). Typically a review of internal controls will take place in stages: firstly identifying all tax processes, then the risks arising within those processes, and finally the controls applied to manage those risks. The percentages of respondents who had taken the fundamental step of identifying all their tax processes was relatively high at 67 percent, two in three of all respondents.

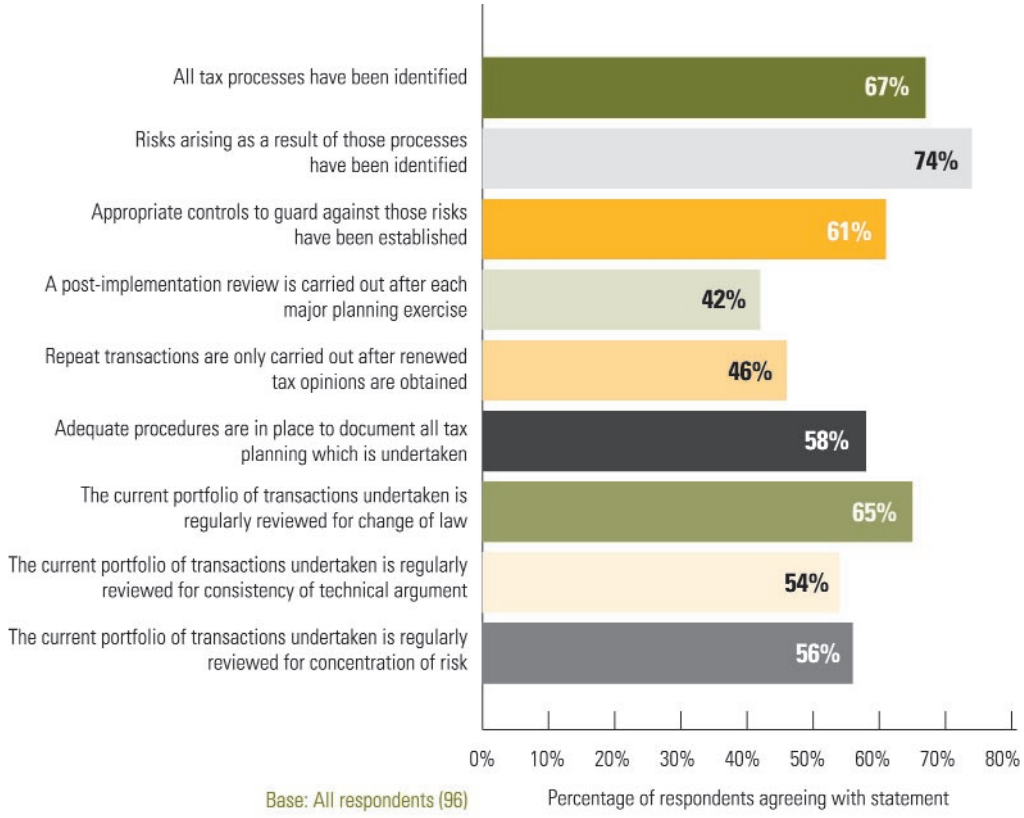



**Figure 9: To what extent do organizations control tax risks?**

An even greater number, 74 percent, claimed to have identified all the risks arising. This suggests that at least some respondents do not take the view that risks arise from processes and a thorough review requires the identification of processes before any examination of risk.

**A thorough review requires the identification of processes before any examination of risk**

Rather fewer, 61 percent, believe that appropriate controls have been established to guard against the relevant risks, indicating that there is still work to be done. This is of course of particular relevance to those organizations which are subject to the provisions of the Sarbanes-Oxley Act, who will need to sign-off on the suitability of their internal controls, some of them later this year.

## Sarbanes-Oxley focuses attention

The survey highlights a residual level of uncertainty about the scope of the Sarbanes-Oxley Act; 11 percent of respondents were, even at this late stage, uncertain as to whether their organization was subject to the Act. However, it is of some comfort that, of those whose organizations are confirmed as subject to the legislation, even higher percentages claim to have completed the three exercises referred to above. For example, 80 percent reckon to have identified all tax processes, against 47 percent of those whose organizations are not subject to the same provisions, and 93 percent of those whose organizations are headquartered in the Americas gave the same confirmation. This shows that, for those directly affected, the Sarbanes-Oxley Act has indeed had the effect of focusing attention on the internal controls relevant to tax, and that appropriate reviews have been undertaken. Correspondingly, it suggests that there remains much to be done in other countries where similar legislative provisions might be expected in the near future.

The distinction between those who are subject to Sarbanes-Oxley and those who are not is not evident when the remaining risk management questions are considered. Generally speaking, lower numbers claim to conduct such risk management strategies as post-transaction reviews, and relatively small majorities review their portfolio of transactions regularly for the impact of changes in legislation, technical consistency (where the stance on one transaction does not contradict the stance on another), and concentration of risk (where, for example, much of the portfolio depends on one technical argument). The survey suggests there are gaps in the procedures of many. Only 16 percent of respondents claim to carry out all the risk management procedures set out in the questionnaire.

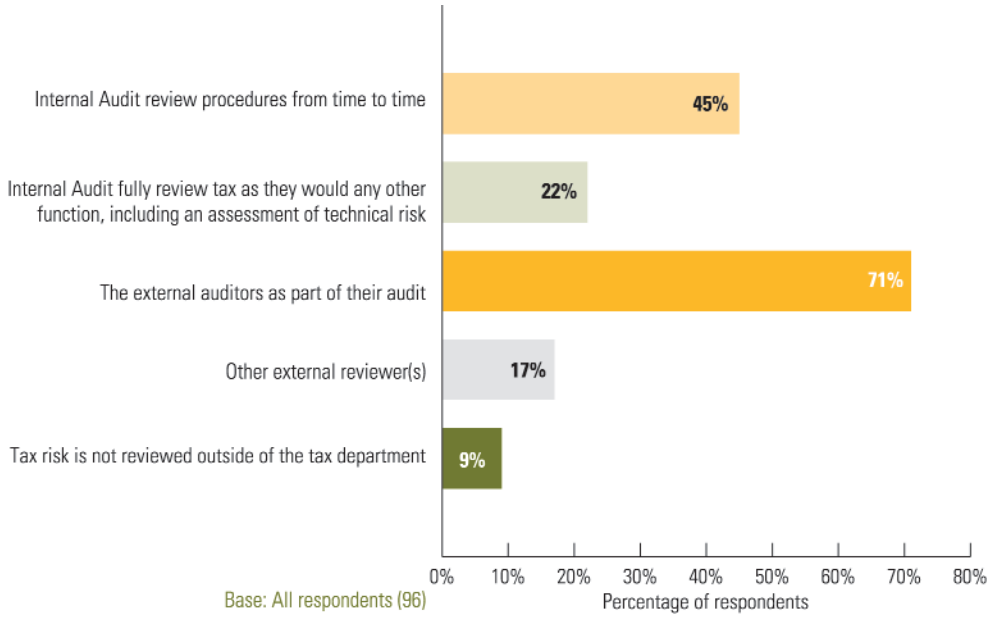
There is evidence that some organizations are generally more risk aware than others, at least through the eyes of those responding to the survey. Those who claim that their organization has a comprehensive tax risk strategy, which is widely understood within their organization, also answer the risk management questions far more positively than those who do not make such a claim. This is not surprising, as one would anticipate that the adoption of a tax risk strategy would encompass some level of improvement in risk management procedures.

## How far can you rely on internal audit?

**The work of the tax department is much more difficult for internal reviewers to monitor**

A significant area of concern for tax is that, because it is not readily understood by non tax professionals, there is very limited scope for independent review of the work tax departments do; their work cannot be monitored easily by internal reviewers. Our survey asked to what extent tax risk was monitored outside the tax department (fig 10).

**Figure 10: Who reviews tax risk?**




Base: All respondents (96)

Nearly one in two responded that their Internal Audit function reviewed tax procedures from time to time; almost half of those believed that Internal Audit's review encompassed a review of technical risk. This proportion is surprisingly high. Experience suggests that relatively few internal audit departments include tax within their scope, largely because of the technical complexity of the subject. Of course it is perfectly possible to review procedures which are set down in writing and to see whether they are applied in practice. But firstly, there is little evidence that departments maintain an up-to-date procedures manual on which Internal Audit could rely (only 22 percent reckon to have a comprehensive and current record of all procedures, including those in front office). Secondly, it would be difficult for a non-tax specialist to pick out all flaws in the process which might result in a misstatement of the tax figure, and in particular to comment on areas of technical risk. Having said that, it is becoming more common for Internal Audit either to subcontract part of their review to external tax reviewers, or even to hire tax specialists within their own department.

## Heavy reliance on external audit for independent review

A greater number of respondents (71 percent) rely, at least to some degree, on the external auditor to participate in the tax risk review as part of their audit. Going forward, the Sarbanes-Oxley Act will require the external auditor to attest to the statement on internal controls made by senior management. But, at present, the scope of most external audits is such that they should not be relied on to review aspects of internal control which could at some point in the future result in a tax error or misstatement; they are concerned with the accuracy of the current financial statements and not those of future years. Moreover, external auditors are more likely to concern themselves with items which are material to the financial statements, not necessarily with errors that have the capacity to be embarrassing and significant for internal purposes. It is of concern, therefore, that 27 percent of respondents either have no review at all outside the tax department, or rely solely on the external auditor.

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We commented above on differential levels of risk awareness among financial institutions. In further support of this assertion, less than one in five of the above 27 percent of respondents believed that their organizations had a tax risk strategy which was widely understood within the organization. This compares to about one in three for the population as a whole, suggesting that those with a clear tax risk strategy are more likely to arrange an independent review of Tax.

### Industry best practice – risk management

- Monitor scope of Sarbanes-Oxley Act or similar legislation that potentially affects the organization.
- Agree appetite for tax risk with the Board.
- Ensure independent reviews of tax risk outside tax department.
- Include consideration of customer position when signing-off on transactions.
- Include appropriate use of all the procedures listed in fig 9 above.
- Maintain division of responsibilities for front office involvement.

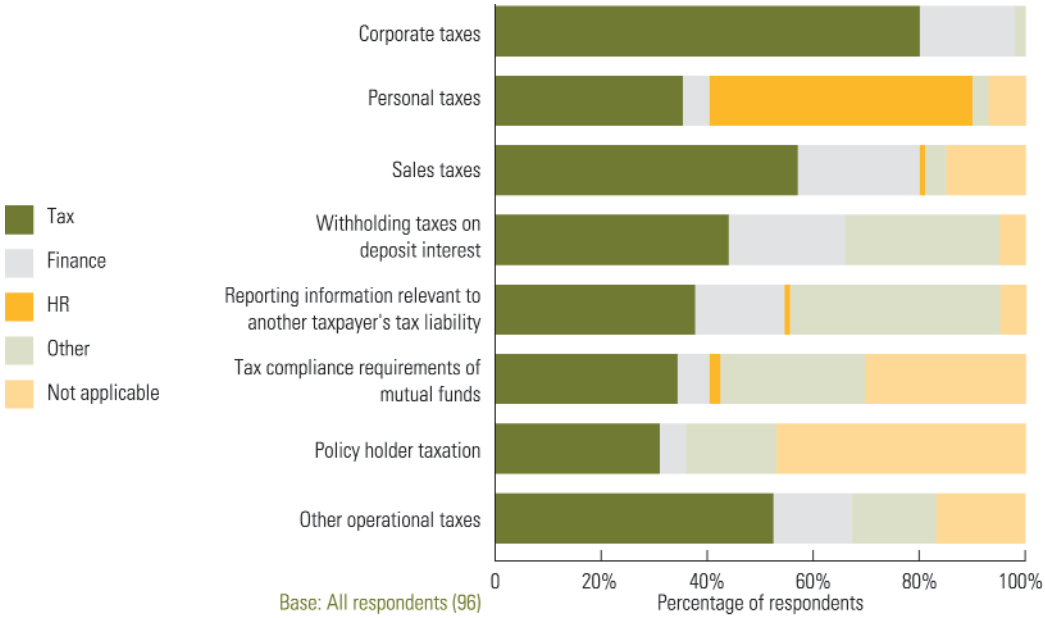
# Operations

Several questions were asked about the areas of work covered by tax departments, their organization, and the technology deployed. Each of these areas carries with it potential operational risk.

## Focus still on corporate tax

The focus for most departments is on corporate tax (fig 11). Not only is this the area covered by more departments than any other (over 80 percent), but also it is the area of tax that utilizes the most resources (an average of over 12 people). This correlates with our general observation of the financial services industry, which indicates that tax departments tend to be corporate tax-centric even in cases where other taxes may be more material.

**Figure 11: Which department deals with which taxes?**



Only 11 percent of respondents said that the tax department deals with all taxes; the more global the department, the more likely it is to cover more of the taxes to which the organization is subject.

- In approximately half the cases surveyed, personal taxes were dealt with by human resources, not Tax.
- Operational taxes (those borne by the financial institution's customers but administered or collected by the institution) are also dealt with elsewhere in many cases, although experience shows that such taxes can give rise to significant liabilities if not properly addressed and monitored, because the fiscal authorities look to the financial institution to compensate for taxes not properly withheld.
- Sales taxes are dealt with by Tax in 57 percent of cases, although this rises to 90 percent if you look only at responses from those in the insurance industry. Overall, just under 10 percent of staff employed on tax matters were estimated to deal with sales taxes, which is probably not reflective of its relative importance as an area of tax for financial institutions.
- The tax department is responsible for the compliance of retail products with the associated tax law in less than one third of cases.

Based on this, our recommendation would be for tax departments, and organizations generally, to re-evaluate the resources they dedicate to what have traditionally been considered the more peripheral of taxes and tax obligations.

## Clear definition of responsibilities

Importantly, the vast majority (81 percent) believe that there is clear definition of responsibility for the different taxes within their organization. If it were otherwise, there would clearly be the risk of confusion and an increased chance of error. However, the level of certainty expressed appears to diminish, the further from the center of tax influence the respondent sits. National respondents were not as certain on this point as their global colleagues, which appears to leave open the possibility that in some cases at least, global tax directors believe that the responsibility has been clearly spelled out, but those who deal with taxes at a more local level are experiencing a more confusing situation.

**Global tax directors believe that the responsibility has been clearly spelled out, but those who deal with taxes at a more local level are experiencing a more confusing situation**

## Balancing compliance and planning effort

Compliance appears to be the most time consuming task faced by tax departments, judging by the resources applied to it (fig 12). More people agree than disagree with the statement that the tax department spends too much time on compliance (fig 13), although there is a large number who express no clear view on this matter. Again, the answers given are different depending on the level of responsibility of the respondent; regional and national respondents were less sanguine about this situation than their global counterparts, suggesting that those closest to the actual performance of compliance feel it takes too much of their time, while those in more senior positions believe all is well.

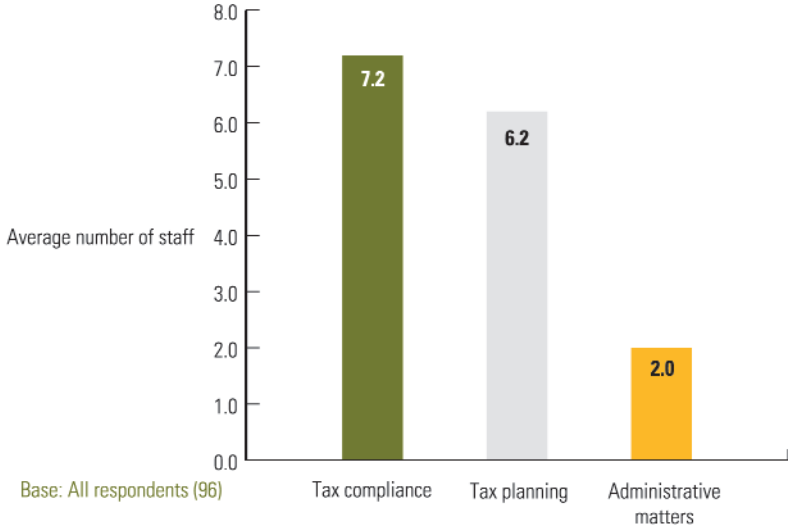



**Figure 12: Average number of staff employed in dealing with different aspects of taxation**

**Figure 13: Does the tax department spend too much time on ....?**


A similar pattern emerges in terms of the time spent on administration: more agree than disagree that it eats up too much time, and more local or regional respondents agree than global respondents.

With tax planning, not surprisingly, the answers are different. Very few think too much time is spent on planning, particularly global and regional respondents. So one can infer that the more senior the respondent, the greater the view that time should be spent on planning rather than on compliance and administrative matters.

Whilst it is not surprising that global tax directors wish to give appropriate emphasis to planning, we suggest a note of caution. Our recommendation is that they should ensure they are also fully conversant with operational issues, such as compliance process problems. Otherwise they will be running unnecessary risks. Also, in appropriate cases, technology can assist in eliminating the problem of compliance taking too much time, and this would solve both the local manager's frustration with the time spent on compliance and also provide greater resource for what is probably the tax director's principal concern: tax planning.

## Staff numbers – more outside Tax than within

Overall, 57 percent believe that their tax department is adequately staffed, although it is interesting to note that banking departments appear on the whole to be less satisfied (only 49 percent believe they have sufficient numbers). Where discontent with the staffing complement exists, it tends to be with the numbers of people rather than the skills they have.

As noted in the comments on the front office, the survey indicates that, on average, there are more people dealing with tax outside the tax departments than inside, if you take into account those working in the front office. However, although the survey did not ask this question, our experience suggests that the tax director would in practice be held responsible for all tax matters, at least if something goes wrong. Clearly this is somewhat anomalous, and it is not a comfortable position for the tax director to be in.

## Training takes a back seat…

There is relatively little evidence that many financial organizations spend significant time on the training of tax staff (fig 14), to maintain or enhance the skills they possess. While virtually all respondents say that staff attend external seminars, a very small minority (6 percent) actually have a formal program of such attendance, and it is also a minority (this time 35 percent) who provide internal training for tax staff. The global departments do more than the regional or national departments.

**There is relatively little evidence that many financial organizations spend significant time on the training of tax staff**

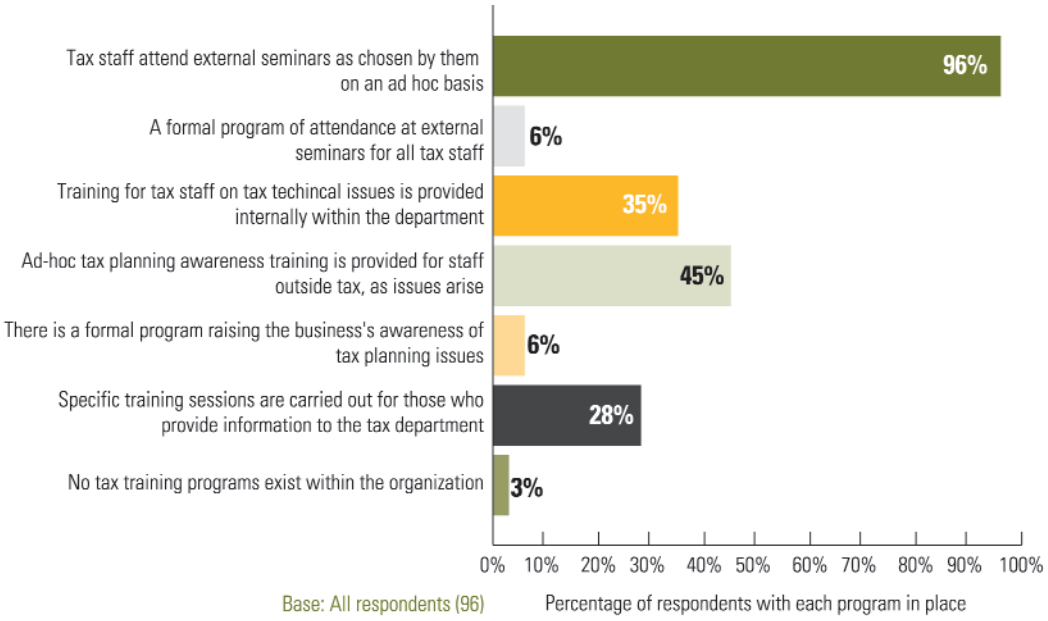



**Figure 14: Tax training programs within organizations**

But it is not just training of those within the tax department that matters. Industry best practice would also include training of those who are responsible for providing source data to the tax department for planning or compliance purposes. Only 28 percent of financial institutions appear to undertake this.

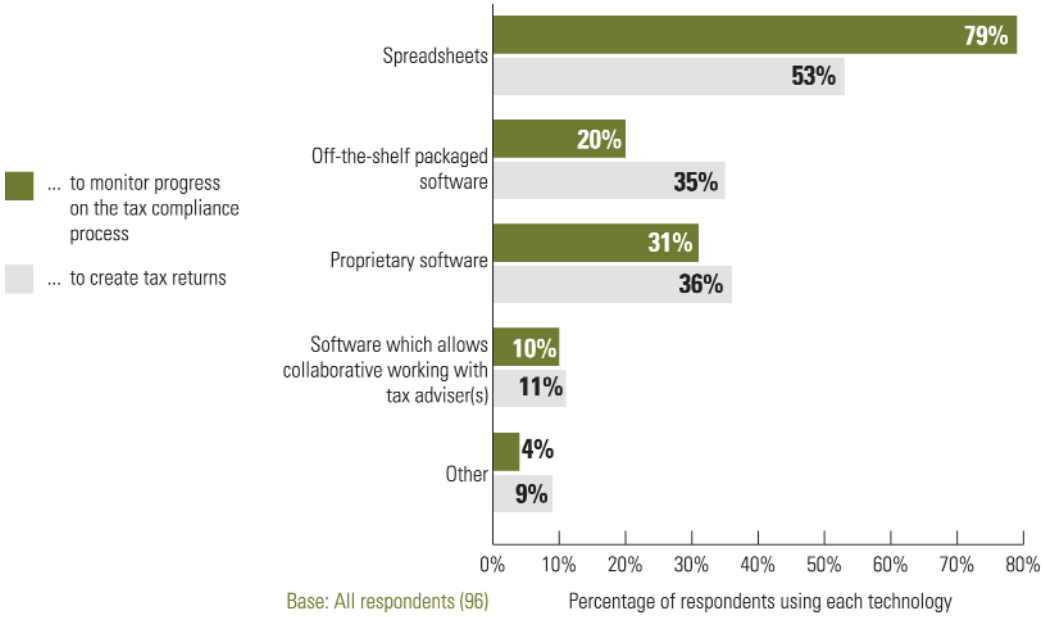
## … as does technology

The accounting system deployed within an organization is clearly fundamental to the data used by Tax for its purposes, so it is vital that Tax is consulted whenever changes to that system are planned. Otherwise, reliable information for both compliance and planning could be jeopardized. In this survey, 53 percent said that Tax would be required to sign-off before amendments were made to the accounting IT system. Although it samples a different population, and is therefore not directly comparable, we note that this is a higher response than the 43 percent who responded positively to a similar question in an NOP survey (of companies generally) carried out for KPMG LLP in the UK two years ago.

Overall, however, there is little in this survey to suggest that advanced technology is taking hold within Tax in financial institutions. For example, a significant area of concern is the continued reliance on the use of spreadsheets for both the preparation of the tax returns and the monitoring of progress of the tax compliance process [fig 15]. Spreadsheets have the merit of being easy to use but are inherently unreliable. 79 percent use spreadsheets for the monitoring of progress and 53 percent for the creation of tax returns (although note that these figures do not measure exclusive use of such tools, i.e. to the exclusion of all others).

**There is heavy reliance on spreadsheets, which are easy to use but inherently unreliable**

**Figure 15: Use of technology ...**




The use of 'off the shelf' packages for such purposes tends to be higher in the Americas than in EMA or Asia Pacific; 47 percent of those in American-headquartered organizations used such packages for monitoring progress, and 53 percent for preparing the returns, compared with overall figures of 20 percent and 35 percent respectively.

A similar regional variance arises when considering the use of technology for the collection of data either for return preparation or for fiscal authority audits; American-based organizations are considerably more likely to use techniques such as data mining software and electronic transfer of data from the general ledger, and perhaps as a result, they are more likely to feel that they can rely on the data produced by the system for tax return work. Elsewhere the use of such methods is limited.

**Significant scope for increased and better use of technology**

Only 11 percent overall use software which permits collaboration on compliance (either preparation of returns or monitoring) with the organization's tax adviser.

Overall, it is perhaps not surprising that some 58 percent of respondents confess to using manual collection of data for these purposes, at least to some extent, but of more concern is the breakdown which shows that 21 percent rely totally on such manual collection. Both these statistics serve as a partial explanation for the amount of time that tax departments spend on compliance issues.

All of which suggests that there remains significant scope for increased and better use of technology for tax purposes, in particular given the findings of this survey in other areas, such as the concern with the time taken by compliance and the consequent restriction on planning resources. Tax needs technology resources in these areas in order to reduce risk, and should be prepared to make its voice heard.

## Industry best practice – operations

- Ensure responsibility for different taxes is clearly defined and agreed by relevant parties.
- Ensure numbers and skills within Tax keep pace with the changing demands of business.
- Maintain procedures manuals and monitor use.
- Alert relevant personnel to risk parameters.
- Review and rationalize procedures.
- Train source data providers, and keep business 'tax aware'.
- Maintain good communications with business, with the Board, and within Tax.
- Maximize relevant use of technology, including coding at source; data mining capability; collaborative tools.
- Ensure high level of system integration.

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