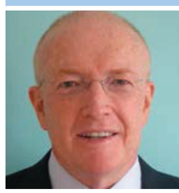
Internal challenges for tax directors

SPEED READ **Findings from a recent survey reaffirm that the key objectives for tax directors are: ensuring no tax surprises; providing support for the business; and delivering a specified tax rate. Managing reputational risk, however, is now of increasing importance. Key challenges include: sufficiency of resources; delivering value; working with fiscal authorities; reputation; and partnering with the business. Whilst most relationships with key internal stakeholders were rated as excellent, the areas of business and product development, asset management and intangibles, and IT and other functions were mostly rated unsatisfactory.**



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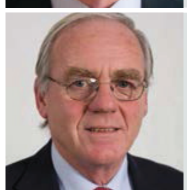

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When it comes to surprises, no tax department wants to be responsible for springing the unknown on finance directors and boards and this has emerged as the top objective for tax directors in the *2013 Affecton Tax Journal Survey* of how leading tax departments are dealing with internal challenges (see figure 1 overleaf). In second place is business support, followed by achieving a specified tax rate.

These top objectives have changed little since the last survey was carried out by Affecton in 2009, but it is further down the list of objectives that interesting changes have happened. There has been a significant demotion in the relative importance of compliance, tax process risk and tax savings despite the fact that these are usually seen as the prime roles of the tax department.

The change in tax compliance and tax process risk may be due to the growth in outsourcing and off-shoring based on more standardised accounting processes. The reduction in importance of tax savings may reflect the changing attitude to tax avoidance and the limitations on the use of off the shelf tax planning schemes.

Along with this, there has been an increase in the perceived importance of reputation. This suggests a more conservative approach to tax planning, particularly as reputation is of high importance to the board and finance director.

In the survey, tax directors were also asked to rank given topics according to what is perceived by them to be most important to their board, and what particular strategic tax issues their finance director is currently focusing on, in order to compare these with the tax department's own objectives.

The survey found that tax directors believe that reputation is the most important issue for the board, followed by managing the tax rate, compliance obligations and then business support. When it comes to finance directors, tax directors believe that having no surprises is the top issue for them, followed by risk management, reputation and managing the tax rate.

These results reveal a broad alignment in the minds of tax directors as to what is important and what is expected of them. However, if the old adage is correct that one should focus on what is important for one's boss's boss, then tax directors should not allow compliance to slip too far down their priorities. Indeed, no tax planning or advice can be said to be successful until it has actually been included in a tax return which has been agreed by HMRC. Tax directors are, of course, already aware of all this and, when asked to list their top challenges, fiscal authorities was one of those most mentioned.

The challenge

The results above also illustrate the nature of the tripartite challenge that tax directors have; namely how to satisfy the three main objectives of no surprises, no reputation risk and a sustainable and competitive tax rate. Achieving the lowest tax rate, for example, might involve strategies which could put the company's reputation at risk. An extreme no surprises approach might avoid reputation risk but result in an uncompetitive tax rate. If all three dimensions are to be delivered, it would seem that there needs to be some compromise and some regard to practicality.

The survey results also show that tax directors consult very widely within the company on their tax strategy. All tax directors consulted their finance director and their key tax staff, while more than two-thirds consulted their board, CEO and audit committee, and 47% consulted key business personnel. Also, 35% consulted HMRC.

A majority of companies have just reviewed their tax strategy or will be undertaking a review this year, while a third of companies do not currently see the need to undertake a review. But there is more openness as more than 50% of companies now publish their tax policies. This is in stark contrast to the 2009 survey, where only half of respondents had a tax policy and only a few actually published it.

The survey asked tax directors to share their top three challenges. Lack of resources was the most frequently mentioned challenge, followed by delivering on value, working with fiscal authorities and managing corporate reputation. Business partnering and maintaining relationships across the wider business also figured prominently, particularly in face to face discussions with the heads of larger tax departments.

The importance of relationships

Tax directors were also asked to rate internal relationships. Whilst most relationships were rated

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The new tripartite era for tax directors (Roy Millman & Tom Duffy, 19.7.13)

Figure 1: Tax function objectives

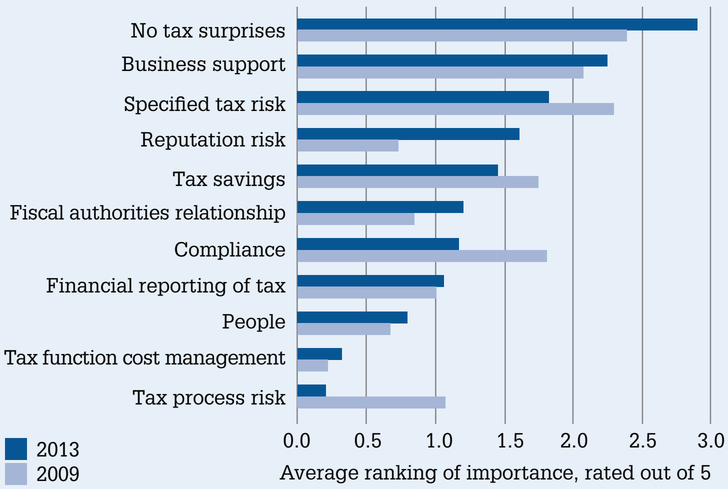
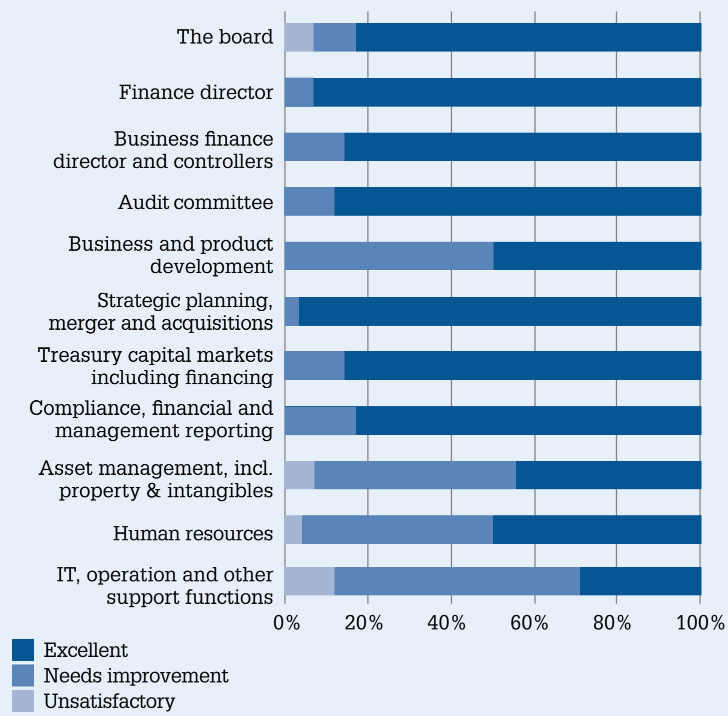


Figure 2: Tax function relationships



as excellent, the areas of business and product development; asset management and intangibles; and IT and other functions were mostly rated unsatisfactory (see figure 2 above). Two companies even mentioned having poor relationships with the board.

Strong relationships across the whole business are important as the tax function needs the support of the whole organisation from the board downwards, including the finance director, the business heads and all the tax department staff. This support is based on confidence in the tax director and the tax function, to get the job done, which is underpinned by the tax function's reputation.

Regular appearances before the board and the audit committee can help enhance the profile and reputation of the tax function. Tax directors noted that recent controversies have increased interest in how tax risks are being managed, particularly external reputation risks. This is helpful and necessary, but it is unlikely to be sufficient in itself to sustain reputation in the long term. A good internal reputation will be driven by high customer satisfaction, assisted by good communication skills and trust developed over time.

During follow-up discussions, one tax director said that he had recently introduced customer satisfaction surveys to assess tax department performance in establishing and maintaining good service levels. This immediately raised the quality of the relationship with the business and led to a number of new initiatives. We are aware that other tax departments have similar feedback arrangements, some more formal than others, which also help to develop and maintain good relationships with the business.

The value of good communication is shown by what tax directors thought about what skills and qualities will be needed for future tax leaders in ten years' time. The two most often mentioned were influencing relationships and having a commercial and business sense.

Working in uncertain times

The conclusion we draw is that tax directors are being asked to deliver predictable outcomes in more uncertain times. To be prepared for the future, more attention needs to be paid to changes as they evolve in the present. To do this, more resources have to be focused on what are arguably less certain activities and tasks, such as building deeper relationships with business and other stakeholders and seeking to influence outside interests. Yet resources are already stretched on meeting compliance obligations and delivering existing business support, at a time when tax directors believe that they will have fewer resources in the future.

We wonder if too many tax departments are being constrained by a very big but fairly questionable assumption, namely that in the current environment they will not be able to win support for a sustainable tax strategy that enhances shareholder value. One possible way out of this cycle may be to engage with the business to develop a tax strategy that takes account of its needs and the evolving regulatory and community dimensions. This can be a catalyst to reshape the tax function around business needs and priorities in order to deliver more added value, enhance its reputation and gain enhanced support from the board for its role in the future. ■

The Affecton Tax Journal Survey of Tax Directors 2013 builds on earlier research by Affecton on tax function effectiveness. It was undertaken by 35 companies with an average size of 48 tax professionals. The full findings will be published in due course.