

# **Tax Function Survey Report**

**November 2002**

## Contents

	Pages
Introduction	2
Key strengths of a strategic partner	5
Critical success factors and challenges	12
Tax strategy	15
Objectives and performance measurement	16
Importance of tax to the Board	19
Relationship with the Business	24
Responsibilities and resources	27
Organisational structure and management	33
Glossary	41

## Introduction

The 2002 Affecton Tax Function Survey examines the tax function as a strategic partner - the extent to which the tax function is aligned with the business as a cost centre, profit centre or strategic partner (see Glossary). The survey also aims to uncover and share best practice in the organisation and management of the tax function.

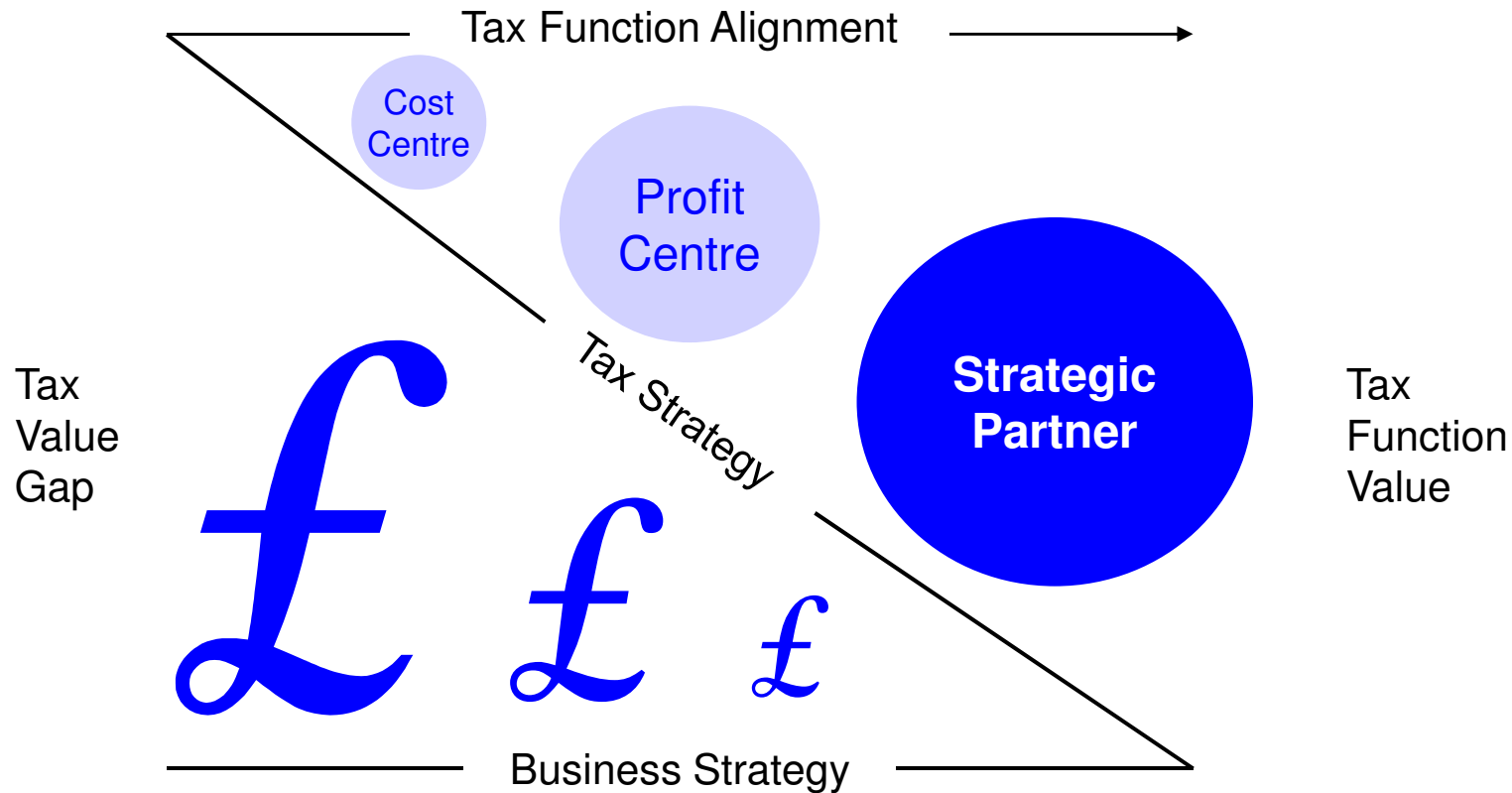
The concept of a strategic partner is shown in the Tax Function Alignment diagram overleaf. The assumption is that a strategic partner tax function delivers more value by closing the tax value gap through a closer alignment with the business. Each company's self assessed position as a cost centre, profit centre or strategic partner is shown in the diagram on page 4.

The survey findings are based on confidential in-depth interviews with Heads of Tax at 39 companies (mainly top FTSE 100) with tax functions ranging in size from less than 10 to over 500 tax professionals.

The summary findings and conclusions are included in this report. Much more detailed analysis was undertaken in completing the report. We are happy to provide more information to anyone who is interested in any particular aspect of this research. All our research is internally funded and made freely available, subject to acknowledgement of source.

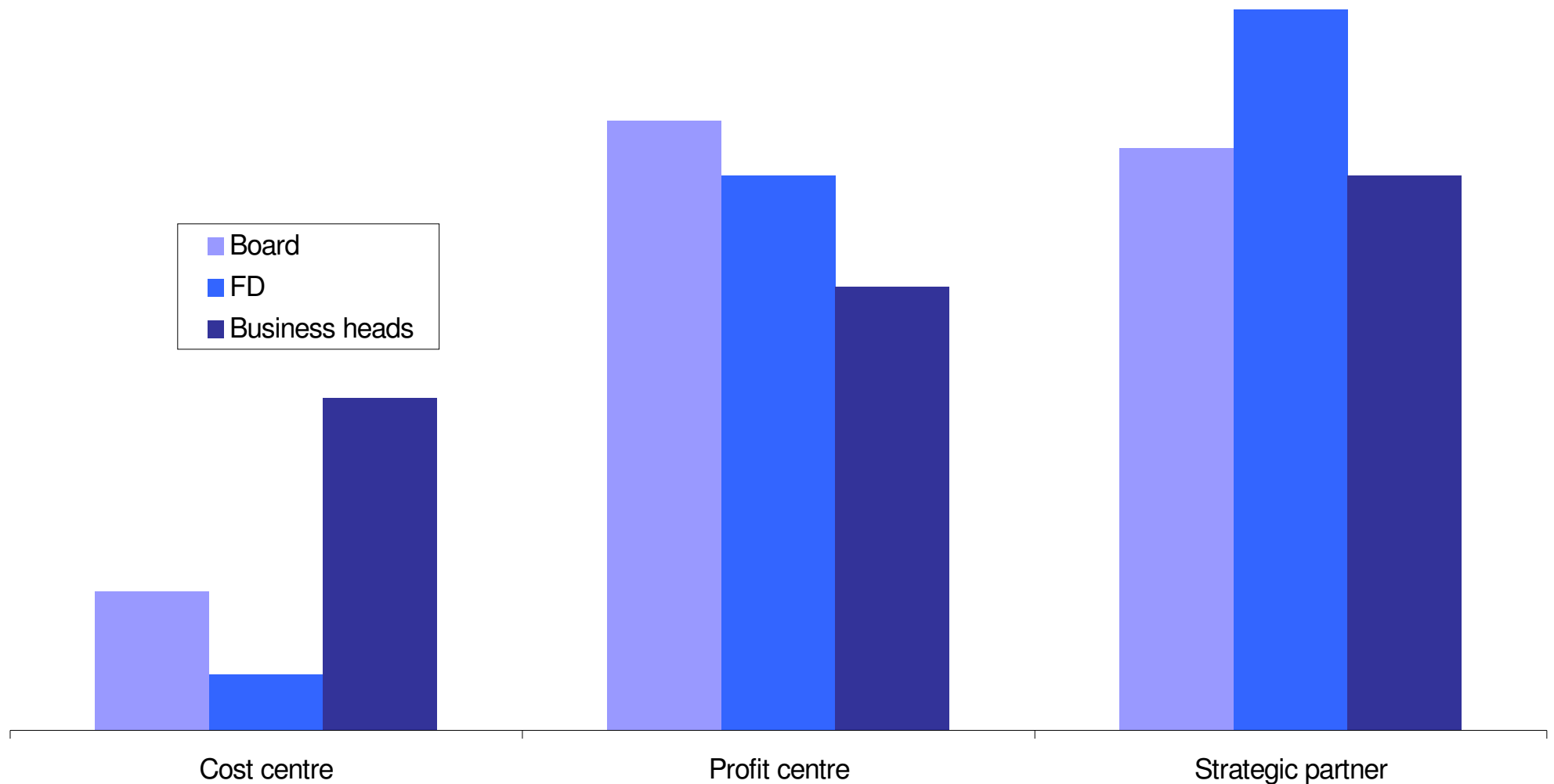
We wish to acknowledge our gratitude to all those who participated in this survey. Your generosity in time and thought is much appreciated.

## Tax Function Alignment



A tax value gap exists in every organisation. This is caused by changes in business strategy, mergers and acquisitions, organisational culture, operations, structure and systems. The challenge is to develop and implement tax initiatives aligned to business objectives. These will increase the effectiveness and influence of the Tax Function and thereby narrow the gap.

How is the tax function perceived within the organisation?



## Key Strengths of a Strategic Partner

Information obtained through the survey interviews suggests that strength in five key areas form the basis for a Tax Function to operate as a Strategic Partner.

1. **Tax Strategy** that is clearly defined and endorsed by the business and the Board. The tax strategy defines what the Tax Function aims to achieve, how it will achieve those aims and who will be responsible.
2. **Business Facing** with appropriate degree of central control. The Tax Function balances the requirements of local Business Units with overall group objectives.
3. **Sponsorship** from the Executive Board and the Group Finance Director. The Tax Function benefits from Sponsorship, based on trust, which is visible within that organisation.
4. **Resource and Structure** appropriate to implement tax strategy. The Tax Function is appropriately staffed and structured to enable the tax strategy to be implemented.
5. **Performance Measures** that operate effectively on a post-tax basis. Post-tax performance measures which are transparent and based on items controlled by Business Units are effective, whereas those that are not can be less effective than pre-tax measures.

## Key Strength - Tax Strategy

### Essential elements

- Expressed and communicated clearly
- Reflects the tax environment in which the business operates
- Understood and endorsed by the Executive Board, Business Heads and the Tax Team
- Communicated to Business Units
- Used as a performance measurement tool for the business and the Tax Function
- Reviewed and updated regularly
- Presented to the Board by the Head of Tax

### Benefits

- Increases awareness of tax within the organisation
- Empowers the Tax Function
- Ensures Tax Function operates to further group objectives
- Generates Business buy-in
- Provides framework within which the Tax Function operates and defines roles and responsibilities
- Enhances management of expectations
- Assists prioritisation
- Provides a measurement tool for the business and the Tax Function
- Improves communication within the Tax Function
- Strengthens teamwork and motivation

## Key Strength - Business Facing

### Essential elements

- Individuals within the Tax Function responsible for Business Units
- Understands business drivers and needs
- Service level agreements with regular feedback
- Communicates key tax issues to Business Units
- Seen as proactive and adding value
- Regular communication/meetings between the Tax Function and the business
- Early and continued involvement in business change
- Strong working relationship with the Business
- Tax decisions taken centrally based on overall group impact and tax strategy
- Local compliance and planning concerns factored into decisions

### Benefits

- Tax Function seen as Business Partner
- Business decisions reflect true costs and benefits
- Tax planning is based on business purpose and needs
- Facilitates identification of opportunities
- Improves the likelihood of successful implementation
- Improves business and Tax Function buy-in to decisions



## Key Strength - Sponsorship

### Essential elements

- Active and visible support of the Executive Board
- Close working relationship with Group Finance Director
- Head of Tax reports to Group Finance Director
- Executive Board and Group Finance Director understand key tax issues
- Tax function contribution valued and acknowledged by the Executive Board

### Benefits

- Greater and earlier involvement in business decisions
- Empowers the Tax Function
- Increases awareness of tax within the organisation
- Increases effectiveness in environment of conflicting objectives and limited resources

## Key Strength - Resource and Structure

### Essential elements

- Right people – technical, business and interpersonal skills
- Clearly defined roles and responsibilities
- Tax professionals throughout the organisation report to the Head of Tax
- Relevant, measurable and achievable objectives
- Understanding of interrelationship between personal objectives and the tax strategy
- Transparent performance measures
- Prioritisation

### Benefits

- Determines resource requirements
- Improves motivation
- Facilitates staff development
- Empowers individuals
- Enhances teamwork/buy-in
- Assists management of expectations
- Improves interaction with business

## Key Strength - Performance Measures

### Essential elements

- Transparent
- Based on controllable elements
- Discussed with Business Units prior to implementation
- Achievable measures
- Detailed understanding of tax charge and key tax drivers
- Technology utilised to extend accuracy and relevance of post-tax measures
- Significant investment in implementation and maintenance

### Benefits

- Raises awareness of tax within the organisation
- Business decisions take account of tax costs
- Tax becomes a cost to be managed
- Increases interaction of the Tax Function and Business Units
- Consistent with EPS and total shareholder return measures
- Facilitates tax strategy implementation

## Strategic Partner - Indicators of Strength

Level	1	2	3	4	5
<b>Tax Strategy</b>	Undocumented - loose set of compliance based objectives.	Undocumented – formal set of objectives communicated to tax team.	Documented Strategy communicated within tax team.	Documented Strategy communicated to tax, business and Exec Board.	Documented Strategy endorsed and regularly reviewed by business/Board.
<b>Business Facing</b>	No regular communication with business.	Key issues communicated to business on ad-hoc basis.	Regular meetings with business. Tax has limited understanding of business needs.	Tax/business drivers/needs understood by business/tax. Tax seen as proactive and adding value.	Tax is an integral part of the business team & receives regular structured feed back from business.
<b>Sponsorship</b>	Role of tax team not seen as important by Group FD.	Tax team seen as important by Group FD but limited support & understanding.	Tax reports regularly to Group FD who understands key tax issues and recognises contribution.	Tax actively supported by Group FD and contribution recognised by Exec Board.	Tax actively supported by Exec Board which recognises contribution and understands key tax issues.
<b>Resource and Structure</b>	Tax roles and responsibilities not clearly defined. Limited resources and significant skills gaps.	Defined roles & responsibilities with tax staff reporting to Head of Tax. Limited resources and skills gaps	Roles and responsibilities linked directly to Tax Strategy. Limited resources, some skills gaps. Reactive planning.	Tax staff allocated to business units which understand tax team's role and Tax Strategy. Proactive planning.	Tax aligned to business units and fully resourced to deliver Tax Strategy on a proactive basis.
<b>Performance Measures</b>	Tax team measured on cost control and compliance targets. Business measured on pre tax results.	Tax has informal targets linked to objectives. Group measures include post tax ratios.	Tax: has formal targets linked to Strategy. Business decisions informally factor tax cost. Post tax ratios for Group.	Limited post tax measures set at business level. Group measures post tax.	Detailed post tax measures at business level that are effective in driving behaviour to support Group Strategy.

## Critical Success Factors and Challenges

The main critical success factors of managing a tax function are:

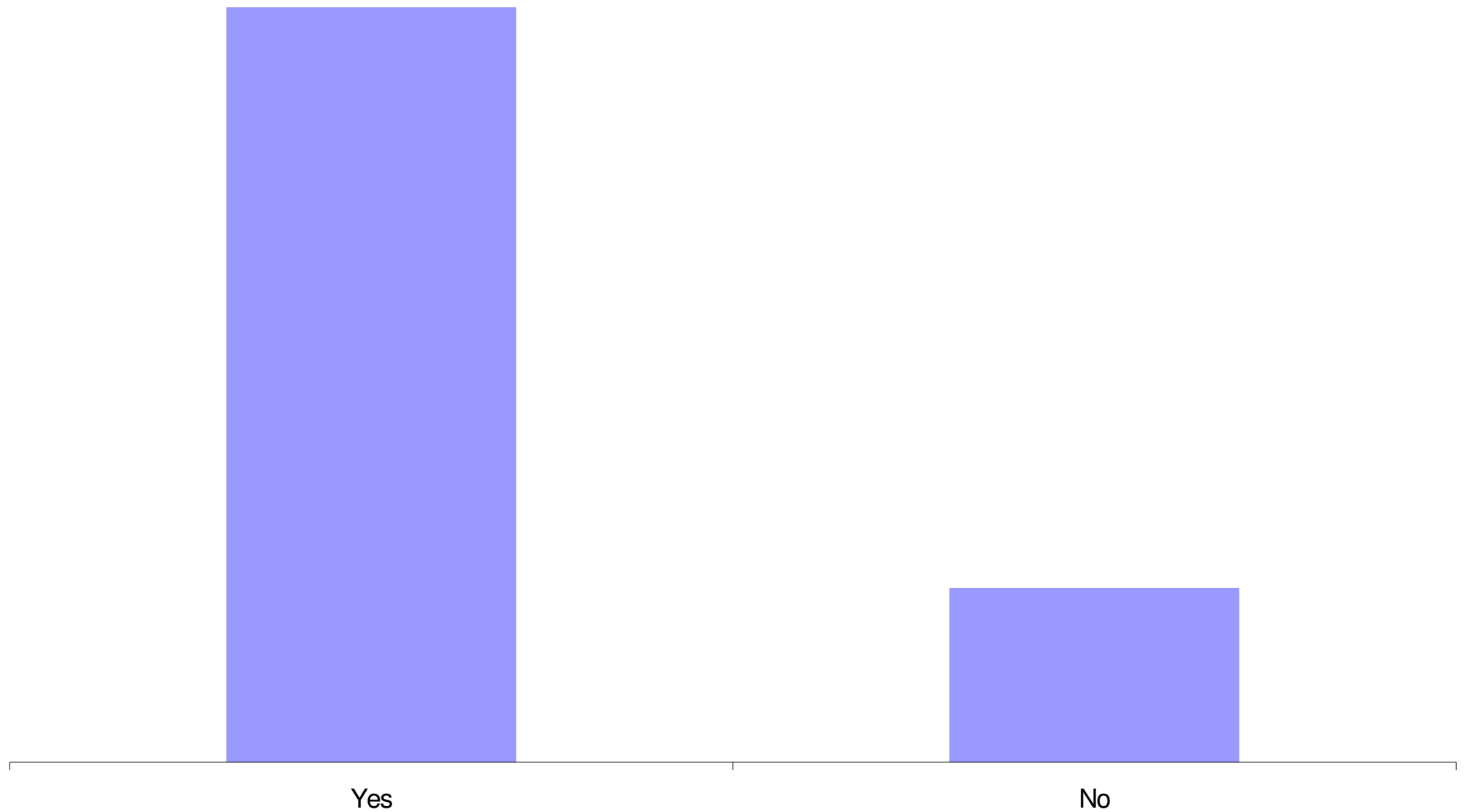
- Board support and confidence
- Clear and agreed tax strategy
- Proactive, making things happen
- Right people
- Motivation and empowerment
- Clear roles, objectives, measures
- Demonstrate value
- Grip on numbers
- Relationship with advisers, tax authorities
- Relationship with FD
- Close to business
- Commercial focus
- Right skills
- Good communication with business
- Post tax business measure
- Ability to influence
- Teamwork and trust
- Networking

## What are the three main challenges of the tax function?

Common responses include:

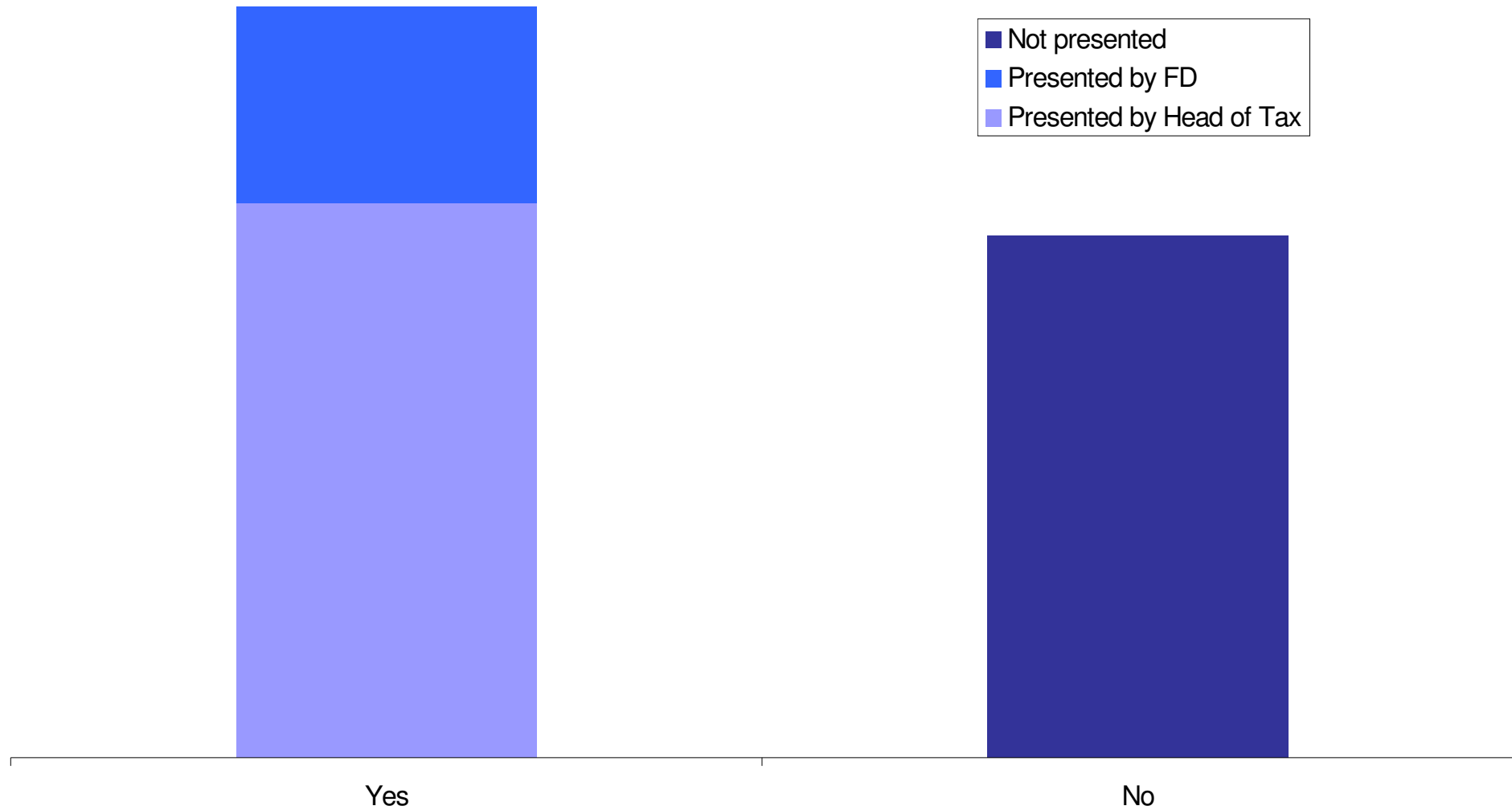
- Increasing the awareness, profile and influence of the tax function within the business
- Keeping abreast of legislative changes including CFC, DTR, TP, financing etc
- Managing legal entity profits
- Managing tax risk to eliminate surprises
- Adapting to changes in accounting and IT systems
- Managing foreign exchange volatility
- Retaining identity and capability of the tax function
- Managing expectations of the business
- Coping with more aggressive tax authorities
- Post-implementation monitoring
- Retaining and motivating staff
- Mergers and acquisitions
- Prioritising competing initiatives
- Global communication and knowledge sharing within the tax function

Is there a process for developing and setting the tax strategy?



## Tax Strategy

Is the strategy presented to the Board? If so, by Whom?





## Objectives and Performance Measurement

How is the performance of the company's tax function evaluated in-house?

The majority of tax functions have specific objectives. The most common objectives include:

- No surprises
- Managing ETR within a range
- Managing overall risk
- Interacting with and providing an agreed level of service to business
- Developing and training staff
- Managing budgeted tax function costs
- Completing projects
- Achieving specified tax savings

## How is the performance of the company's tax function evaluated in-house? (continued)

Other objectives include:

- Managing Cash Tax Rate
- Contributing to economic profit
- Reducing operational taxes
- Lobbying industry and government
- Monetising tax attributes
- Promoting good corporate citizenship based on specific company objectives
- Managing tax disputes
- Accurate and timely tax filing

Objectives are usually set by agreement between the Head of Tax and the Finance Director. Measurement of objectives include:

- informal/formal review of objectives set against achievements
- feedback from in-house customer survey
- 360 degree feedback with service level agreements feeding into a balanced scorecard.

## What are the implications of a material variance in tax targets versus actual results?

The majority of companies take a serious view of any material variance in tax results. In most cases however, the variance is accepted provided that a timely explanation can be given. All tax functions surveyed are concerned with managing market expectations - the elimination of surprises is regarded as a high priority.

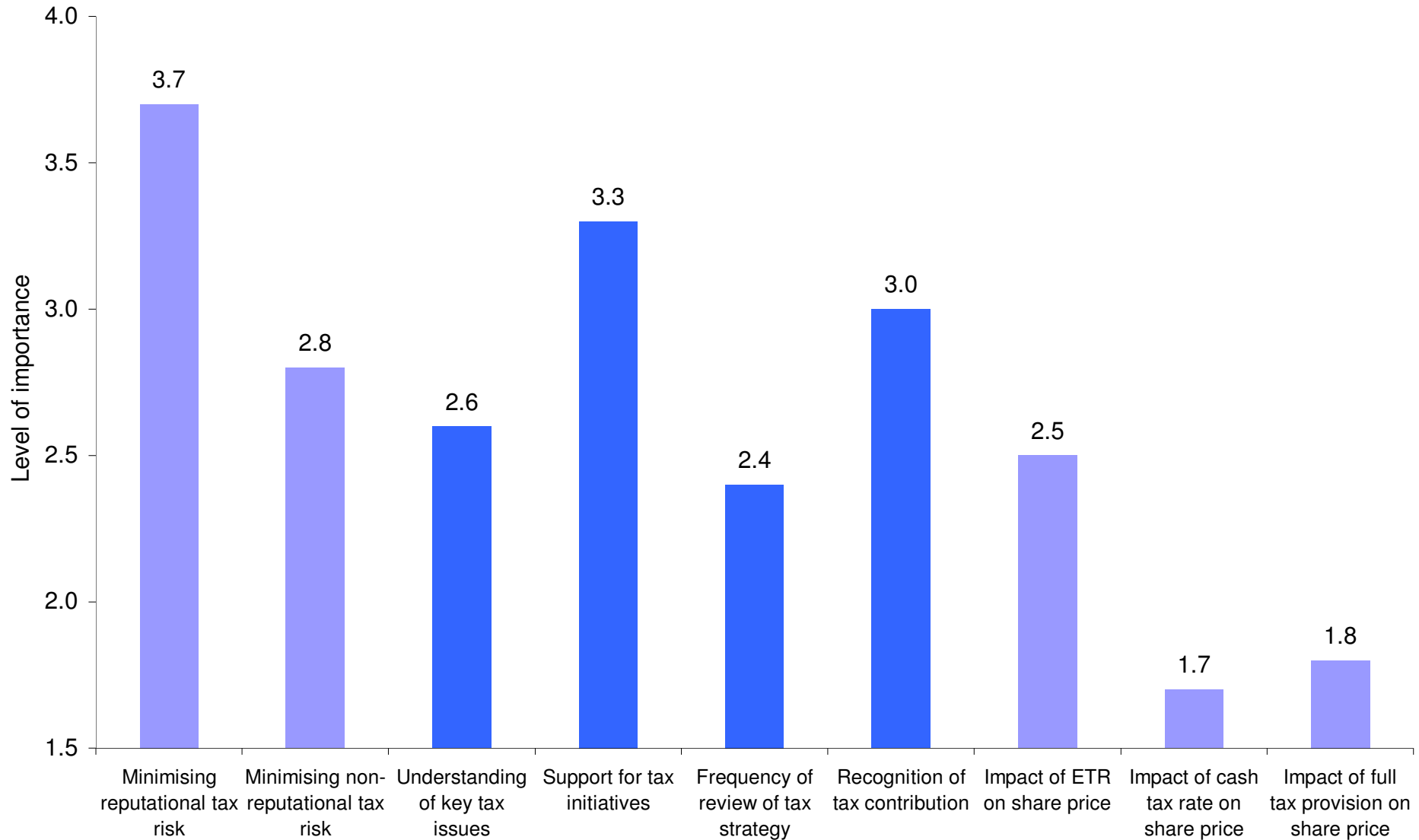
## How often is the tax function formally evaluated and by whom?

Most tax functions have an informal evaluation based around an annual meeting with the Finance Director. This is commonly supplemented with informal discussions throughout the year.

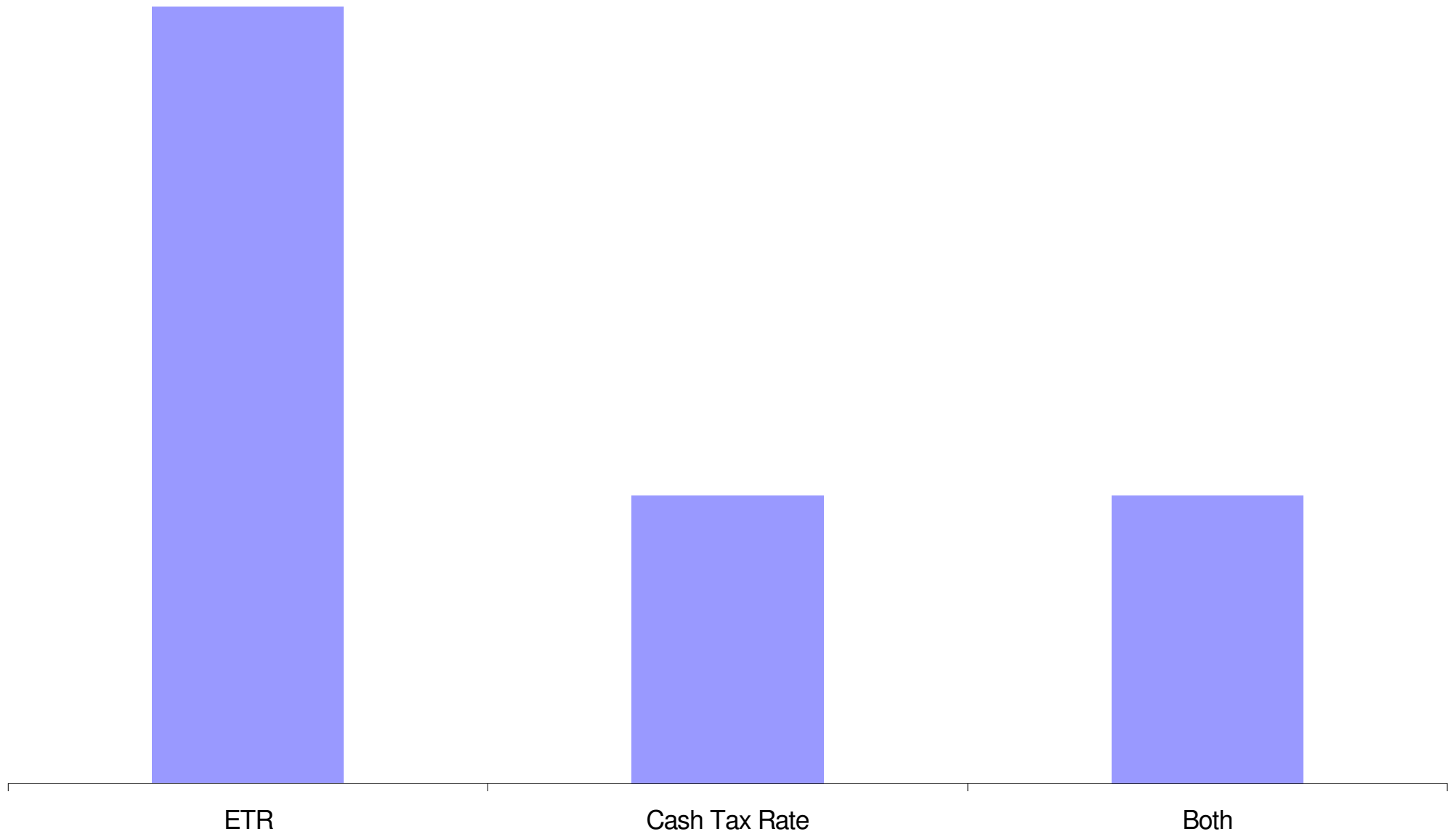
In some of the largest companies, there is a more formal approach with an evaluation based on specific objectives and measures carried out once a year. This can include specific input and review by the CEO.

## Importance of Tax to the Board

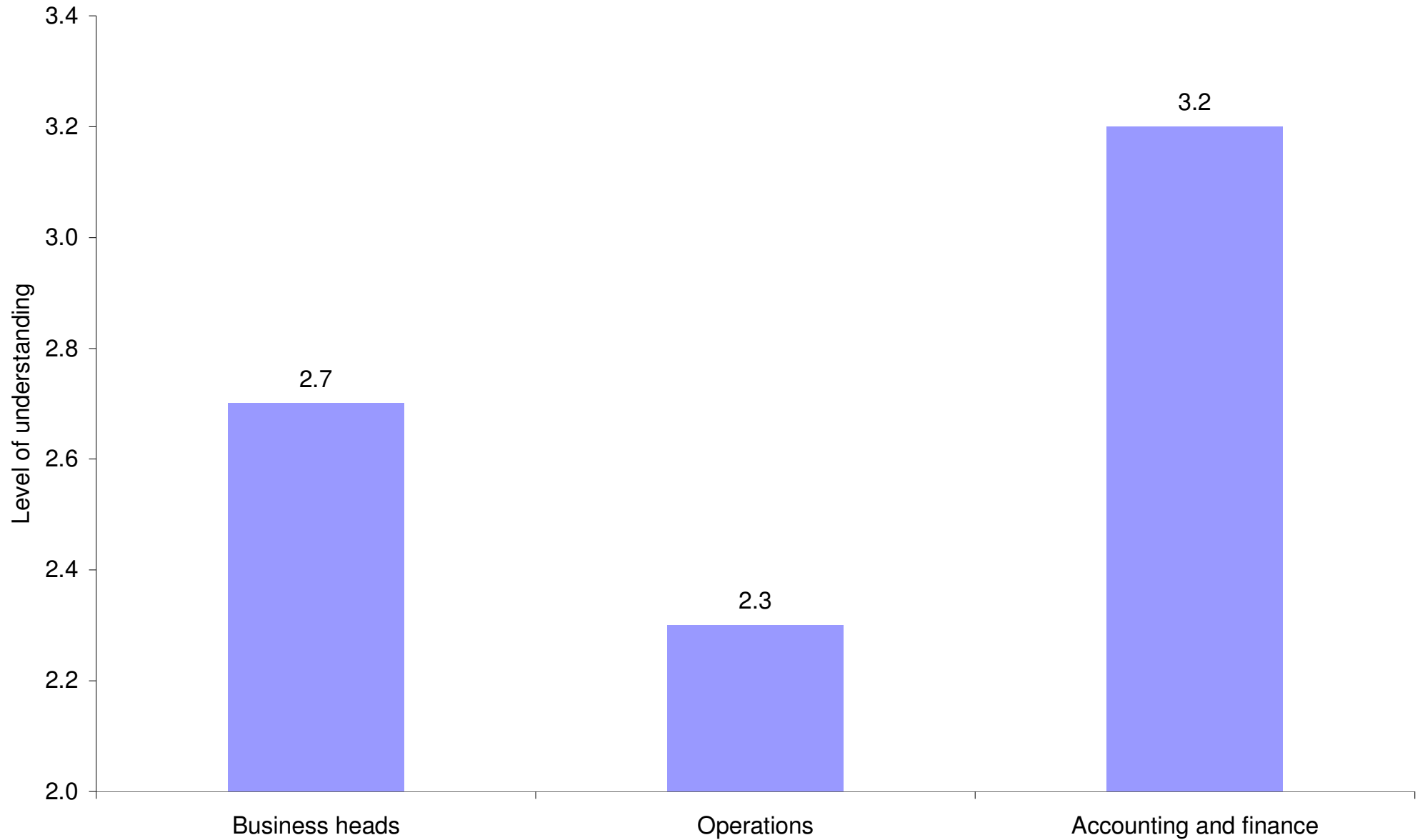
The importance placed by the Board on ...



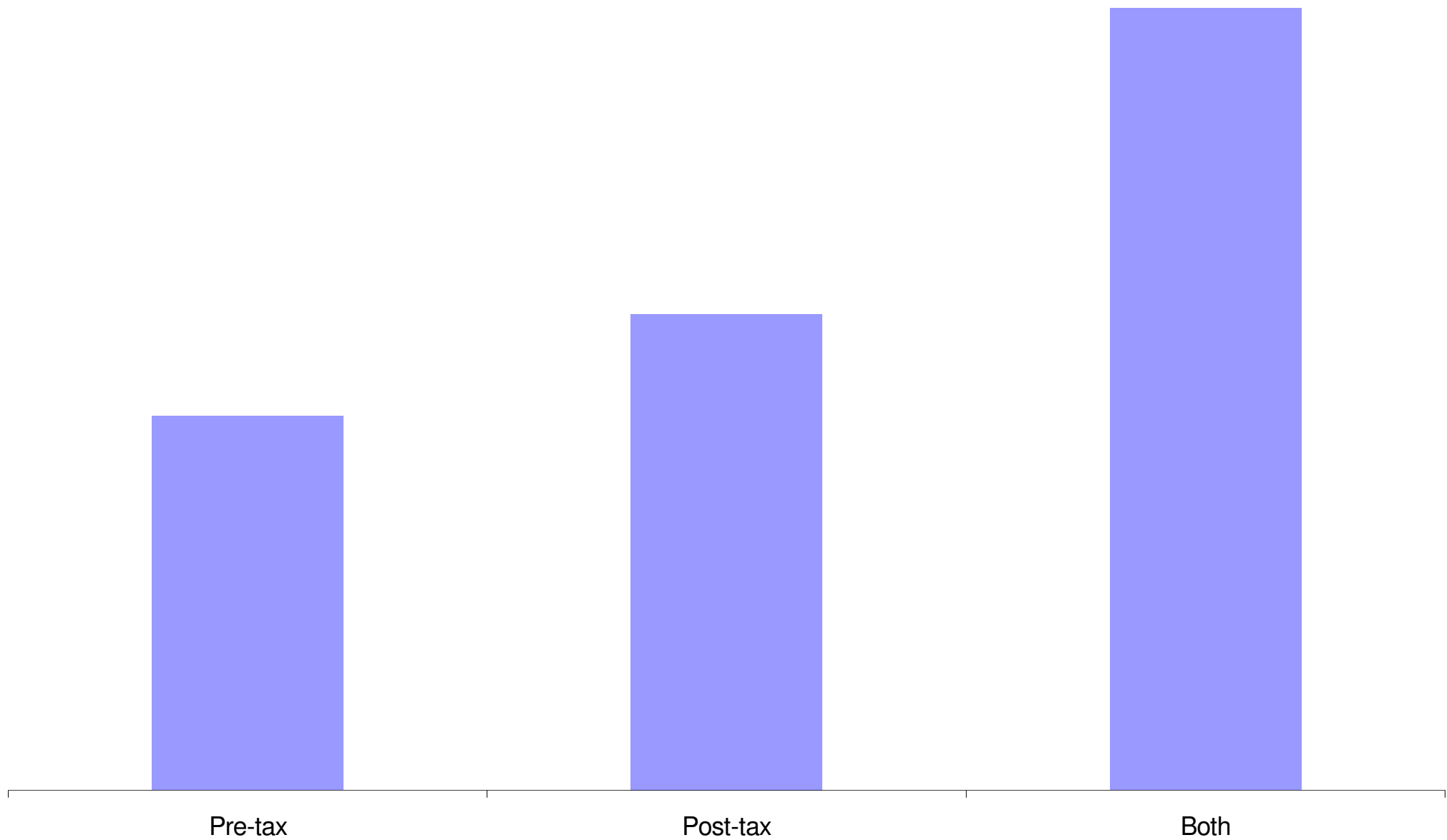
Which is more important to the Board?



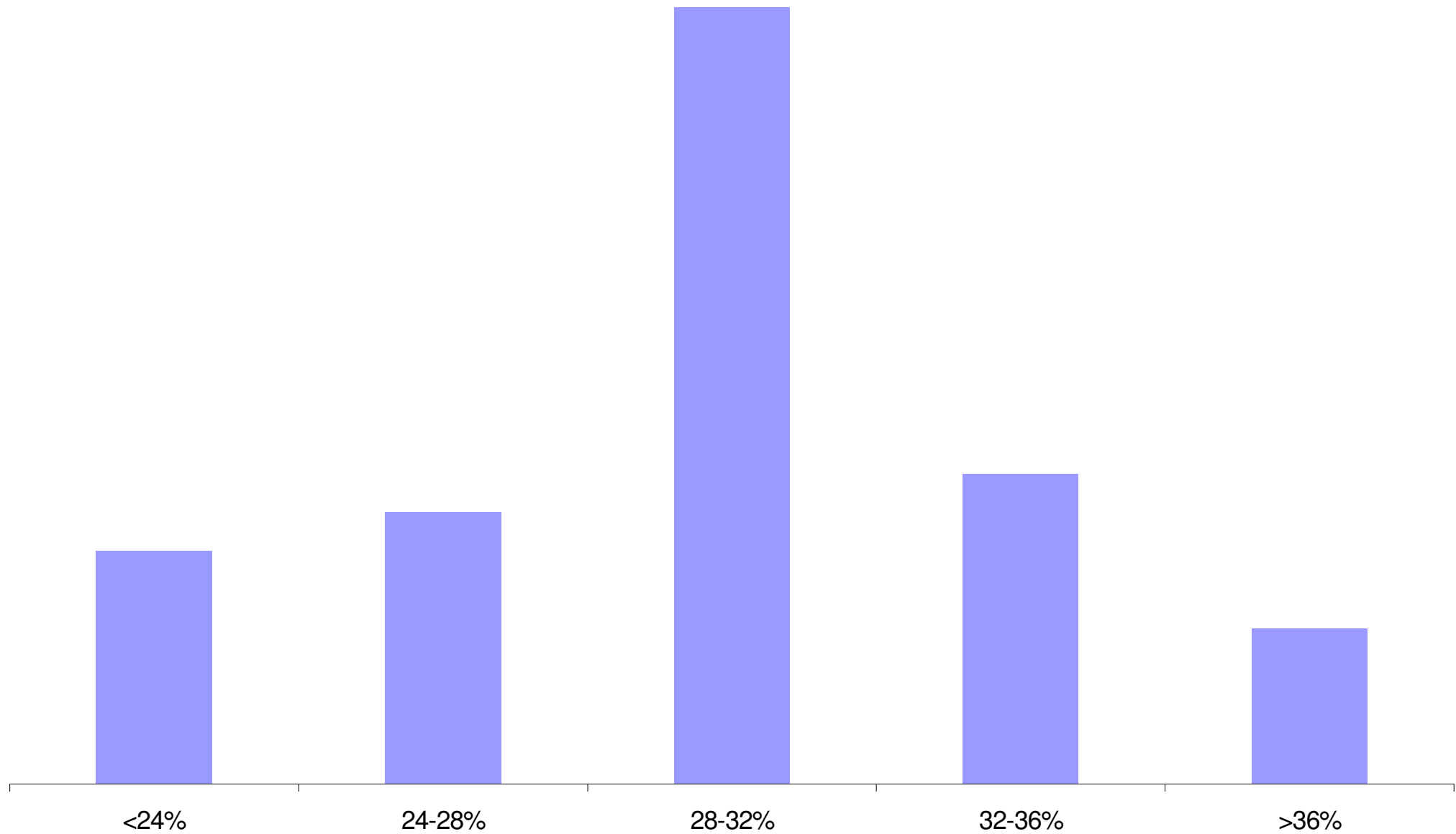
How good is the understanding of key tax issues at other levels in the organisation?



How is the performance of business units evaluated in-house?



What was the average ETR in the past 3 years?



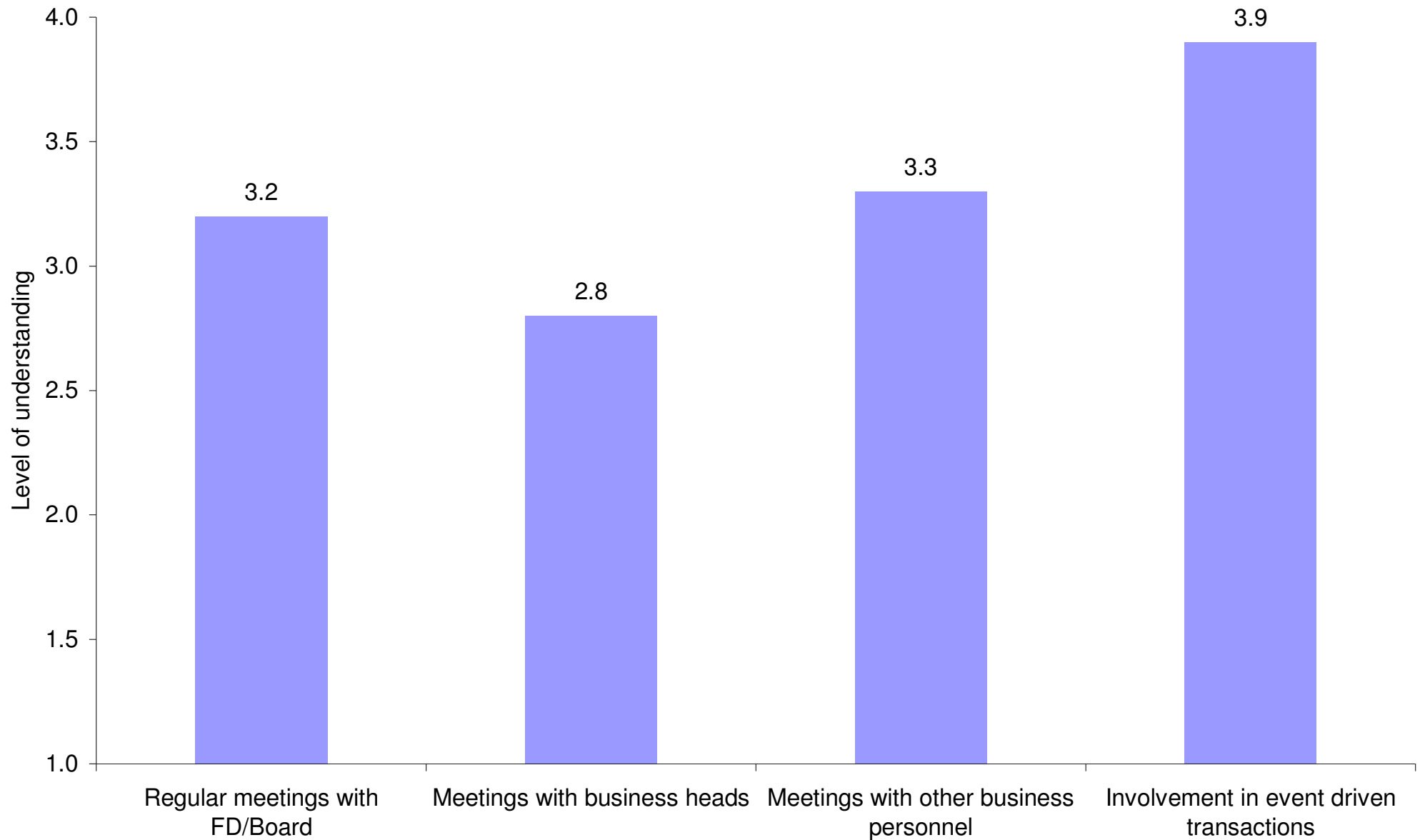


## Relationship with the Business

The tax function's relationship with the following areas of the business



How does the tax function gain an understanding of changes in the business?



## Do you think the level of involvement of the tax function in business planning is appropriate?

In most tax functions the level of involvement is believed to be appropriate. However, in a few cases significant opportunities have been missed because of lack of tax involvement. The main area identified for improvement is getting involved earlier and staying involved.

## How does the tax function communicate tax issues to the business?

The most common way of communicating with the business is through personal contact. This mainly comprises meetings, but also includes presentations at business and finance conferences, attending Board meetings and presenting to Executive Committees. The degree of formality varies based on individual company culture.

Written communication is also seen as important. This includes monthly reports to Executive Committees, targeted emails and an intranet site for frequently asked questions.

Tax functions that are able to allocate specific people to business units state that this has improved communication and interaction.

## Responsibilities and Resources

### What are the overall responsibilities of the tax function in your organisation?

The majority of tax functions are primarily responsible for managing Corporate Tax and VAT. This includes all planning and compliance. Generally, overseas tax planning is centralised but compliance is devolved to local business units. Operational taxes (PAYE, WHT, stamp duty) are managed by business units with the tax function acting in an advisory capacity.

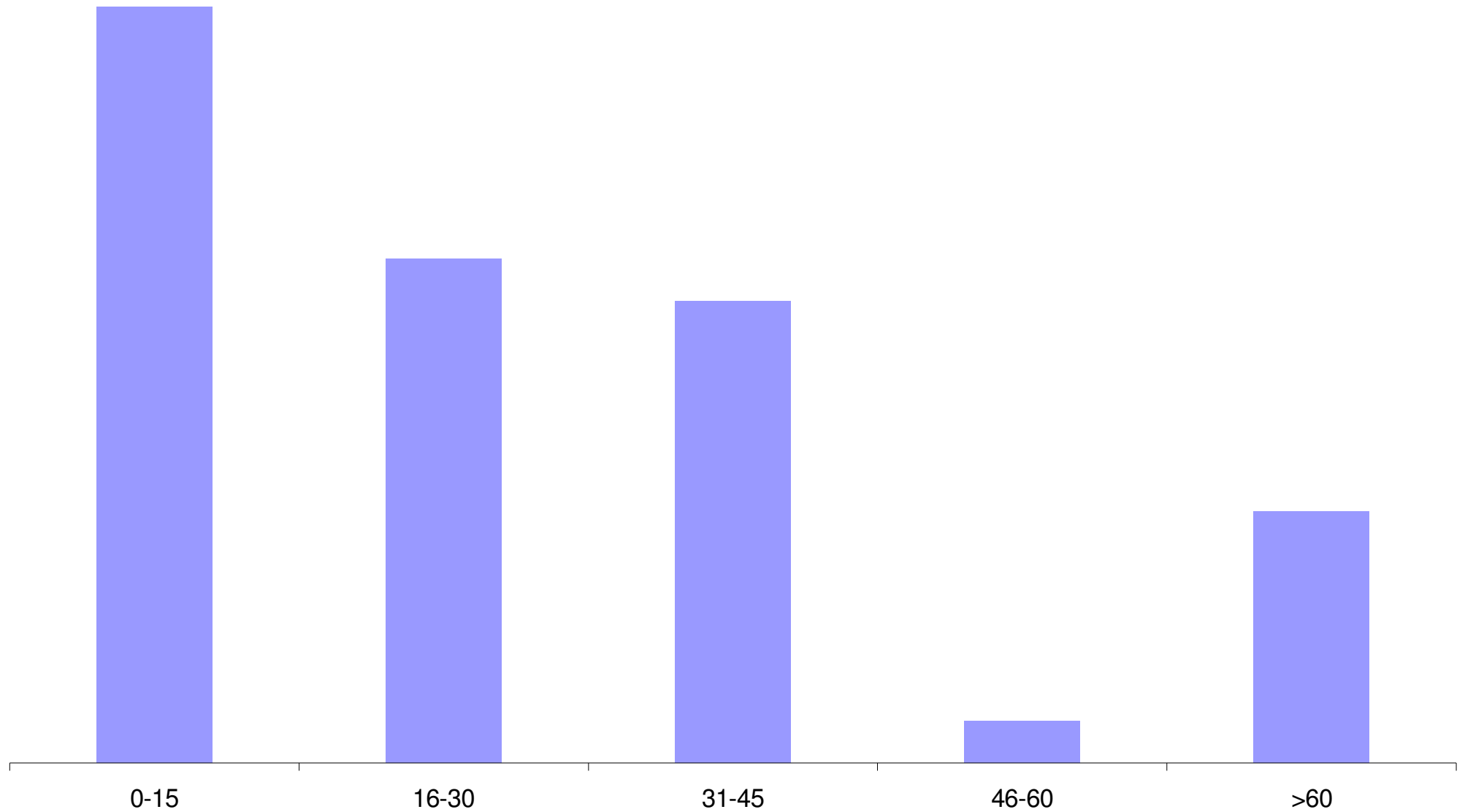
### Who sets the tax budget and how is it set?

The tax budget is usually agreed between the Head of Tax and the Finance Director, although in some cases it is agreed with business units. In most cases, budget is based on prior year figures.

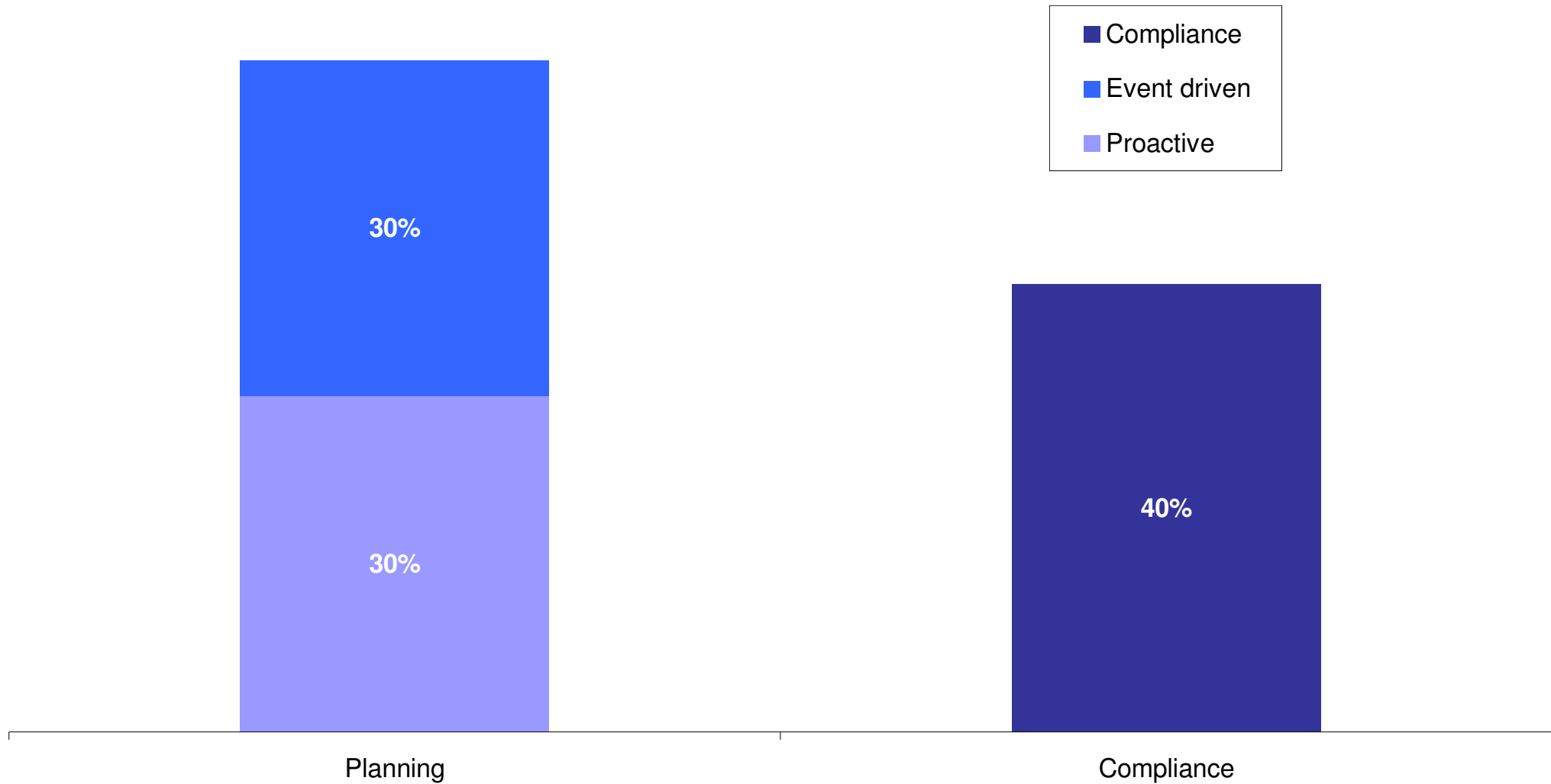
## Budget for the tax function



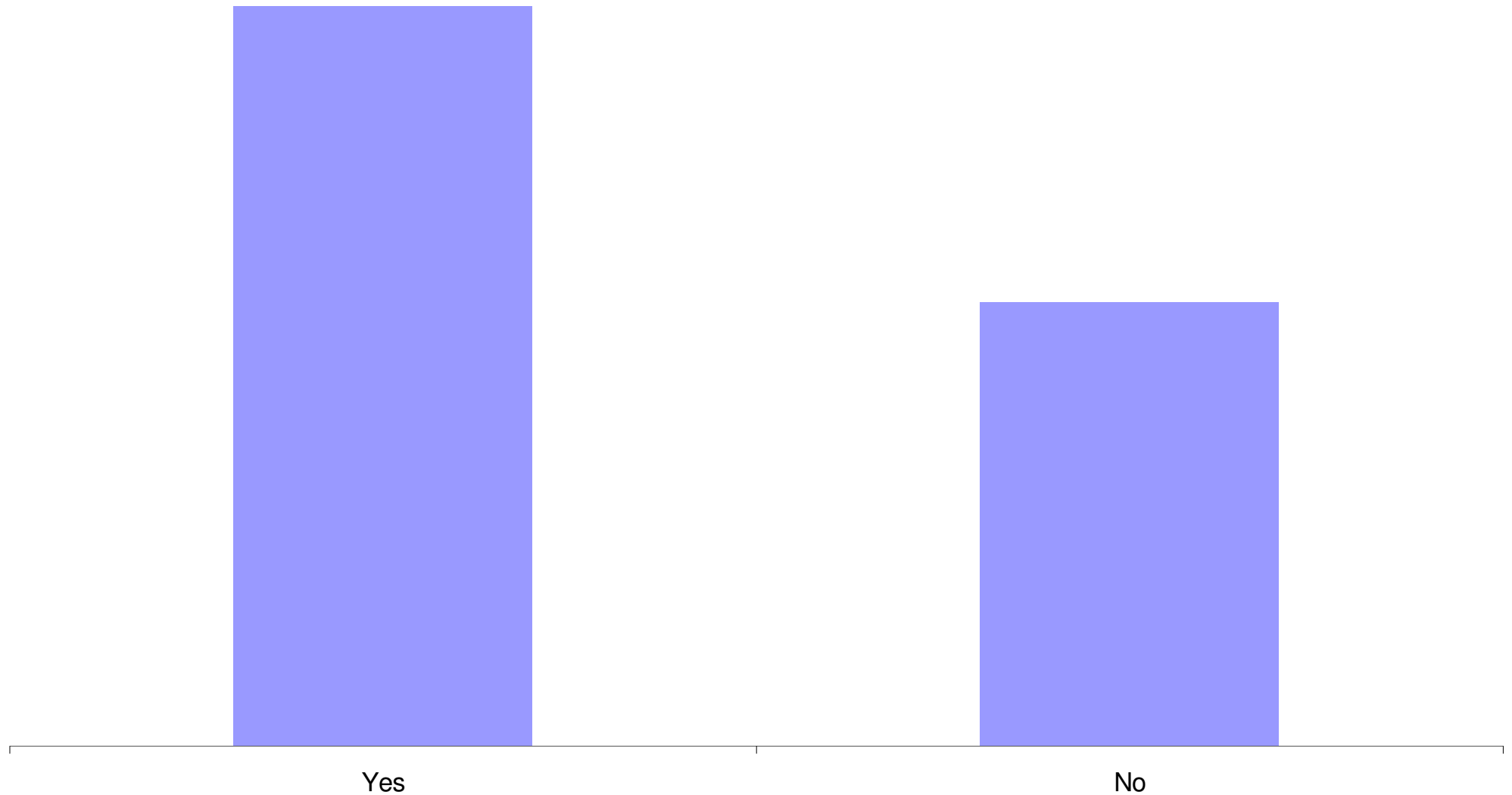
How many professional staff are there in the tax function?



## Allocation of resources between planning and compliance

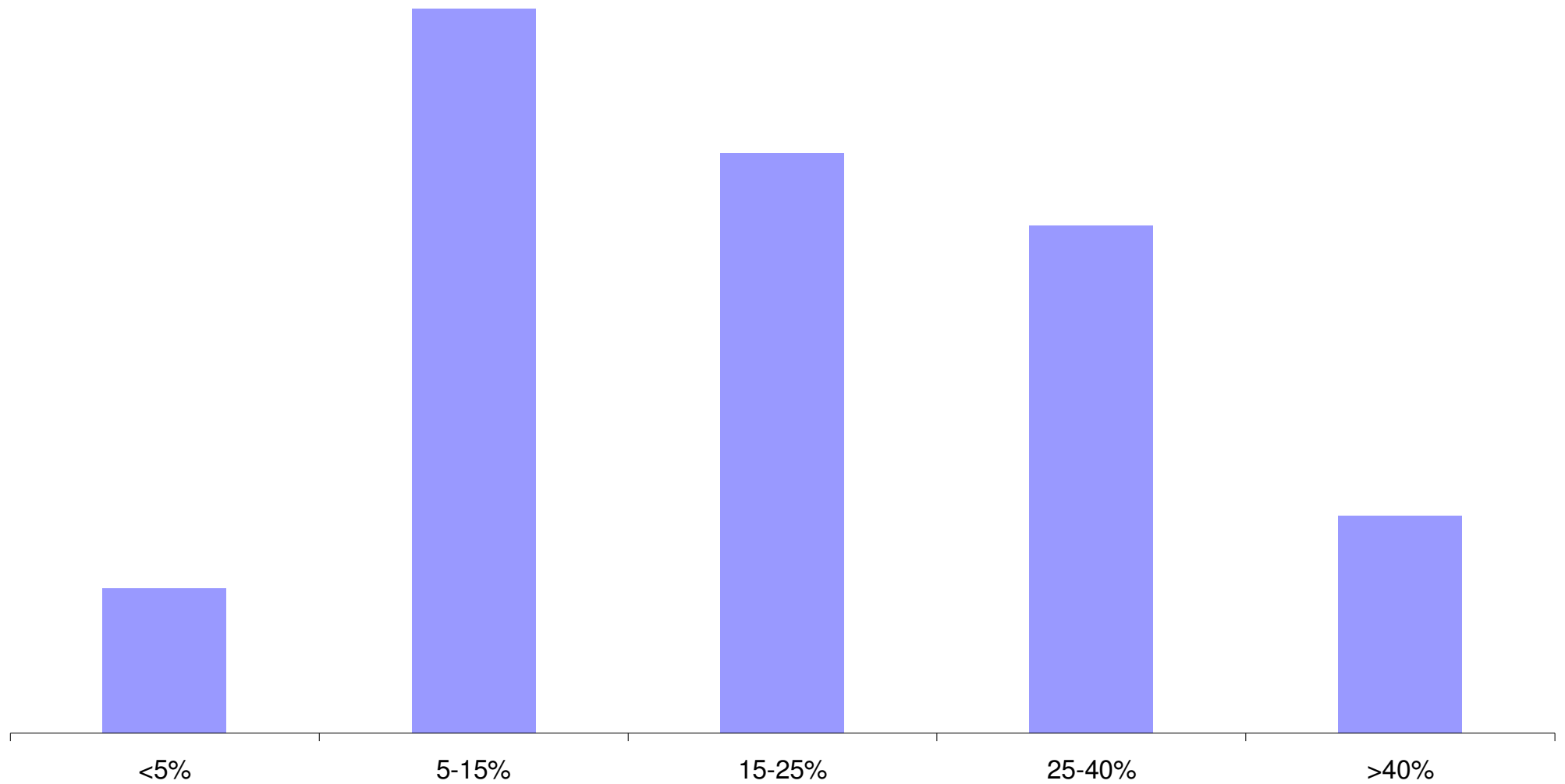


Is personal reward linked to the performance of the tax function?



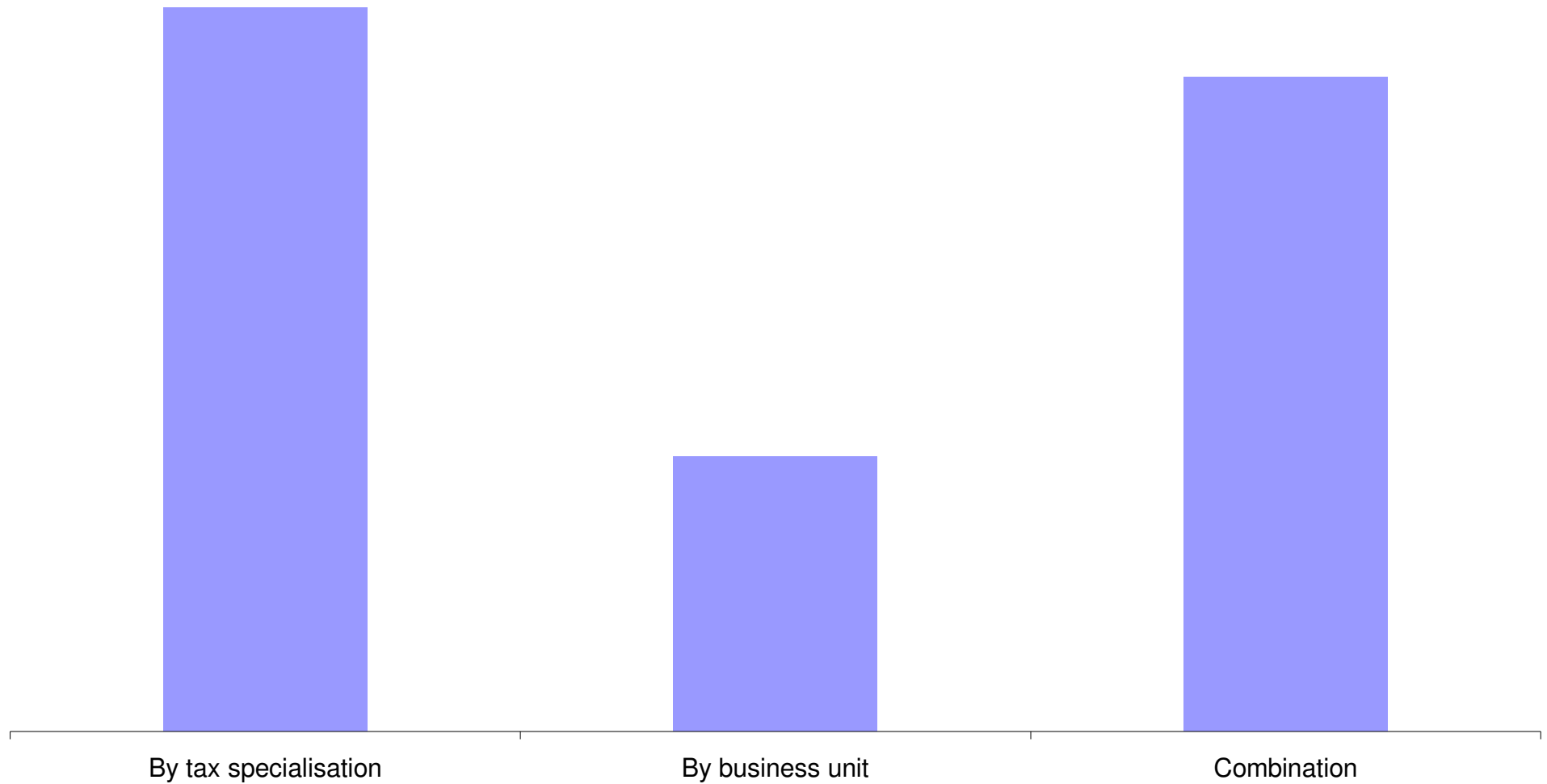


What percentage of total reward is linked?

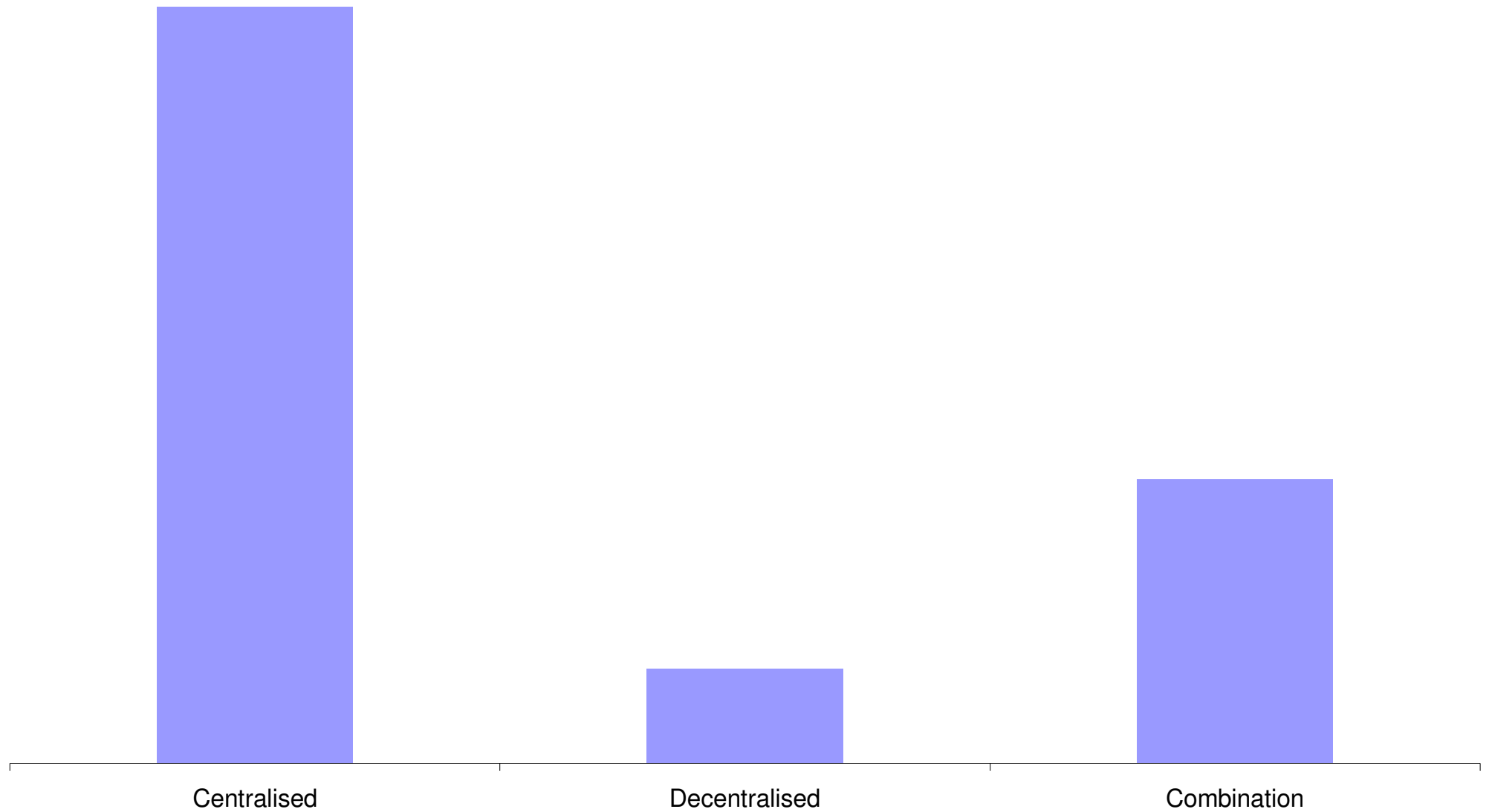


## Organisational Structure and Management

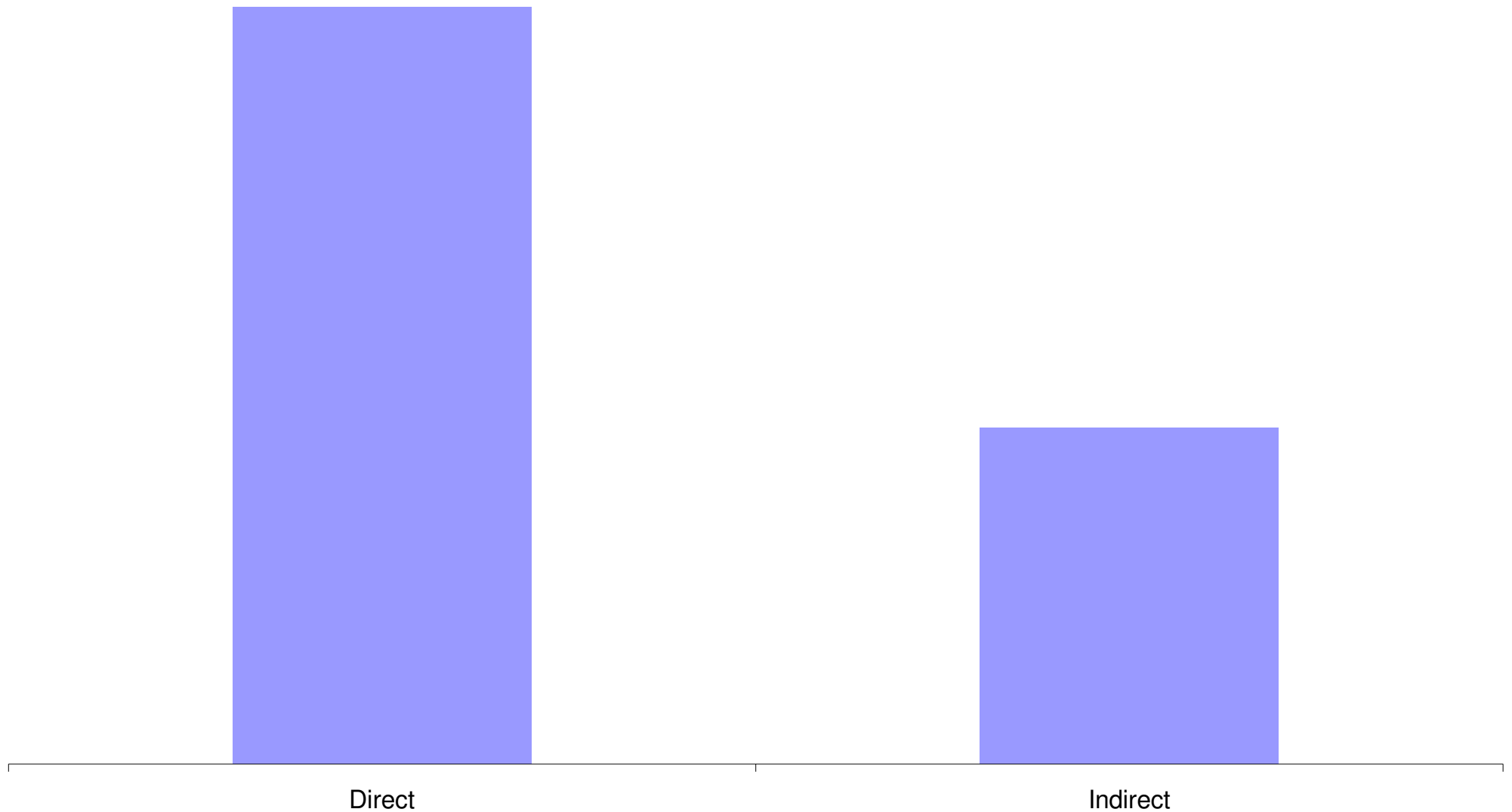
How is the tax function organised?



Where is the tax function located?



How does the Head of Tax report to the FD?



## How is the tax function managed and controlled in the UK and overseas?

In the UK, most tax professionals report to the Head of Tax, who in turn reports directly to the Finance Director. In a limited number of organisations, the Head of Tax reports indirectly to the Finance Director.

The main models for managing overseas tax functions are:

- Centralised with all overseas tax managed and controlled by an overseas tax team reporting to the UK Tax Function
- Decentralised with overseas taxes managed and controlled by local business units (hard line to local CFO and dotted line reporting to the UK tax function)

In the majority of cases, international tax planning is initiated and managed centrally.

## How does the group manage large tax projects?

Most tax functions are involved in a significant number of large projects with substantial tax value. These are driven by both events and proactive planning. The most common project management approach is to use existing corporate resources which typically reside in Corporate Finance Functions. In some cases, tax personnel are given responsibility for managing group-wide initiatives which extend beyond tax.

The main reasons for projects not being implemented are lack of business support and legislative change.

Most tax functions have limited in-house project management expertise. Several report using project management capability from other departments or using external advisors to develop and manage a step-plan.

## What software is used to prepare tax returns and is it integrated with the GL?

In the UK, most companies use a tax software package developed by one of the Big 4 accounting firms. There is no consistent software for preparing overseas tax returns.

Only a handful of companies have achieved integration of the general ledger and tax software. In the best cases, integration allows a calculation by business segment to be completed monthly, or more frequently if required. Integration enables tax compliance resources to be freed-up to focus on planning and analytical review.

## How does the tax function ensure integrity of GL data?

Most companies perform a high level reasonableness check at the time of preparing the tax computation. More sophisticated approaches include IDEA analytical software and specific internal audit. The main emphasis is on educating business personnel to correctly code expenditure.

## Where do you expect to be focusing tax resources in the next 12 months?

The main areas of focus are:

- Group reorganisations for legislative change
- Transfer pricing
- Intellectual property and goodwill
- Financing
- Monetising tax attributes
- Mergers and acquisitions
- Compliance and agreeing final tax position
- Modelling and understanding key drivers of the tax charge
- Developing closer links with the business
- Overseas planning and compliance
- Operational taxes



## Where do you expect to be focusing tax resources in the next 12 months? (continued)

Other areas of focus include:

- Tax audits (corporate, VAT, PAYE)
- Developing simplified global business model
- Monitoring risk
- Business planning model to show ETR and Cash Tax
- Educating and improving tax awareness and profile
- Improving systems
- Delivering increased profit before tax by using tax attributes

## Glossary

**Tax function:** all individuals and related costs primarily devoted to dealing with tax issues on behalf of the organisation whether employed directly by the organisation or by third parties.

**The business:** all non-tax functions in the organisation.

**Business tax alignment:** the degree to which the business and tax function are aligned. Alignment is indicated by working together towards the same goals and direction, effective interaction and integration and compatible levels of risk tolerance and sophistication. Three stages of business tax alignment are described by the following terms:

### **Cost centre**

*Overview:* Provides a tax compliance service to the organisation and plans for the tax impact of past events.

*Tasks/responsibilities:* Deals with tax returns and related matters. Reactive planner - mainly manages the tax impact of past events.

*Value added to the business:* Limited scope for adding value to the business as tax charge is governed by external events over which it does not have control. Low to moderate status and limited influence in the organisation.

*Connection with the business:* Typically divorced from the budgeting and planning processes. Limited interaction with the business. Tax/business relationship moderately supportive.

### **Profit centre**

*Overview:* Deals with all tax issues relevant to the organisation. Tax planning is a significant part of the tax function's role.

*Tasks/responsibilities:* Proactive planner - plans for the tax impact of past and forecast events. May also deal with compliance.

*Value added to the business:* Scope for adding value to the business. Some success in implementation of planning projects but results could be improved with better business interaction. Moderate status and reasonable influence in the organisation.

*Connection with the business:* Involved to a limited extent in the budgeting and planning processes. Fair degree of interaction with the business. Tax/business relationship reasonably supportive.

### **Strategic partner**

*Overview:* Drives tax planning initiatives aligned to business objectives. Deals with all tax issues relevant to the organisation. Proactive tax planning is a major part of the tax function's role.

*Tasks/responsibilities:* Proactive planning integrated with the business. May also deal with compliance.

*Value added to the business:* Extensive scope for adding value to the business. High status and influence in the organisation. Creates the environment where tax planning initiatives can flourish.

*Connection with the business:* Closely involved in the budgeting and planning processes. An integral part of the executive management team involved in all business strategy discussions/decisions. Tax/business relationship fully supportive.

Affecton: the tax team. A consulting service dedicated to improving the direction, performance and reputation of in-house tax teams.

Affecton LLP  
271 Regent Street  
London  
W1B 2ES  
Tel: 0870 225 8500  
Fax: 0870 225 8505

[www.affecton.com](http://www.affecton.com)