

Executive summary

Introduction

In the last few years the increase in globalisation and the application of new technologies has led to major changes in the way business is done. Over the same period there has been a transformation in the approach by the regulators, with many countries around the world implementing more rigorous corporate governance regimes. This changing business environment has had a dramatic impact on the management of taxation by businesses.

Not only have we seen increasing complexity in managing the cost of taxes, both locally and cross border, we have also seen significant challenges for reporting and compliance. The US Sarbanes-Oxley legislation is aimed at significantly improving the integrity of financial reporting; however this has exposed serious problems with the quality of tax reporting in many companies. Tax continues to be the most frequently cited areas of material weakness under section 404 of the Act and we have no reason to believe that the experience would be any different for tax accounting by non-SEC companies.

The business and regulatory environment of the last few years has thus increased the scrutiny on tax functions and caused a number of behavioural trends within tax functions – some positive, some not so positive. We have particularly witnessed the global pendulum swing towards a focus on risk management and compliance. In many cases this has resulted in companies becoming more conservative and risk averse at the expense of managing the tax costs for their organisation. The increased focus on tax and the tax function is gradually improving the transparency around taxation, the contribution to value and the management of risk.

A vision for tomorrow's tax function

We are often asked questions such as 'how should I structure my tax function?' or 'how many people should I have in my tax function?' The answers to these questions will depend on both the nature and global footprint of the business and what the business and the tax function is trying to achieve – the objectives for the tax function.

The tax function's objectives should themselves be driven by what is happening in the business and the wider business and regulatory environment. While the objectives of different tax functions will vary in the detail, we believe that the effectiveness of the tax function is fundamentally based on its ability to achieve three core objectives:

- Create, protect and optimise **value** in the context of the organisation's business objectives;
- Manage a wide range of tax related **risks** from carrying on business; and
- Ensure **compliance** with tax laws and reporting requirements.

Tax planning and advisory activities should be focussed on optimising tax outcomes and managing risk, both in respect of strategic transactions and day to day operations. Compliance and reporting activities tend to be process driven activities that are focussed on both risk management and external communication of tax outcomes. It is critical for the effectiveness of the tax function that an appropriate balance is reached between the achievements of the three core objectives set out above.

A tax management framework

We have established a framework for how a tax function should operate. The starting point is the tax strategic plan. For this plan to be implemented there are a number of 'enablers' which need to be put in place. The results of the plan, together with the enablers, are the various 'deliverables' that are the outputs required for the successful management of the tax affairs of a business. To achieve the right balance, the tax function needs to understand and focus on the enablers as well as the deliverables.

Enablers and deliverables

The enablers are the tools, methodologies and skills that are required for the successful implementation of the tax strategy. We have defined eight key enablers which are:

1. Structure of the tax function – how you best organise your people
2. People - establishing effective teams of people who, together with other internal/ external resources, have the right mix of skills and experience.
3. Leadership – ensuring tax is aligned with corporate objectives and has an appropriate profile in the organisation.
4. Controls and risk management– integrating risk management processes and controls around the tax function’s deliverables.
5. Process – optimising processes to improve efficiency and accuracy.
6. Data management – ensuring both quality data is available and proper data management is in place.
7. Technology – investing in effective systems to enable streamlining and automation of processes
8. Communication – impactful communication to manage relationships with internal and external stakeholders.

The deliverables represent the outputs of the tax function that must be accomplished each year, quarter, month and week in order for the tax function to meet its objectives. There are four key deliverables in respect of managing tax which are:

1. Tax planning
2. Tax accounting and reporting
3. Tax compliance
4. Audit defence

This framework for tax function effectiveness is set out in the ‘enablers and deliverables’ diagram below.



Note: This diagram appears at the top of each chapter 13 through to 24 with the relevant part of the 'pie' highlighted; it will thus be a road map throughout the guide.

Purpose of the guide

The purpose of the guide is to set out the *Why*, *What*, and *How* of managing an effective tax function based around the above framework. Our starting point is to look at *Why* tax needs managing, putting some additional context around the key external business and regulatory drivers impacting on the management of tax. We then deal with *What* needs to be managed within an organisation in relation to tax, expanding on the concept of the enablers and deliverables and what we mean by tax risk. The *How* section sets out best practice tools, methodologies and approaches for creating a tax strategic plan, developing the enablers and executing the deliverables.

In addition to the enablers and deliverables there are a number of other competencies that are related to managing the effectiveness and sustainability of the tax function. These include performance measurement, benchmarking and managing change. Developing these competencies will enhance the enablers and ultimately the achievement of the tax function objectives. These areas are covered in separate chapters in the *How* section of this guide. The above diagram will act as a roadmap for various chapters in the *How* section, taking you through the enablers first, then the deliverables, followed by the other topics of interest.

In writing this guide we have drawn upon the experiences that we and our colleagues at PwC have had over a number of years in advising tax functions around the world. Our focus has been to help these tax functions be more effective.

Using the guide

The guide is aimed at a number of different audiences. Those directly involved in leading a tax function should be interested in all three sections. For executive directors, while the detail in the *How* section may be more than you need, the *Why* and the *What* should be of interest to you. For a non-executive director the *Why* section sets out the context for why tax should be on your boardroom agenda. For other stakeholders in the tax affairs of an organisation, you may want to dip into the various chapters which are directly relevant to your particular interests.

Summary

Different businesses will do things in different ways, have different corporate practices and indeed different corporate cultures. What we have tried to do in this guide is to set out some food for thought as to the hallmarks of an effective tax function. If we do no more than stimulate the debate around what is best practice in managing a tax function, we will have achieved our objectives.