KPMG

GLOBAL TAX OUTSOURCING

The Rising Tide

Regulation and stakeholder pressure on tax departments worldwide

TAX

AUDIT ▪ TAX ▪ ADVISORY

Contents

Introduction

In the two years since KPMG published *Tax in the Boardroom*, its seminal study of changing corporate attitudes toward the management of taxation, tax departments in the United States and Europe have had to evolve quickly.

Spurred by some exceptionally tough and wide-ranging new regulations, boards, investors, and other stakeholders have turned their attention to the huge impact that tax and the way it is managed can have on their businesses. Tax departments have found themselves becoming key contributors to good relations between corporations and their external audiences, including tax authorities who themselves are under unprecedented pressure to bring in revenue.

Given the sheer speed with which this has happened, we wanted to find out how tax departments in the heart of this new development are adapting to the pressures now upon them. We also wanted to know whether their colleagues in parts of the world as yet relatively unaffected by the change are ready for the rising tide of corporate regulation and stakeholder interest in tax that is sweeping the world.

This report combines the results of two surveys, both conducted by independent researchers in the second half of 2006. The first covered 203 senior tax professionals in the United States and the second used a slightly revised set of questions to survey 550 similar people in an additional 18 countries across five continents.

The results reveal tax departments are broadly aware of the new pressures they face, but are struggling to communicate their need for the resources to deal with shorter deadlines and demands for more and better information. Perhaps more importantly, they show departments keen to add value to their corporations through astute and skillful tax management, but lacking the time or opportunity to do so.

For companies looking for new ways to generate shareholder value and improve corporate governance, the report points to opportunities from a generally overlooked source. Tax may be a relatively new addition to the board agenda, but it's there to stay. The challenge now is to take the lead in making tax management a positive contribution to corporate value.

Executive Summary

Companies looking for opportunities to improve shareholder value and demonstrate best practice in corporate governance could be overlooking the need to properly address these issues within their tax departments.

KPMG's surveys of tax departments in the United States and around the world found that although most spent the majority of their time on tax return compliance, this wasn't where they believed they could offer most value to their organizations. Accurate and timely financial reporting, assessment of tax risk, and management of tax authority audits were all widely seen as more valuable activities, but constraints on time and resources meant that few departments were able to perform these to the best of their ability.

Departments were also keen to spend time integrating with their business groups and offering strategic tax advice, but only 22 percent said they spent a significant amount of time on this task, and more than 50 percent said that it formed little or no part of their activities.

Compliance seems set to take up even more of tax departments' time and resources. Departments worldwide reported a significant increase in workload in the past 12 months, through a combination of demands for more documentation (reported by 76 percent), greater accuracy (73 percent), and more speed (61 percent).

They see themselves being squeezed from two directions. Two thirds (66 percent) report greater scrutiny from CFOs and audit committees, driven in turn by increasing demands from external stakeholders for more and better information on tax matters.

But at the same time they struggle with management reporting systems that require substantial reworking of financial information to make it suitable for tax reporting. Anecdotal evidence and KPMG's experience suggests that there has been a general improvement in these systems over the past three to four years, but 38 percent of departments are still complaining of inadequate information systems and 45 percent cite the management reporting focus of general ledger accounts as a hindrance to tax calculations.

Significant numbers of tax departments are still manually converting ledger accounts into a format suitable for tax compliance and reporting, with all the opportunities for introducing error and the consequent need for cross-checking that this implies.

The preferred approach to dealing with these resource problems varies substantially from country to country. Although 42 percent of departments report plans to increase headcount, the greatest focus is in Asia where relatively low salary costs may support this route. Those in the Americas and Europe are overwhelmingly relying on better technology and training to meet the increasing challenges of tax compliance and reporting.

Ninety percent of respondents in India said that their first reaction to increases in pressure would be to add staff in the tax department, while only 23 percent of respondents in Switzerland said they would do so. In Mexico, 85 percent of executives said they would respond by enhancing technology, compared with only 35 percent in South Korea.

While this difference in view clearly reflects local factors (for example, professionally qualified staff are likely to be less expensive in India than Switzerland), the survey uncovered a lack of clarity in how to address tax challenges.

Without diminishing the importance of training and recruitment, an obvious way to close the gap between value and time is to improve efficiency. In KPMG's experience tax departments have not traditionally focused on process improvement or technology applications. But now there seems to be a growing realization among finance and tax professionals that better process and technology can make a contribution in helping tax departments meet their challenges. At KPMG, we have seen an increased level of demand for our multidisciplinary teams of tax and technology professionals as tax departments build the business case for investment in process improvements and technology enablers.

Asked about their future technology plans, 62 percent said they will adapt their financial software to deliver data that can be used for the tax return, and 55 percent plan on creating a bridging system to convert financial data into a form that can be used for this purpose. Thirteen percent reported other types of technology improvements, ranging from new reporting software automation of tax functions to archiving software.

With the exception of Hong Kong, Singapore, and South Korea, few countries reported plans to increase the amount of work they outsource. Outsourcing remains the solution of choice for compliance and expatriate tax, and for areas where specialist advice is necessary. Departments said that they were cautious about the perceived cost of outsourcing and the difficulties of educating a third party about the particular requirements of their company.

Despite developments in other areas of business administration, offshoring—sending work overseas to be completed—was very limited. Only 2 percent of those asked the question reported that they did send work overseas, and half of these sent it to India. Corporations appear still to be concerned over the efficiency of offshoring tax work given its specialist nature and the fact that one of the key compliance challenges—quality of accounting data—is not something directly addressed by offshoring.

These broad regional differences in approach to tax department resourcing were reflected in different experiences of the pressure to provide information to external audiences, and in different approaches to tax risk.

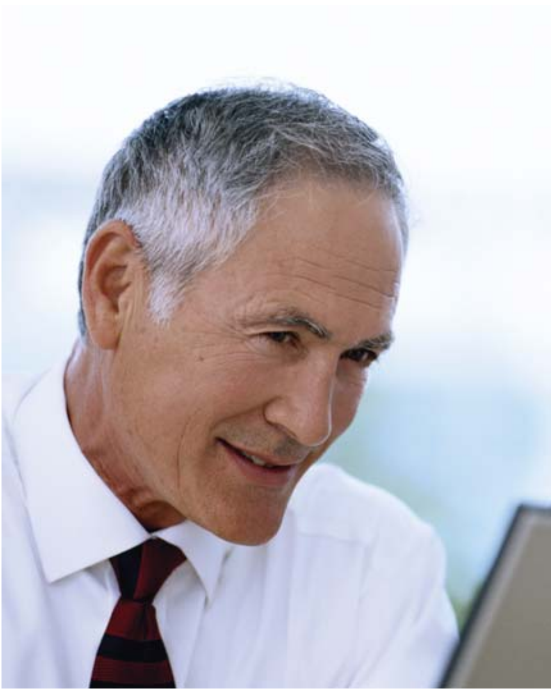
Fully 70 percent of companies in the Americas reported increasing demands for more and better information on tax from shareholders, compared with 46 percent in Europe. But in the Asia Pacific countries, where the full impact of this movement is yet to be felt, only a third (31 percent) of companies are reporting more interest in tax from shareholders.

These are, nevertheless, significant figures. Yet tax risk is recognized as a rising priority by only 40 percent of companies and less than half (48 percent) have a formal tax risk management strategy. In the United States, this figure drops to 30 percent. And of those who do have a tax risk management strategy, only 14 percent believed that it was well understood throughout their organization.

This might seem an alarming statistic, but it has to be seen in the context that this focus on tax risk management has emerged only relatively recently. It is still only two years since tax began appearing regularly on boardroom agendas, and many still see it as too complex or too specialized a subject to merit much board time. Only 37 percent of boards worldwide have provided strategic guidance to their tax departments or reviewed their tax risk management strategy in the past 12 months. Only 26 percent have a tax department representative on their risk management committees.

But things are changing, and rapidly. The leaders in this field, those who see tax management as a source of value and are prepared to invest in it, have a very good chance of besting their competitors in the eyes of the market.

Pressures and Challenges



The majority of executives who participated in the survey said the environment in which tax executives operate is changing rapidly. The most immediate impacts are an increase in pressures on the tax function, new difficulties relating to timely and accurate tax calculations, and an increase in an organization's tax risk.

Pressures experienced by the tax function

Increasing focus on compliance and internal review

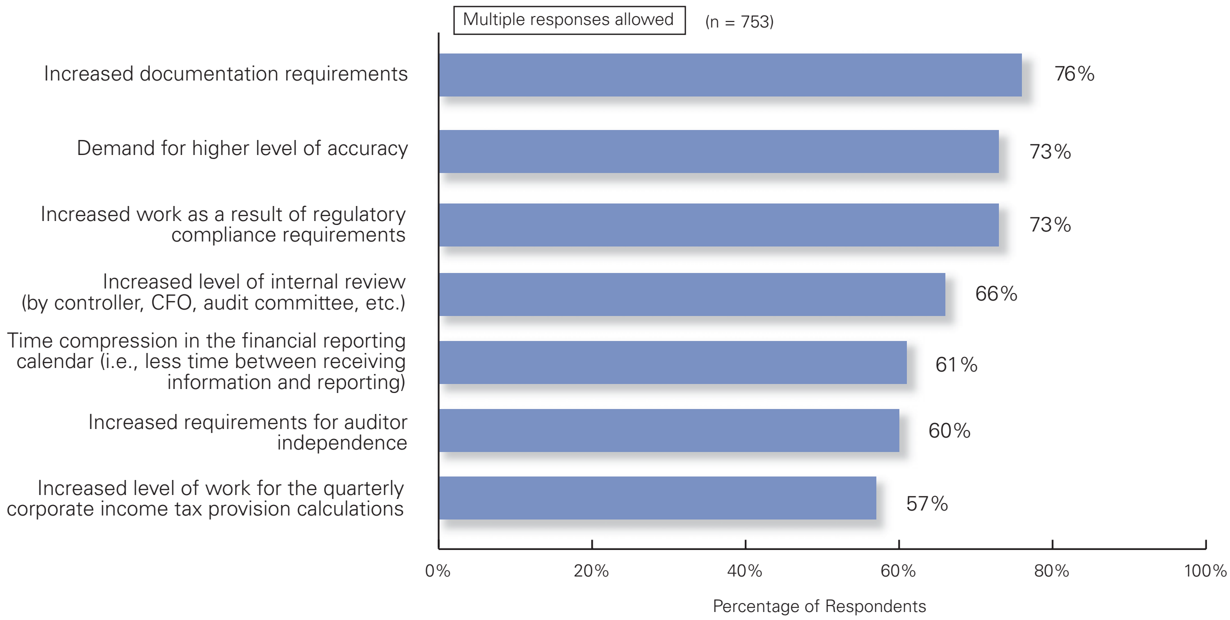
In the 12 months preceding the survey, 73 percent of respondents said their workload had increased as a result of regulatory compliance requirements. Two thirds (66 percent) said they have experienced more reviews of their work by their controllers, chief financial officers, audit committees, and others inside their company. Further, more than half (57 percent) reported increased work on quarterly reporting.

Produce more in less time

Along with increased requirements for better quality financial and tax reporting, the tax function has had to meet demands for more documentation of their work. More than three quarters of respondents have experienced increased documentation requirements. Yet 61 percent believe they are experiencing a "time compression in the financial reporting calendar," meaning they are seeing less time between receiving information and having to report it.

Pressures experienced by the tax function

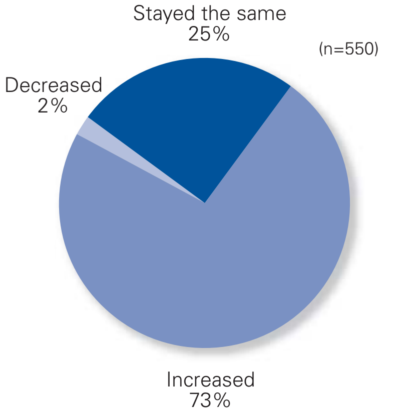
Which of the following have you experienced in the last 12 months?



Source: KPMG International, 2007

Nearly three quarters say workload has increased

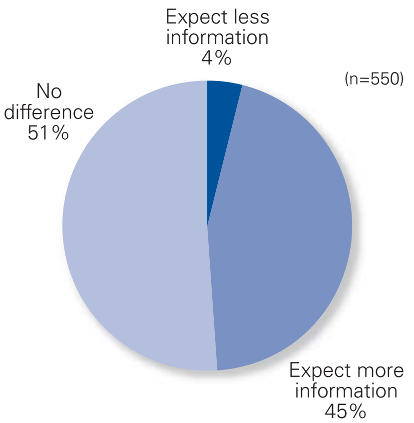
Over the last 12 months has the workload of the tax department increased, decreased, or stayed the same?



Source: KPMG International, 2007

Nearly half say shareholders expect more information

Have you found that shareholders are expecting to receive more information on your company's tax policy than they have in the past (i.e., over two years' ago), or do they expect less?



Source: KPMG International, 2007

Workload increase

Three quarters (73 percent) of respondents said the tax department workload had increased by about 20 percent in the preceding 12 months. Of that number, 41 percent said their tax department workload had jumped by as much as 30 percent. Five percent reported a workload increase of 100 percent.

Interestingly, on all measures discussed above, it was respondents in Europe who, relatively, felt the impact of these developments the least. Respondents in the Asia Pacific region felt the impact slightly more strongly. The greatest impact was felt in the Americas. This result was influenced by the preponderance of U.S. respondents in this segment and, given U.S. developments such as Sarbanes-Oxley (S-O) and FIN 48, this is not surprising. The question is whether the pressure felt by tax departments in those regions will rise as regulatory developments take hold in other countries.

Shareholder expectations

As evidence of the increasing focus on tax risk management and the tax function, nearly half (45 percent) of respondents in the global survey said they believe shareholders now expect to receive more information on their company's tax policy than they have in the past. Although the specific question was not asked in the U.S. survey, shareholder activism has had a significant impact on the issue of tax transparency.

There was a decided difference in the answer to this question when viewed by region. In Canada and South America, for example, fully 70 percent agreed, but the share dropped to 31 percent among executives in the Asia Pacific region and 46 percent in Europe.

This no doubt reflects the differing incidence of alternative ownership structures and shareholder activism in each region, but in the global economy where the United States leads, others often follow. This may well be the case in the tax arena as investors and businesses respond to developments such as those indicated in the Seoul Declaration by many world tax authorities.

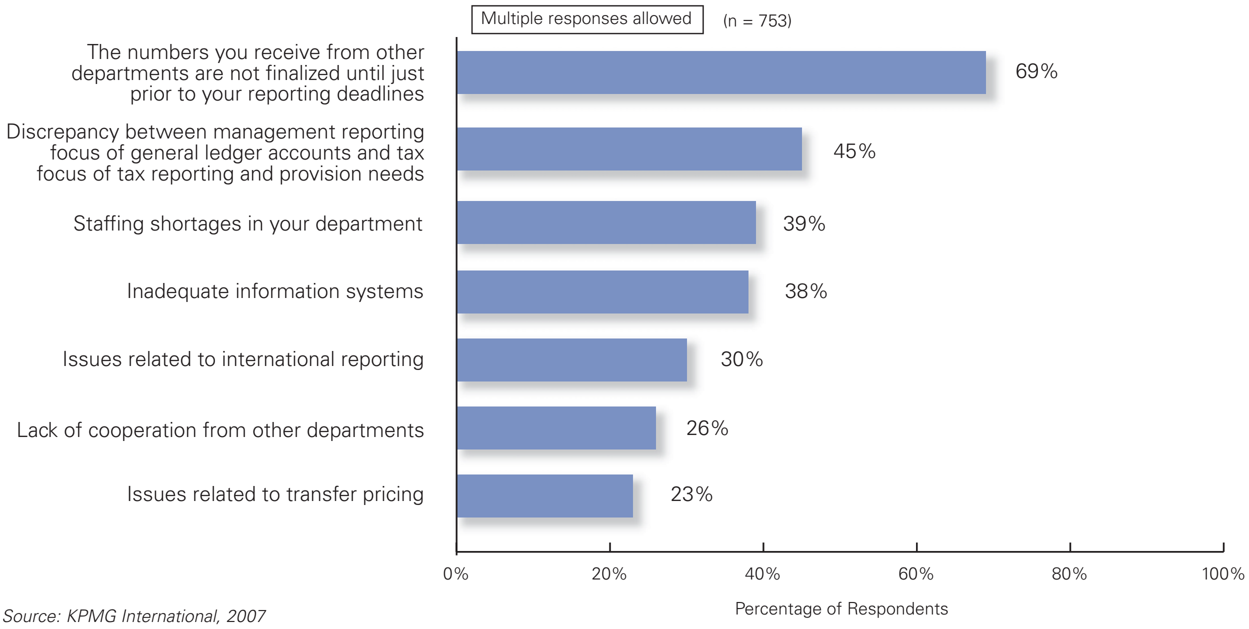
Problems hindering tax calculations

Tax function is struggling with inefficient practices and systems

As demand for clear, accurate, and timely tax information has increased during the past several years, tax departments are becoming increasingly aware of the factors that hinder their ability to comply with these demands. The survey responses paint a picture of a number of imperfect practices regarding the calculation process in tax departments around the world. Almost 7 in 10 respondents (69 percent) said they receive information for their tax calculations just prior to their reporting deadline, raising the risk of errors. Further, many respondents say information systems are frequently unable to make suitable conversions from the general ledger accounts information for tax purposes. Where automation is lacking, manual conversion adds further risk, particularly in a time-pressured environment.

Problems hindering the tax department

Which of the following factors hinders your tax department's ability to provide timely, accurate tax calculations?



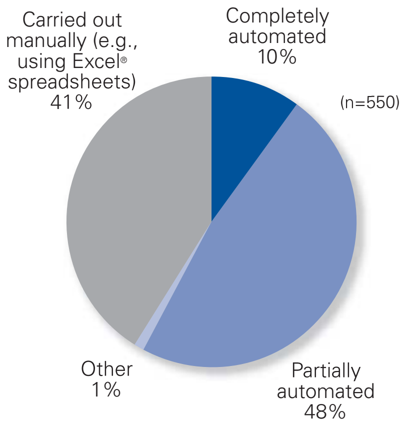
Source: KPMG International, 2007

Forty-five percent of respondents said their tax department's ability to provide timely, accurate tax calculations is hindered by the discrepancy between the management reporting focus of general ledger accounts and the tax department's reporting and provision needs. Thirty-eight percent said they were hindered by inadequate information systems, and 39 percent blamed staffing shortages in the tax department.

When looked at on a regional basis, the results suggest that tax functions in Europe, while showing responses consistent with the other regions, generally feel less hindered in their tasks by the factors discussed above. Perhaps this reflects the fact, as discussed earlier in the survey, that they feel less pressured in their tasks. The consistency of responses across all regions suggests widespread challenges relating to the organization of people, processes, and technology within tax departments.

Few have completely automated their conversion

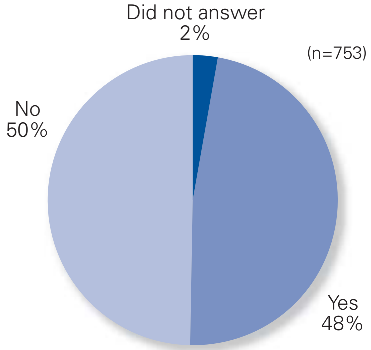
How does your tax department currently convert the general ledger accounts information into a format for tax provision or tax return preparation?



Source: KPMG International, 2007

Just under half have a formal tax risk management strategy

Does your company have a formal tax risk management strategy?



Source: KPMG International, 2007

Few have completely automated conversion of general ledger information for tax purposes

Although it is rare for tax departments to have fully automated the process to convert general ledger accounts information into a format suitable for tax provision or tax return preparation, nearly half (48 percent) of the global-survey respondents have partially automated the process. The question was not asked in the U.S. survey. Respondents to the global survey stated that conversions are rarely problem free. Only 16 percent said they felt the conversion process isn't difficult.

Tax risk

Tax risk assessment is a rising priority for many

Increasingly, investors, corporate executives, and board members are demanding better insight into tax because of its material impact on financial statements. In the United States, for example, hundreds of companies in the past two years have reported tax-related material weaknesses to the SEC as part of their Sarbanes-Oxley section 404 reporting requirement. The same kinds of material weaknesses are evident in other parts of the world where investor-protection legislation demands similar disclosures. The danger of getting this pivotal issue wrong is very high. The repercussions are often immediate and severe with a potential significant decline in market capitalization, a loss of investor confidence, and possible regulatory action by government bodies.

It would be reasonable therefore to expect tax risk assessment to be an important and increasing priority around the world given this current focus on governance issues.

However, only a minority (48 percent) of respondents claimed to have a formal tax risk management strategy and even fewer (40 percent) say it is a rising priority. If this is the case, then many tax functions in major companies are failing to avail themselves of one major means of effectively communicating their strategy to their board.

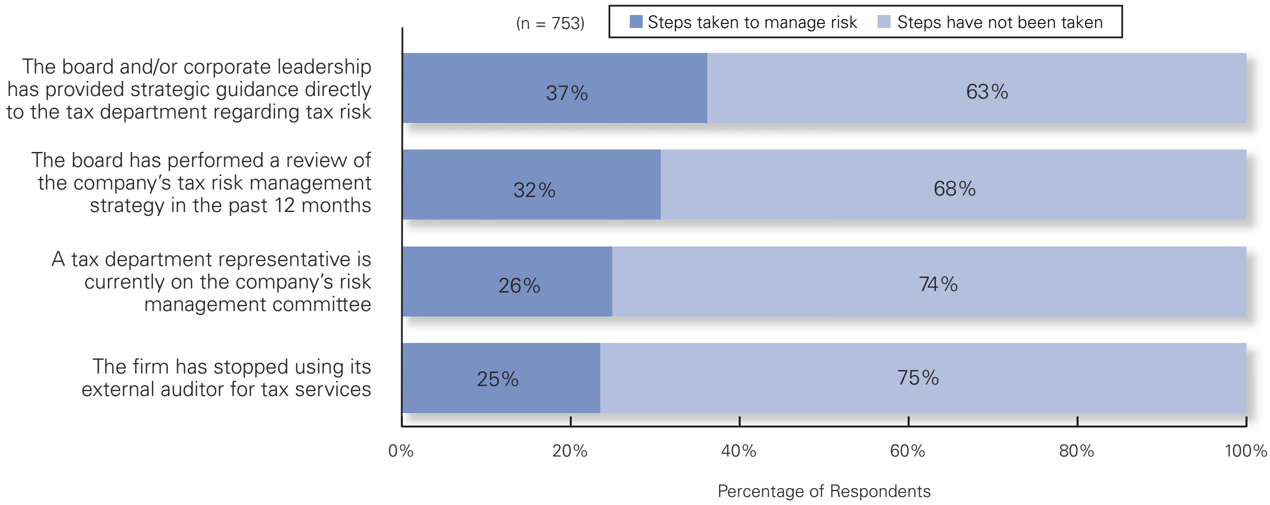
Board engagement

The recent KPMG International white paper *Tax in the Boardroom* reported a survey revealing that while tax governance frequently is on the board agenda at many businesses, tax professionals are infrequently represented on the board and many companies do not have a written tax policy signed off by the board.

Our survey confirms this picture.

Most boards have not provided strategic guidance on tax risk

Which of the following describes actions your company and its leadership have taken to manage tax risks?



Source: KPMG International, 2007

Only 37 percent of respondents said their board members and/or corporate leadership provide strategic guidance directly to the tax department regarding tax risk. Only 32 percent reported the board having performed a review of the company's tax risk management strategy in the past 12 months. Only 26 percent said a tax department representative is currently on the company's risk management committee.

Understanding of tax risk strategy

When asked if they believe their company's tax risk management strategy is "well understood" throughout the organization, only 14 percent of respondents in the global survey agreed. Taken together with the questions dealing with board engagement, these findings are somewhat surprising as levels of engagement appear so low. It is likely that part of the explanation is that tax has not historically been seen as a day-to-day, board-level issue. We also suspect that there is a time lag between observing the increasing importance of this issue to tax and regulatory authorities and seeing businesses respond. In the U.S. survey, similar findings were evident in the realm of tax risk strategy. The overwhelming majority of U.S.-based respondents said they are grappling with ways to respond to tax risk management issues.

With the preparation of tax risk management strategies in the minority and little self-confidence within the tax function as to the depth of understanding within the wider organization of their tax risk strategies, it does seem that tax functions are contributing to their lack of impact.

The primary lessons from reviews of the material weaknesses reported from the early rounds of S-O disclosures in the United States are that there needs to be better communication among tax personnel and other executives in the organization and that tax risks must be understood beyond the tax department. Poor communication by tax departments has meant decisions about acceptable levels of tax risk may have been made without the board's knowledge or approval.

However, the tax department is a business function like any other: controls over tax risks must be dealt with just like the controls over other risks in financial reporting. That requires a strategy on risk that is well understood within the organization and takes into account the entire risk spectrum, rather than focusing just on tax technical issues.

Therefore, for their part, tax professionals in a business should now accept that their objectives and processes must be subject to the same rigor of review as every other area of business. Boards and tax executives should address the tax risk assumed by their corporations before they become aware of it for the wrong reasons. A benign assumption that tax risks are under control will not provide the transparency demanded in these times of heightened sensitivity to corporate governance and social responsibility.

If tax is to be included in the business dialogue, it is especially important that the role of the tax department, tax governance, and the tax risk strategy is understood and approved at senior management and board of directors levels. Many boards need and want greater involvement and understanding of tax decisions, tax issues, and tax risks. Our survey suggests much work remains in this area. More positively, we see this as an advantageous time for those who want to get better at managing and mitigating tax risk. Corporate governance initiatives, while appearing costly and time-consuming, nevertheless provide tax directors, executives, and boards with a chance to improve the visibility, role, and understanding of the work of the tax department and the importance of tax risk management for the business. Critically, it can also provide a platform on which to improve the efficiency and efficacy of those tax processes that underpin compliance obligations and tax risk management. This can help address the pressures tax departments report they are facing on compliance obligations and free up the tax department to turn its attention to the value-added task of proactively supporting the business.

Plans for the Future

How tax departments will spend their time

Better tax planning and integration of tax into overall corporate strategy have been on many tax professionals' minds for a number of years. The challenge has been to balance the demands of compliance with the need for more efficient and effective support of the business. Most tax departments continue to spend the majority of their time on compliance matters and less of it on supporting the business or implementing tax planning strategies: the mean response from the survey was for a 20 percent increase in time devoted to reporting, provision, and compliance.

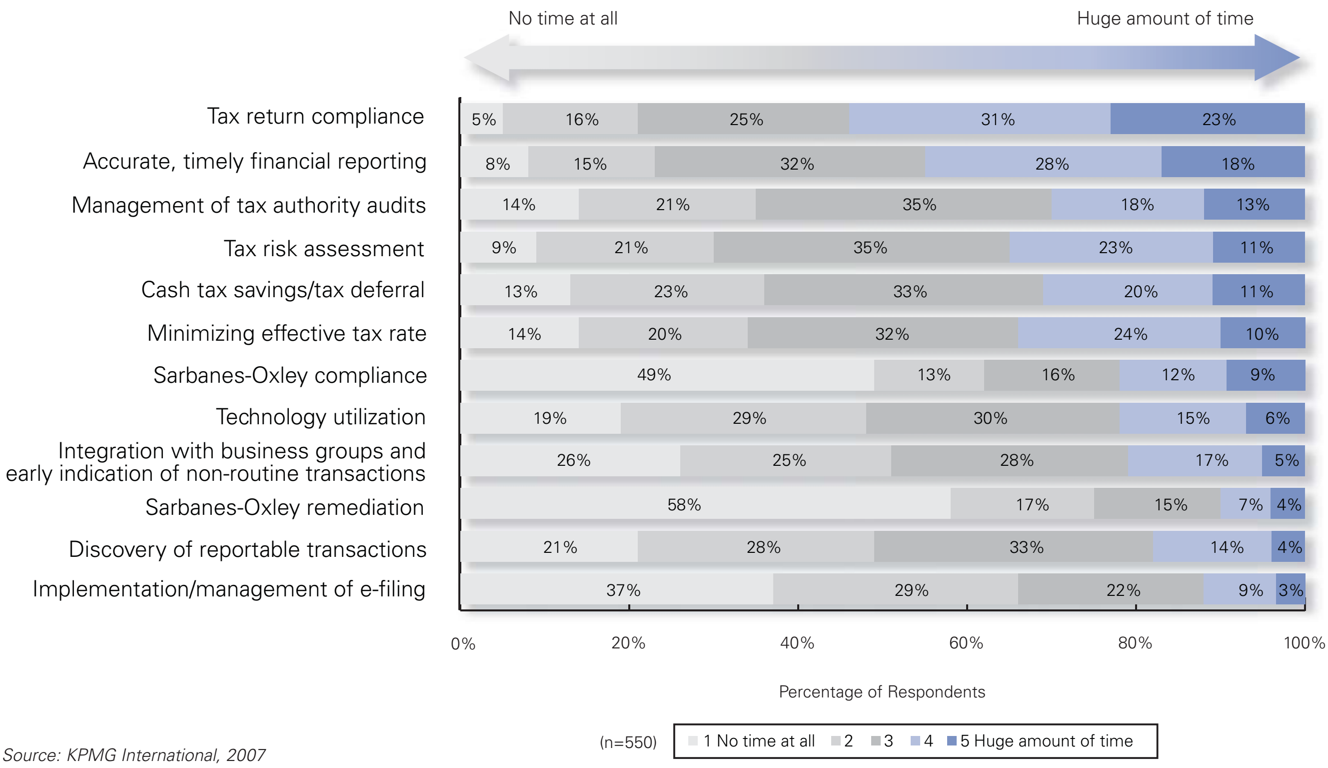
While the increasing compliance workload provides the direct and immediate reason for this imbalance, there could be other, deeper factors at work. One may be that many tax professionals within an organization do not understand how to make tax more strategic or how to measure and monitor the effectiveness of such a strategy. Another could be that the tax function has not succeeded in making a logical and clear case to a broader internal audience for the investments necessary to improve the efficiency of tax processes that will allow the balance to shift.

Priorities

With these and other factors in mind, we sought to understand how respondents would use their time in the ensuing 12 months. Not surprisingly, they told us that their top priority would be tax return compliance. In a ranking among global respondents of 12 key functions, that activity was at the top. Using a scale of one to five, with five representing "a huge amount of time," 23 percent of respondents chose five in the tax return compliance function. Minimizing the effective tax rate and cash tax savings/tax deferral were ranked fifth and sixth, respectively, on the list of planning activities. Among U.S. respondents, 60 percent said they planned for tax process improvements over the next 12 months.

Most time will be spent on compliance

Amount of time spent on activities over the next 12 months. (Some categories do not equal 100% due to rounding.)



Source: KPMG International, 2007

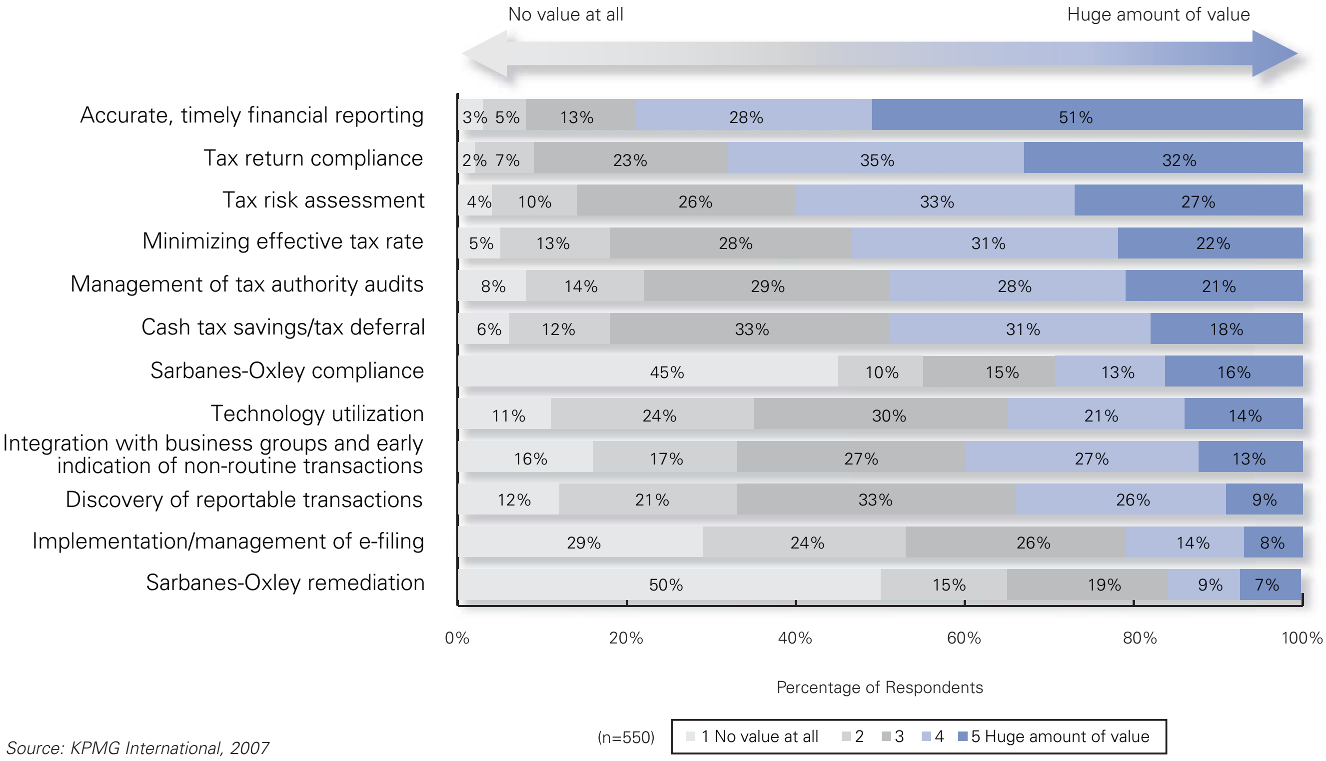
Value versus action

Interestingly, but not surprisingly, when global respondents were asked about activities they felt brought value to their organization, planning activities moved up in the rankings.

When plotting this and the previous result against each other, we get a picture of value versus action and the mismatch that exists in many corporations' tax functions. The results provide us with tangible evidence that tax professionals are failing to find the means to align the time they spend on their various responsibilities with the relative value they attribute to them. The same conclusion may be drawn for U.S.-based respondents, who said they value the concept of tax-risk management but are spending a great deal of their time on tax-compliance matters.

Accurate reporting is of most value to organization

Value of activities to organization (Some categories do not equal 100% due to rounding.)

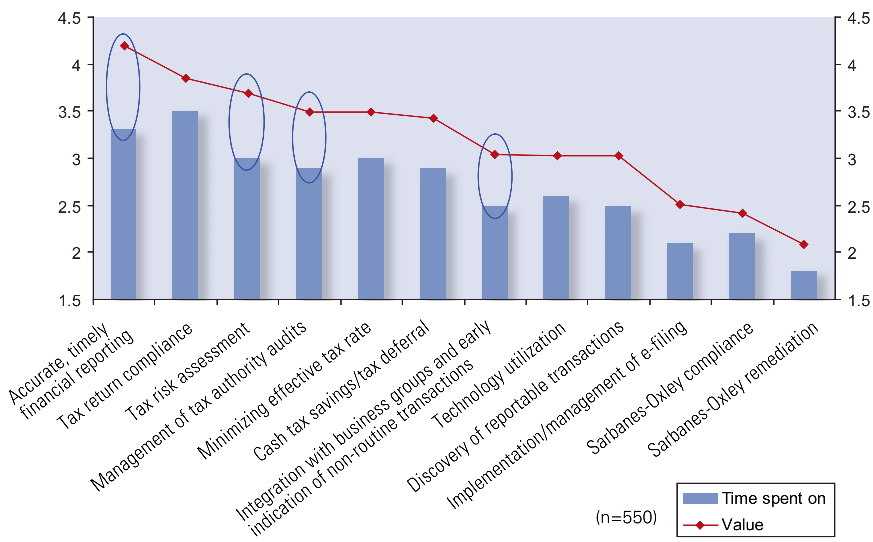


Activity	1 No value at all	2	3	4	5 Huge amount of value
Accurate, timely financial reporting	3%	5%	13%	28%	51%
Tax return compliance	2%	7%	23%	35%	32%
Tax risk assessment	4%	10%	26%	33%	27%
Minimizing effective tax rate	5%	13%	28%	31%	22%
Management of tax authority audits	8%	14%	29%	28%	21%
Cash tax savings/tax deferral	6%	12%	33%	31%	18%
Sarbanes-Oxley compliance	45%	10%	15%	13%	16%
Technology utilization	11%	24%	30%	21%	14%
Integration with business groups and early indication of non-routine transactions	16%	17%	27%	27%	13%
Discovery of reportable transactions	12%	21%	33%	26%	9%
Implementation/management of e-filing	29%	24%	26%	14%	8%
Sarbanes-Oxley remediation	50%	15%	19%	9%	7%

Source: KPMG International, 2007

Accurate, timely financial reporting, tax risk assessment, management of tax audits/inquiries, and integration with the business are the key areas where the value ascribed to the activity is not matched by the time spent on it.

Value of activity compared with time spent on it



Source: KPMG International, 2007

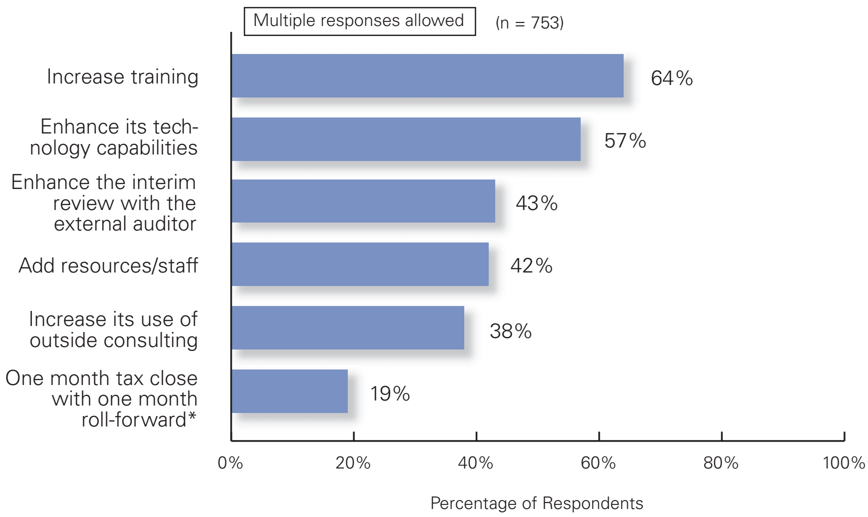
How tax departments are responding to pressure

Tax professionals are reacting to the changing tax environment in a variety of ways. Most commonly, they are stepping up training, enhancing their technology capabilities, adding staff, enhancing the interim review with their external auditor, or increasing the use of external consultants.

Sixty-four percent of respondents reported an increase in training would be their most likely response. Slightly more than half (57 percent) said they would enhance technology capabilities, and 42 percent reported plans to add staff.

Steps by tax function in response to demands

What steps is the tax department planning to take as a result of increased demands on the department?



*For companies reporting on a calendar year, this is often known as "November close, December roll-forward."

Source: KPMG International, 2007

When looked at on a country-by-country basis, the particular focus for each country varies. For example, 90 percent of respondents in India reported their primary reaction to increases in pressure would be to add staff in their tax department, while only 23 percent of respondents in Switzerland said they would do so. In Mexico, 85 percent of executives said they would respond by enhancing technology, while only 35 percent in South Korea said they would do so. (See chart on next page.)

Steps by tax function in response to demands

What steps are the tax department planning to take as a result of increased demands on the department?

	EMEA								Americas				ASPAC						
	Germany	United Kingdom	France	Italy	Spain	Netherlands	Switzerland	Sweden	United States	Canada	Mexico	Brazil	Japan	China	South Korea	Australia	Singapore	India	Hong Kong
Increase training	55%	43%	78%	83%	80%	63%	70%	50%	56%	75%	70%	87%	55%	85%	55%	48%	85%	85%	75%
Enhance its technology capabilities	68%	38%	58%	60%	50%	40%	50%	30%	64%	63%	85%	73%	45%	55%	35%	50%	65%	65%	60%
Add resources/staff	40%	45%	50%	45%	50%	37%	23%	27%	44%	45%	40%	27%	30%	35%	20%	38%	55%	90%	60%
Enhance the interim review with the external auditor	33%	28%	45%	38%	33%	30%	27%	20%	51%	50%	70%	53%	23%	50%	40%	30%	80%	60%	85%
Increase its use of outside consulting	35%	20%	38%	38%	13%	37%	50%	27%	35%	58%	30%	37%	20%	45%	65%	30%	80%	60%	85%
1 month tax close with 1 month roll-forward*	18%	5%	23%	33%	17%	30%	20%	13%	15%	33%	15%	27%	10%	5%	30%	15%	25%	30%	35%

60% + = red
40– 59% = orange
Less than 40% = green

Multiple responses allowed

*For companies reporting on a calendar year, this is often known as "November close, December roll-forward."

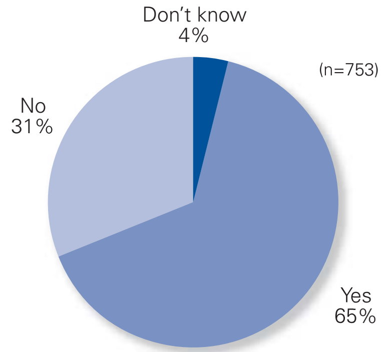
Source: KPMG International, 2007

While this variety of perspectives no doubt reflects in part local factors (for example, professionally qualified staff are likely to be less expensive in India than in Switzerland, and cost pressure is far less prevalent), we believe it also reflects a lack of clarity on how to address the challenges identified earlier in this survey. Is the gap between value of activity and time spent on it well understood, and even where it is, is there consensus on how to respond to it?

Without diminishing the importance of training and recruitment, an obvious way to close the gap between value and time is to improve efficiency. In our experience, tax departments have not traditionally focused on process improvement or technology applications (other than specific tax-return packages or common-use software) for enhancing the efficiency and management of tax processes. Yet, with the challenges on tax risk management thrown up by the regulatory environment and the pressures on performance coming from within the business, there is a growing realization among finance and tax professionals of the contribution better process and technology can make in helping tax departments meet these challenges. So we were keen to investigate the current state of thinking on these areas.

65% to improve processes next year

Do you plan to undertake any tax department process improvements during the next 12 months?



Source: KPMG International, 2007

Process and technology developments

Overall, 65 percent of respondents said they were planning tax department process improvements during the next 12 months. We asked about the technology initiatives where tax has asked for help from the company's information technology department in the last 12 months. The most prevalent area was the management/organization of tax-related data. Even so, less than 50 percent reported this initiative. The next most prevalent area was implementation assistance for tax software, with 42 percent reporting the initiative.

Looking to the future, a slight majority (51 percent) said they plan to undertake tax department technology improvements in the same period. Specifically, 62 percent said they will adapt their financial software to deliver data that can be used for the tax return, and 55 percent plan on creating a bridging system to convert financial data into a form that can be used for the tax return. Thirteen percent reported other types of technology improvements, ranging from new reporting software through automation of tax functions to archiving software.

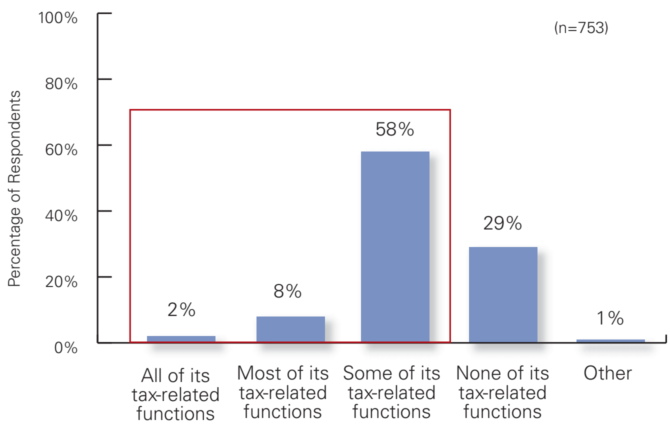
These results are encouraging and confirm a trend seen in other surveys for greater process and technology enhancements for the tax department. However, given that it is still only half of respondents who are planning such improvements in the next 12 months, the results also show that there is still a long way to go in this area. It is interesting to think of these results in the context of the investments multinationals are making in their ERP systems and accounting processes. Are tax departments failing to make the case for investment that their finance counterparts seem able to do? We wonder if this is part of the apparent communication issue tax departments may have. If their approach to tax strategy and risk management is not formulated, or where it is formulated, not well understood, then how well articulated or thought through will be the component of that strategy that can be met by improvements in process and technology and the associated business case for investment?

Outsourcing

As global operations expand, senior executives and board members around the world are seeking assurance that their organizations are complying with increasingly complex tax rules. The consequences for noncompliance can be severe in terms of damage to reputation, negative impact on market capitalization, and costly fines. Operating in many tax jurisdictions has strained the tax-compliance capabilities of many businesses and can make it difficult for some businesses to focus both on their core business and on staying current with tax requirements. It was not surprising, therefore, that the survey results showed 68 percent of respondents outsourcing some or all of their tax-related functions.

Proportion of tax-related functions outsourced

To what extent does your company currently outsource the tax-related functions? Does it outsource?

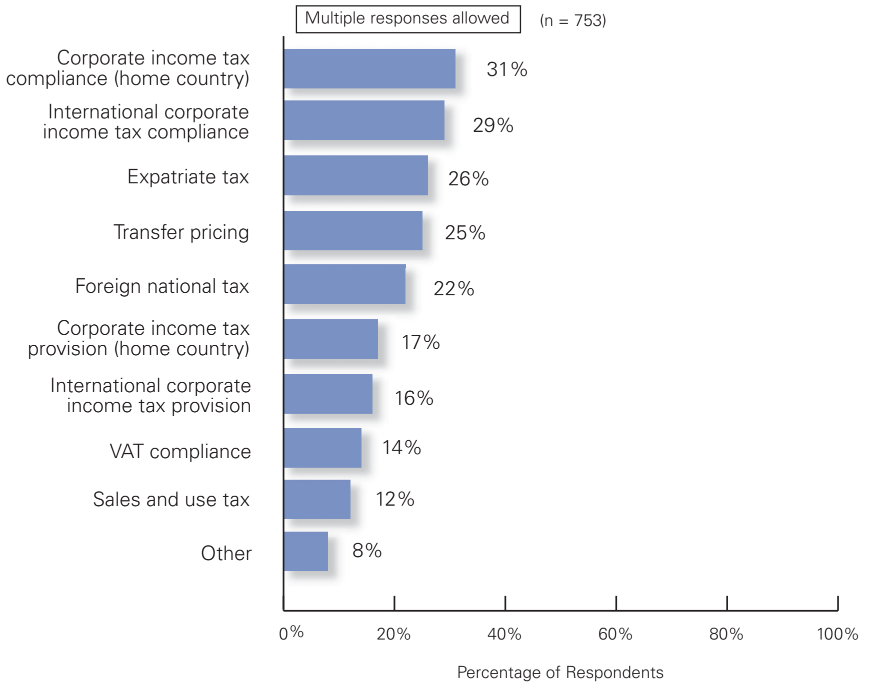


Source: KPMG International, 2007

Among the surveyed organizations that outsource some or all of their tax function, nearly half (45 percent) said their most commonly outsourced tax activity is corporate income tax compliance in their home country. Forty-two percent said they outsource international corporate income tax compliance, 42 percent outsource expatriate tax, and 38 percent outsource transfer-pricing analysis and review. More than half of those that outsource also reported using more than one service provider. Service providers are chosen on a case-by-case basis depending on the project specifics. Only 23 percent use one provider for all of their tax outsourcing needs.

Corporate income tax compliance and expatriate are most outsourced services

Which of the current tax functions do you currently outsource partially or completely?



Source: KPMG International, 2007

These results are not surprising and are consistent with what we see in the marketplace, with outsourcing of compliance a common feature in many countries. There are a number of immediate benefits for businesses that outsource the tax compliance process. Sourcing can provide a remedy for resource constraints in an organization's tax function and may provide an opportunity for efficiency in the collection and analysis of tax data. Outsourcing tax-compliance work also may provide an organization with a consistent, enterprise-wide, tax-compliance process.

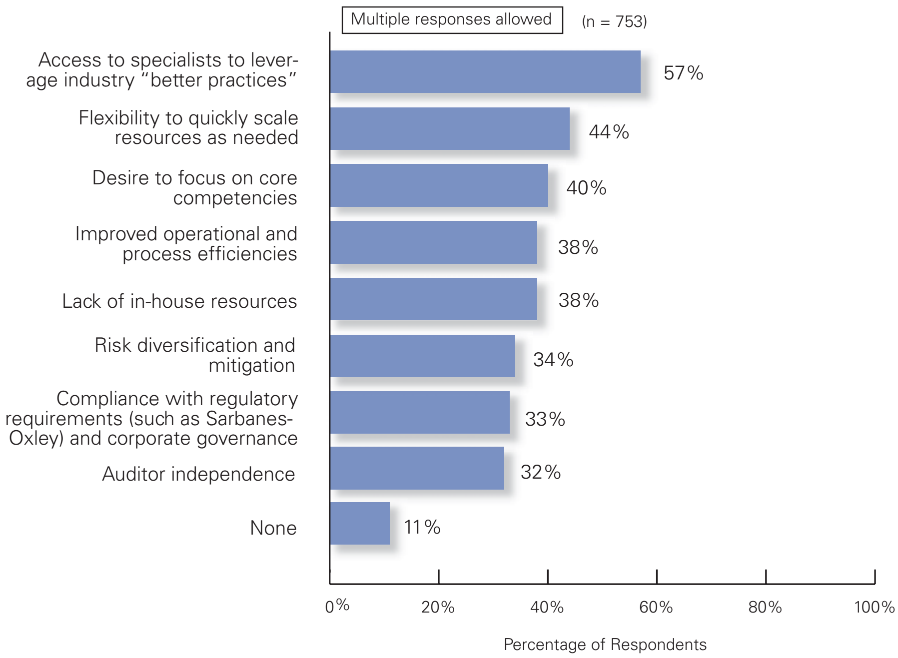
Perhaps most valuable, an organization that outsources its tax-compliance process may then be able to better focus both on long-term strategic tax planning and shorter-term support to the business operations.

Reasons for outsourcing tax

The top reason for outsourcing, respondents reported, is access to specialists to leverage industry "better practices." A significant portion of respondents say they outsource: (1) because of a lack of in-house resources, (2) there is little flexibility to scale resources as needed, (3) there is a desire to focus on their company's core competencies, (4) to better manage risk, and (5) to improve on operational and process efficiencies.

Assessing specialists is key reason to outsource

In your opinion, what are possible reasons for outsourcing part or all of your company's tax function to an outside service provider?



Source: KPMG International, 2007

Barriers to outsourcing

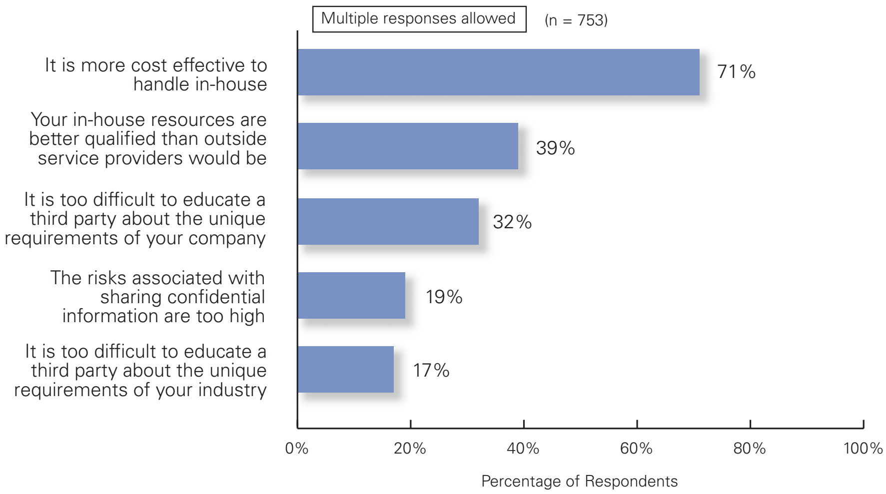
Given the potential benefits of outsourcing, what are the barriers? For those who reported not outsourcing either much or any of their tax function, cost was the top reason cited. Seventy-one percent of respondents said they believe it is more cost-effective for their business to handle tax functions in house, even though only 39 percent said their in-house resources are better qualified than outside service providers.

Offshore outsourcing

While sourcing business processes to offshore locations has become very popular, sending tax work offshore is rare among the businesses in this survey. Only 2 percent of respondents reported sending their tax-compliance work out of their country of domicile.

Cost is main barrier to outsourcing

Which of the following are reasons why your company doesn't outsource any or more if its tax-related functions?



Source: KPMG International, 2007

It is not surprising that outsourcing to an offshore location is so limited. Despite cost being cited as the main barrier to outsourcing, offshore facilities have yet to face the challenges of multi-language, multi-jurisdictional needs in one centralized location. While offshoring of corporate and personal tax compliance to India for U.S. domestic tax returns is growing, it is still a very small proportion of the total compliance work being outsourced globally. Corporations continue to have concerns over the overall efficiency of offshoring of tax work given its specialist nature and the fact that one of the key compliance challenges—quality of accounting data—is not something directly addressed by offshoring.

However, the existence of these results does raise the question of whether corporations are taking full advantage of the opportunity that outsourcing offers. Outsourcing is not only a significant investment but also an extension of an organization beyond its traditional boundaries. While responsibilities and activities are passed to the provider, a special feature of the tax process is that it can never be wholly outsourced. The underlying accounting data will usually remain with the corporation and the ultimate responsibility for the output (for example, the tax return) will remain with the corporation—particularly in light of S-O and other legislation. It is vital therefore that businesses give careful consideration to how the outsourcing will be organized, the associated risks, and the overall objectives if the benefits are to be obtained and then optimized.

When outsourcing works well it is often because there is clarity between the corporation and the provider as to overall objectives and the way the two organizations will work together to achieve them. A high premium should therefore be placed on governance and the initial set-up of the relationship. That duty falls not only on the service provider but also on the corporation's senior finance management and board.

Yet, while executives will say that they want to take a holistic view of the objectives and are looking to the outsourcing partner to help them improve processes and tax risk management, they will typically look first and foremost at cost. It is instructive to look at the survey results as to the range of reasons for outsourcing, and therefore perceived benefits to be obtained from an outsource provider and the preponderance of cost as the main barrier. This raises the question of whether corporations are properly assessing the value of the services they wish to access. Is the value merely the displaced cost of internal provision or rather the value-added that is provided either by access to the specialist skills of the provider or the alternative activities (for example, business support or tax planning) on which internal resources can then focus?

Perhaps a reason for this is that cost is easily quantifiable whereas other benefits are not. Many businesses employing an outsourcing strategy struggle with how to monitor and measure the risks, value, and performance. However, we are seeing better understanding and more sophistication in the use of a broad range of quantifiable measures to evaluate the success of tax outsourcing relationships. In the context of outsourcing compliance activities, setting the right performance measures is key—they should be challenging and designed to enhance the compliance process for both the provider and the corporation.

Measures could include:

- Timely filing of returns
- Reduced incidence of "error" on subsequent tax authority inquiry
- Less time spent by in-house finance staff on the data-gathering process
- Enhanced satisfaction of in-house staff with the data-gathering process
- Identification of planning or disclosure opportunities.

Similarly, in assessing the wider benefits, a corporation can challenge itself to re-focus in-house resources on business support and tax planning activities. What is the opportunity cost of time not devoted to implementing planning because it is tied up on compliance matters?

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Contacts

Christopher Scott
KPMG in the U.K.
+44 20 (0) 7311 2820
christopher.scott@kpmg.co.uk

Thomas Garigliano
KPMG in the U.S.
+1 213 955 8609
tgarigli@kpmg.com

Brad Brown
KPMG in the U.S.
+1 213 593 6761
bradbrown@kpmg.com

Paul Harrison
KPMG in the U.K.
+44 20 (0) 7311 3053
paul.harrison@kpmg.co.uk

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