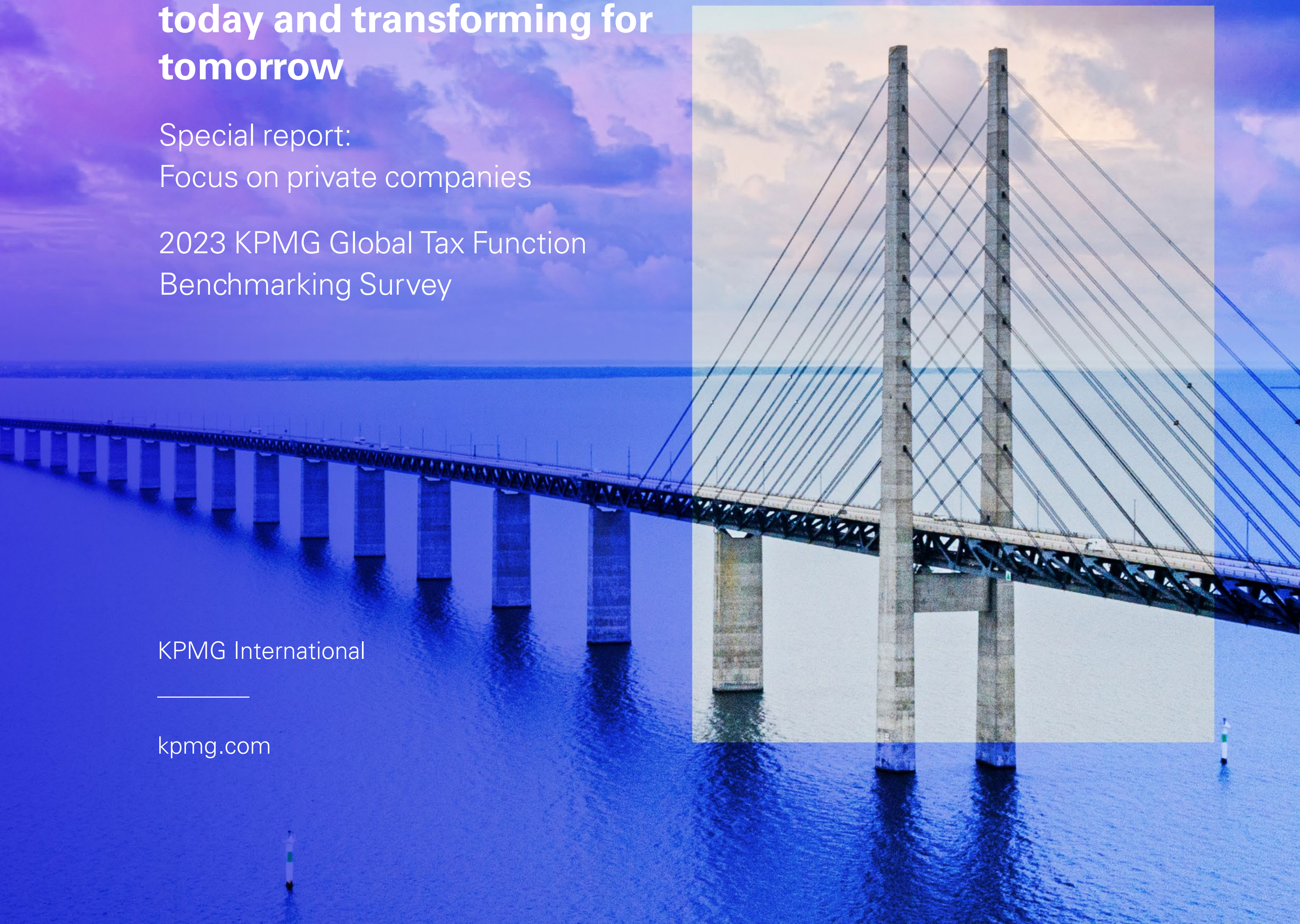
Inside global tax functions:

How they are managing today and transforming for tomorrow

Special report:
Focus on private companies

2023 KPMG Global Tax Function Benchmarking Survey



KPMG International

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As the tax leader of an international private enterprise, you make key decisions every day to evolve your tax function and keep pace with unprecedented pressures, disruptive technological advancements, heightened compliance obligations and more — all while seeking to demonstrate value within your organization and beyond. Benchmarking against comparable tax functions can be a powerful tool for reflecting on your current position and planning how to prepare your function for the future.

To help, KPMG International conducts an ongoing survey of the tax functions in multinational organizations around the world. The data gained offers insights into tax functions around the world and how they are evolving in their structure, governance, priorities and performance measures, through the use of technology and more. In this special report on tax functions within private companies, we zero in on data from over 62 tax leaders of organizations headquartered in 16 jurisdictions.

What do the latest results tell us? In step with a long-term trend, the tax function's contribution to strategic value now seems to take priority over cost minimization in many areas. Private companies are moving to centralize tax operations and improve efficiencies, although they remain somewhat behind their public counterparts.

Private companies are also looking to grow their tax teams at home and abroad, while increasing their use of co-source resources from shared service centers, global business services or centers of excellence.

Among other challenges, however, they will need to overcome a shortage of tax talent and master the change management demands of tax transformation projects.

This report presents an overview of selected key findings from the survey data through to mid-2023, and highlights some important takeaways for private company tax leaders.

Contents

About the survey

- KPMG International's Global Tax Function Benchmarking Survey charts the evolution of leading tax functions and identifies operational benchmarks for high-performing tax teams.
- The selected findings in this special report are based on a survey of **over 62 leaders** in charge of tax policy and operations of private companies in all major sectors, with participants from 16 jurisdictions worldwide.
- Almost **30 percent** of respondent organizations has more than US$5 billion in annual revenue or turnover. Just over **80 percent** have global tax functions serving operations in multiple countries/jurisdictions.
- Tax leaders of private tax functions can still participate in the survey. By doing so, you will have the opportunity to receive personalized insights into how your tax function compares across key areas. Please visit **kpmg.com/taxbenchmarking** or email **tax@kpmg.com** to learn more.

Tax functions of private companies today

From geopolitical turmoil and the pandemic's long-term effects on the future of work to the challenges of technological transformation, today's private company tax functions face disruption on all sides. At the same time, they're under intense pressure internally to cut costs, improve efficiency and add more value.

When asked to name the most impactful disruptor for their organization in the past year, a high majority of Chief Tax Officers surveyed named tax reform. For international private companies, uncertainty abounds as the Organisation for Economic Co-operation and Development and participating countries continue the complex work of designing and implementing a coordinated international tax system in an environment further complicated by changing corporate tax rates and proliferating digital services taxes.

The recent worldwide surge in mergers and acquisitions also had many organizations and their tax functions on their toes over the past year. Lack of IT support for new or evolving requirements and change in finance/technology systems nearly tied for third place for private companies.

Which of the following disruptors have had the greatest impacts on your organization within the last year?

Note: Survey participants may select multiple response options.

What's the best approach for private company tax functions trying to manage the effects of this disruption while delivering on their expanding mandates?

KPMG International research has shown that the most effective, highly valued tax functions are those that manage tax risk and compliance while identifying opportunities for adding value through core tax management skills and proactive collaboration with all parts of the business in advancing the overall objectives.

For many organizations, having a tax function structure that centralizes management and resources can help to achieve these ends. Centralization can help ensure accountabilities are clear, the right mix of dedicated and shared resources are available, and processes and technologies are leveraged to improve consistency, quality and efficiency.

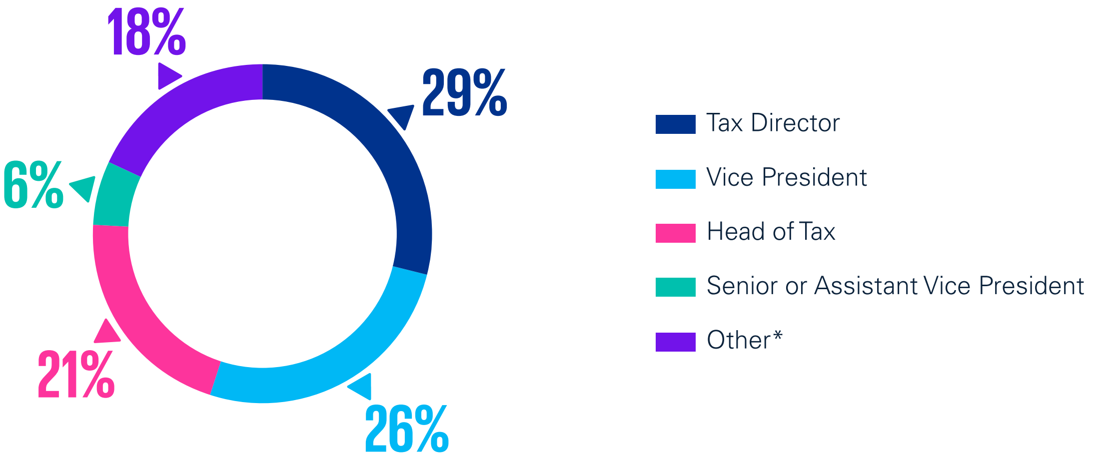
Survey results show that many private companies are moving toward greater centralization of tax resources and activities, although they remain somewhat behind other companies in this regards. Private companies may have opportunities to further centralize accountabilities and activities — for example, through greater use of shared service centers or other centralized sourcing models.

Reporting lines

Globally, the majority of private company tax functions fall within the finance function. Sixty percent of tax leaders report to the CFO or head of finance (other than CFO), while only three percent report to the CEO directly.

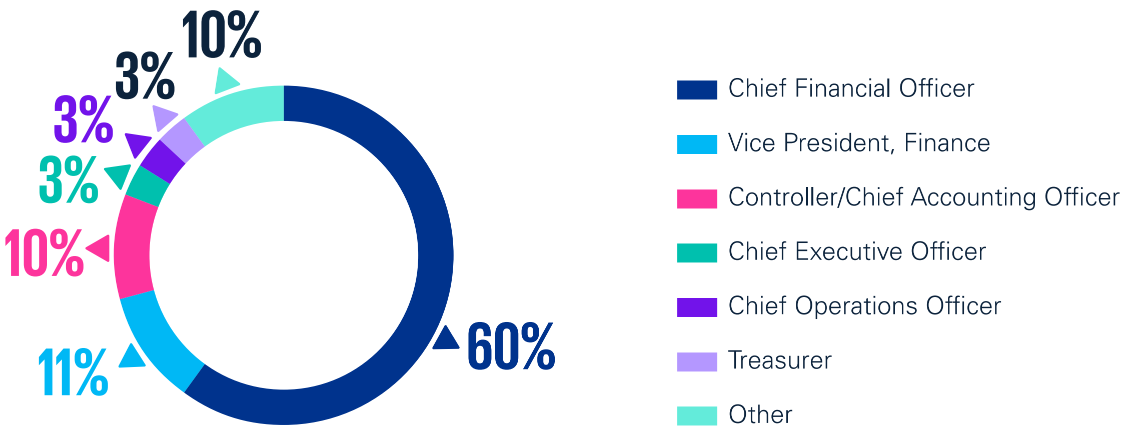
The top three most common titles for Chief Tax Officers are tax director (29 percent), Vice President (26 percent) and Head of Tax (21 percent).

What is the title of the Chief Tax Officer?



*Other includes: Tax Controller, Manager and Chief Tax Officer

To whom does the CTO report directly?

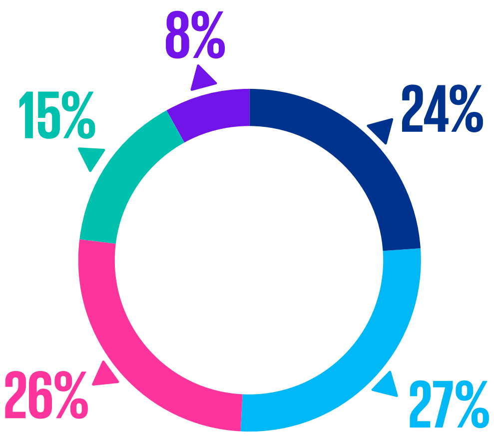


Organizational design

Traditionally tax functions have had operating models designed by type of tax (e.g., direct, indirect) or by function (e.g. tax accounting/reporting, compliance), often with some element of outsourcing.

Today, the majority of all respondents (44 percent) have moved to hybrid structures that combine types of tax with functions, but only 24 percent of private company respondents have done so. Just over one-quarter of private company tax functions are still organized by type of tax and a similar number co-source or outsource all or a significant portion of the tax function's responsibilities to external service providers. Fifteen percent are still designed by function.

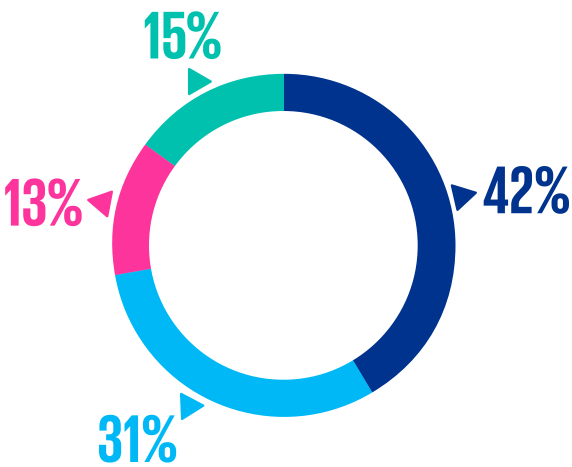
Which best illustrates the tax function's organizational design for your company?



- Hybrid – e.g., combines type of tax and function-based structures
- Type of tax-based
- Co-sourced/Outsourced — e.g., all or a significant portion of the tax function's responsibilities are contracted to be performed by service providers
- Function-based
- Distinct tax accounting/reporting function from tax compliance/planning function; reporting lines are separate for tax provision team and general tax function

Survey results show that most private companies have moved to centralize their tax operations to some extent. Only 13 percent maintain globally decentralized tax functions where non-home country/jurisdiction taxes are locally and independently managed. Forty-two percent of private company respondents now have centralized, globally integrated tax functions with global mandates. Another 31 percent have hybrid tax function structures that include elements of both centralization and decentralization depending on the process or type of tax.

On a global scale, this organizational structure is:



- Centralized and globally integrated — tax responsibilities are managed by the unified organization with a global mandate
- Hybrid — elements of centralization and decentralization depending on process or tax type
- Globally decentralized — locations outside of the home-country/jurisdiction manage taxes independently
- N/A — my company does not have global operations

Staffing and sourcing

On average, tax functions of respondent organizations have 14 full-time employees (FTE) at all levels reporting to their Chief Tax Officers in the home country, and about 12 FTEs at non-home country locations. Unlike respondents from other types of companies, private company respondents only reported having two or three FTEs on average in onshore or offshore SSOs.

How many full-time equivalent personnel (FTE) report to your company's tax function?

	Home country	Non-Home country	SSC based offshore	SSC based onshore
VP Level (includes EVP, SVP, AVP, etc.)	1	1	0	0
Director	2	2	0	1
Counsel	1	0	0	0
Senior Manager	2	3	0	0
Manager	2	1	0	0
Senior Staff	2	2	1	0
Staff or Analyst	2	2	1	1
Administrative Resource	1	0	1	0
Contractors	1	1	0	0

Note: Figures in chart represent the average response for each FTE type.

Private company tax functions are primarily responsible for national and subnational tax compliance for their home countries (60 percent and 64 percent respectively). Almost 40 percent have responsibility for non-home country/jurisdiction compliance. For the majority of respondents, the tax function has primary responsibility for:

- Tax function administration
- Tax technology
- Tax planning
- Accounting for income tax
- Tax training
- Audit support/controversy

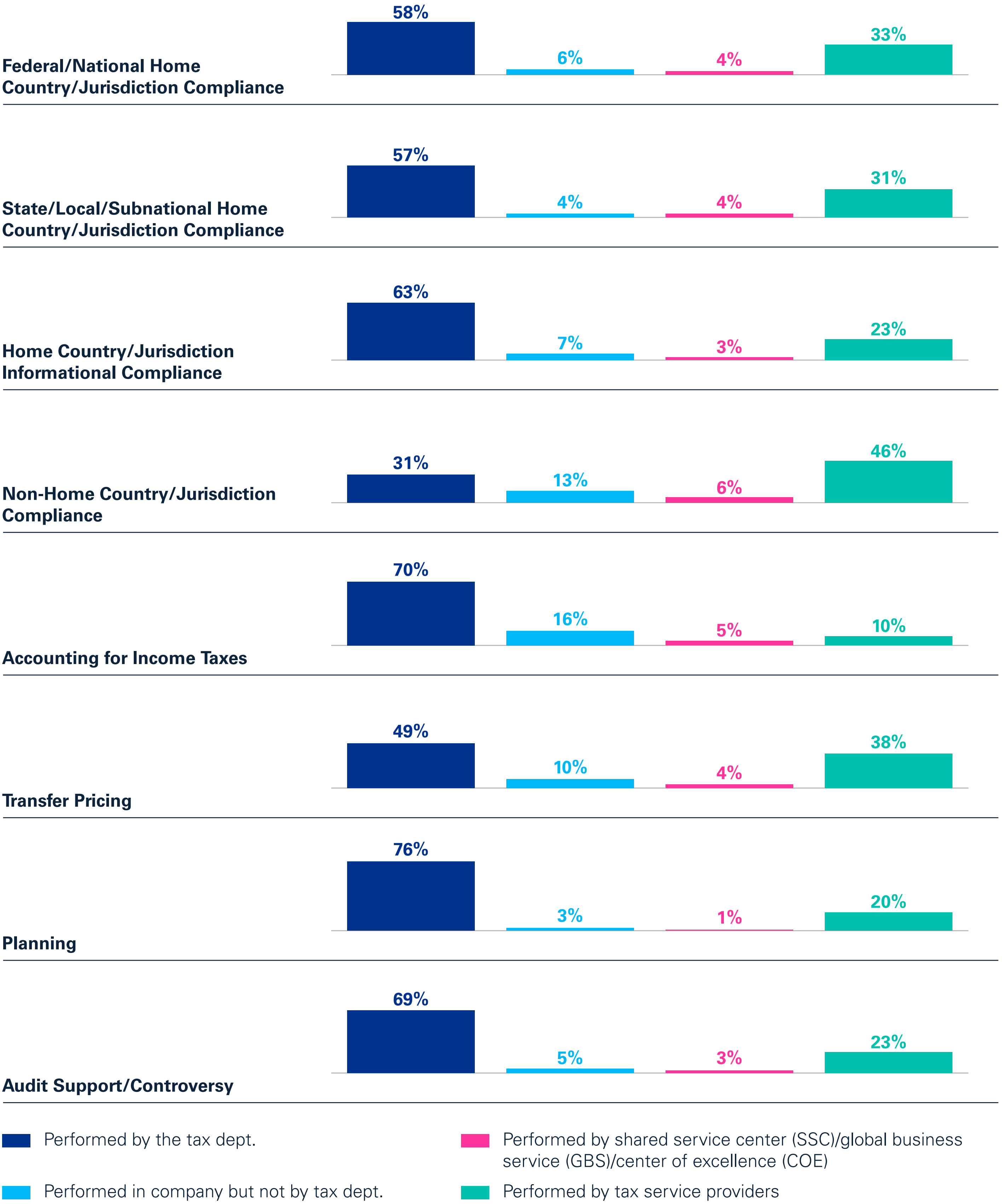
The tax work most commonly done by other functions within the company includes trade and customs, escheat/unclaimed property, bookkeeping (i.e. non-home country/jurisdiction GAAP books and records).

A majority of tax functions use shared service centers (SSC) and tax service providers to perform some of their tax compliance and other activities. The processes most commonly delegated to SSCs are bookkeeping, statutory accounts preparation and other regulatory/industry reporting.

Tax service providers are most often engaged for non-home country/jurisdiction compliance, transfer pricing and expatriate tax matters.

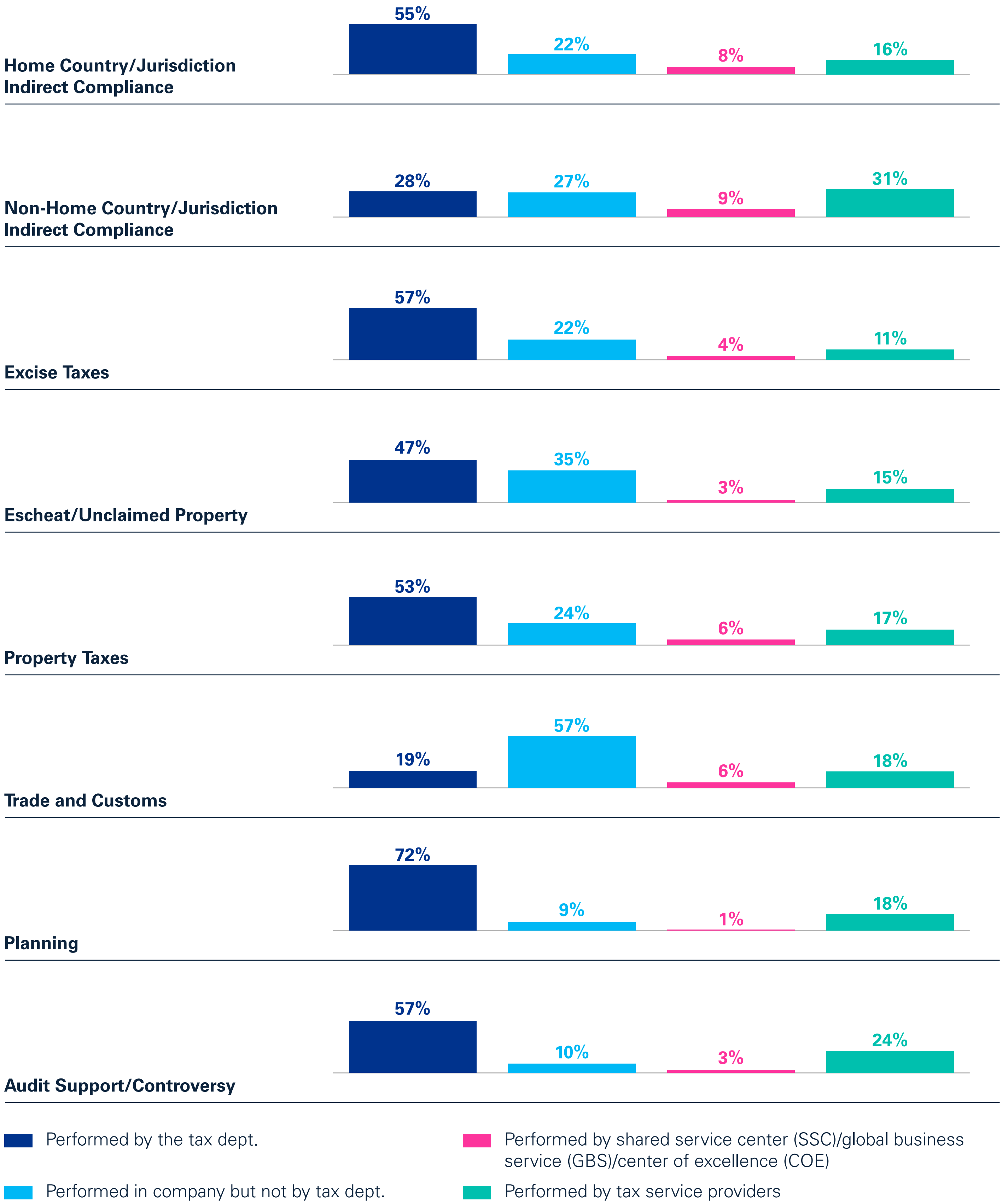
For each of the following core tax functions, please indicate the percentage of these activities in whole numbers (without decimals) that are performed by the following groups.

Direct Taxes: (Chart 1/3)



For each of the following core tax functions, please indicate the percentage of these activities in whole numbers (without decimals) that are performed by the following groups.

Indirect/Ad Valorem/Excise Taxes: (Chart 2/3)



For each of the following core tax functions, please indicate the percentage of these activities in whole numbers (without decimals) that are performed by the following groups.

Administration and Other: (Chart 3/3)

Administrative budget

The companies surveyed had an average annual worldwide budget for tax function administration of just over US$3.3 million, about half of the budget reported by all survey respondents. Another US$1.1 million in tax function costs are captured in the budgets of other departments.

Private company respondents said the bulk of their tax function budgets are allocated toward talent, with almost half of the budget generally earmarked for employee compensation and benefits, and 46 percent going to outside consultants (24 percent for compliance outsourcing and 22 percent for other outsourcing).

What is the amount of your company's current worldwide tax function administrative budget?

US$3,306,466

What portion of your company's total tax administrative budget is devoted to the following costs?

49%
Compensation (including benefits)

24%
Outside consultants (compliance outsourcing)

22%
Outside consultants (non-compliance outsourcing)

3%
Training (including travel)

3%
Research/library materials and subscriptions

7%
Technology (hardware/software/internal allocations)

3%
Travel (excluding travel for training)

3%
Supplies and other miscellaneous expenses

2%
Contractor/temporary personnel

Note: Multiple responses allowed

Key takeaways:

- International tax reform and surging M&A activity are the two biggest disruptors affecting the tax functions of private companies today. Advancing technology also poses challenges, particularly due to a lack of IT support for new or evolving requirements and changing finance/technology systems.
- Most private company tax functions still fall within the finance function, although a significant proportion are independent. Only three percent of private company heads of tax report to the CEO directly.
- Most companies have moved to centralize their tax operations to some extent, and the majority have moved to hybrid structures that combine types of tax with functions, rather than organizing along tax-specific or functional lines.
- A majority of tax functions use shared service centers (SSC) and tax service providers to perform some of tax compliance and other activities.
- In addition to home and non-home country compliance (direct and indirect), the processes most commonly delegated are:
  - For SSCs: bookkeeping, statutory accounts preparation and other regulatory/industry reporting
  - For tax service providers: non-home country/jurisdiction compliance, transfer pricing and expatriate tax matters.
- Private company tax functions appear to be less well-funded than their public counterparts, reporting administrative budgets that are about half the size of those allocated to public company tax functions.

Process, performance and metrics

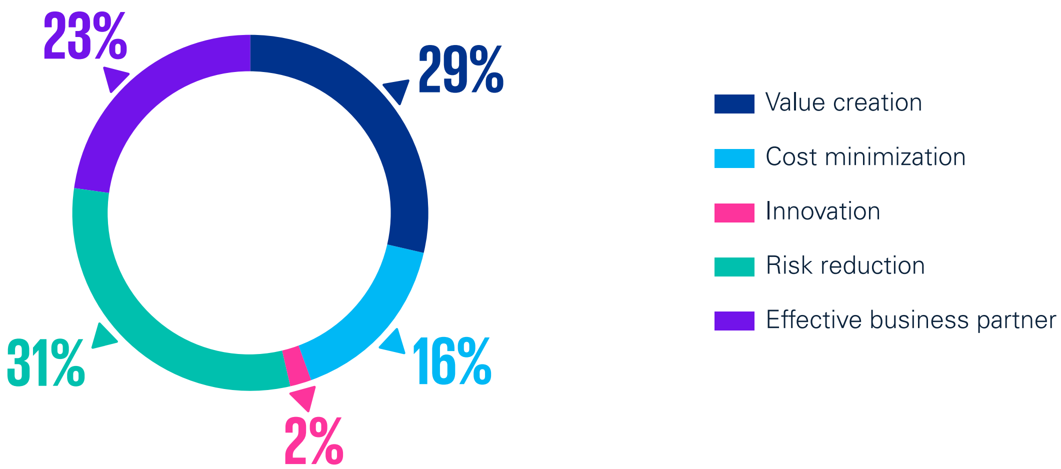
As tax functions continue to evolve, transformation projects are seeing them redesign their processes to bring greater efficiency through centralization, standardization and automation. These projects are also promoting more attention to oversight and measurement of the transformed function's performance.

Tax function strategy

The survey results confirm a shift in tax functions' priorities from reactive compliance to risk reduction. In this year's survey, more respondents said their tax function's primary strategy is most closely aligned with risk reduction (31 percent) than those with strategies aligned with value creation (29 percent) or effective business partner (23 percent).

Interestingly, being an effective business partner was the primary strategy for 23 percent of respondents. Together with the result for value creation, this suggests that over half of respondent companies are now looking to their tax functions to play a more strategic role in business planning and decision-making.

Which of the following themes most closely aligns with your tax function's primary strategy?

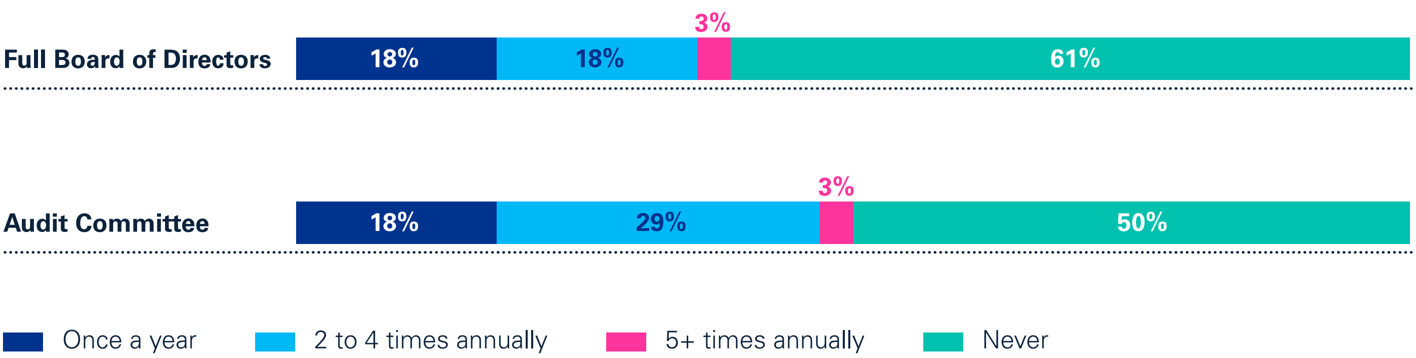


Board and audit committee engagement

Almost one in five of chief tax officers responded that they meet with their full boards of directors once a year, and 18 percent have these meetings two to four times a year. Similarly, almost one in five respondents meet once a year with their audit committees, 29 percent meet two to four times annually. Only a small minority sit down with their boards or audit committees more frequently.

However, 61 percent never meet with their full boards, and 50 percent never meet with their audit committees.

How often does the Chief Tax Officer meet annually with the following?

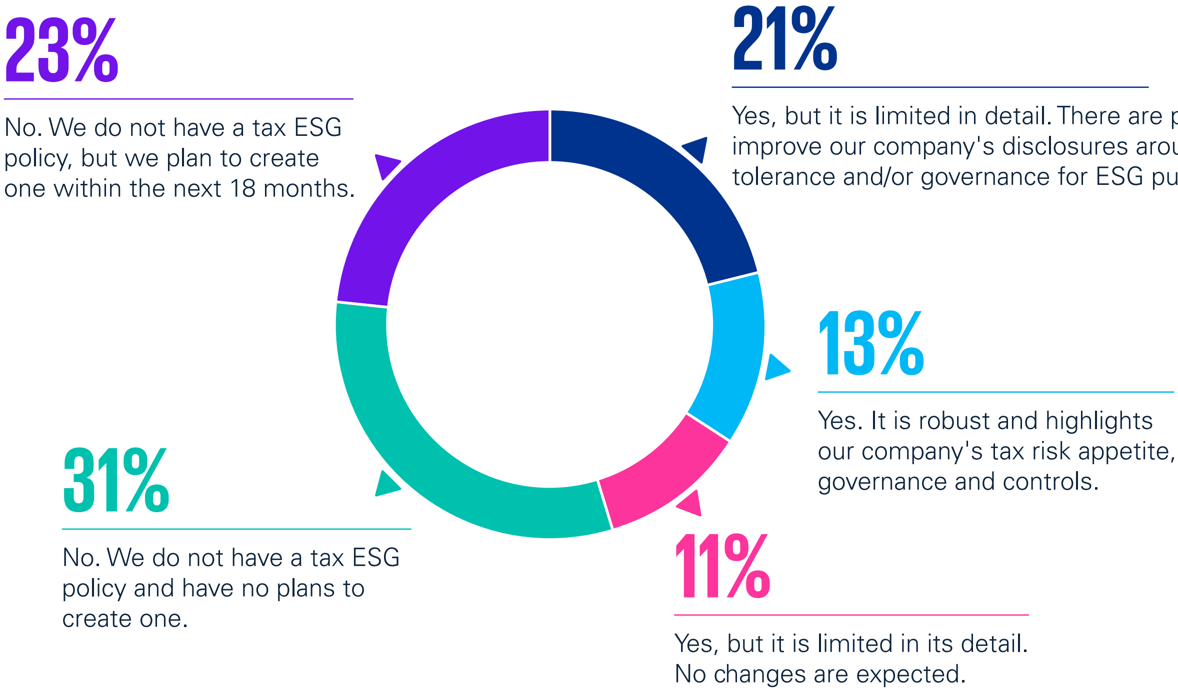


Tax and ESG

With sustainability at the top of the leadership agenda for most companies, tax functions have an important role to play in realizing corporate environmental, social and governance (ESG) goals. However, it seems public companies are ahead of their private counterparts in adopting an ESG approach to tax.

In the survey, 45 percent of Chief Tax Officers said their private company has a policy that considers the ESG of tax-related business decisions to some extent, compared to 56 percent of all respondents. Only 13 percent of private company respondents say their tax ESG policy is robust and highlights their company's tax risk appetite, governance and controls, compared to 19 percent for all respondents.

Does your company have a policy that considers environmental and social impacts of tax-related business decisions?



For more detailed analysis of the current state of tax and ESG policies, see our companion report *Inside global tax functions: Tax and the ESG agenda.*

Measuring performance

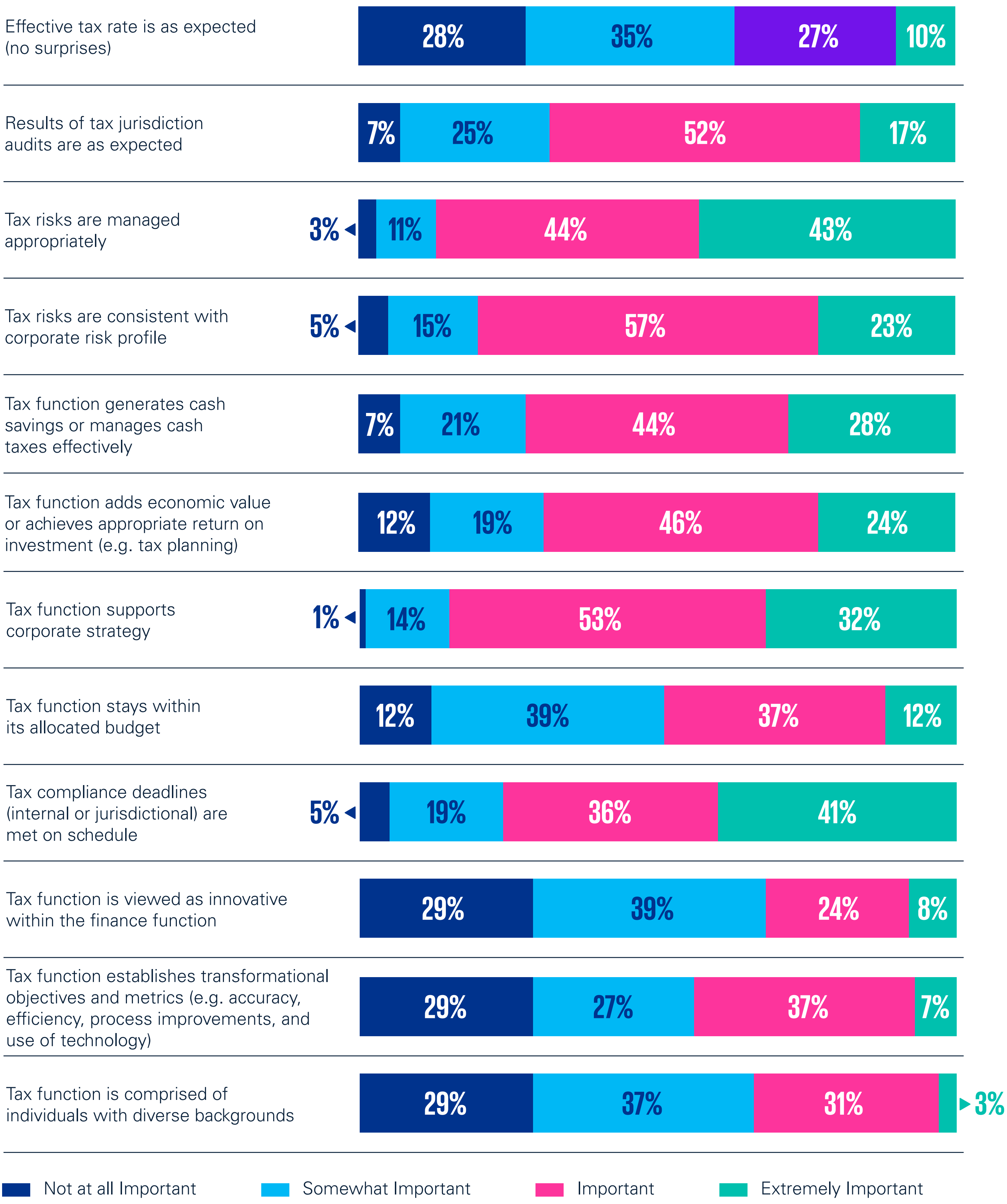
Measurement drives performance and informs leadership of the tax function's effectiveness. Clear, commonly understood performance measures are important for demonstrating the tax function's worth and quantifying the value it brings. Metrics can also be used to support the case for investment in new technologies and process efficiencies to derive more value from tax processes.

To measure the performance of their tax function, the top five "extremely important" metrics used by management of respondent companies include:

1. Appropriate tax risk management (43 percent)
2. Tax compliance deadlines (internal and jurisdictional) are met (41 percent)
3. Tax function supports corporate strategy (32 percent)
4. Tax function generates cash tax savings or manages cash taxes effectively (28 percent)
5. Tax function adds economic value or achieves appropriate return on investment (e.g. tax planning) (24 percent).

These responses appear to be in line with respondents' priorities within their tax strategy's scope. Traditional tax function metrics — effective tax rate and cash tax savings/management — continued to rank highly, but they are falling behind risk management and strategic measures as tax function priorities.

For each of the following, please rate the performance metrics measurements used by management to evaluate the tax function performance:



Note: Figures may not total 100% due to rounding

Rewarding performance

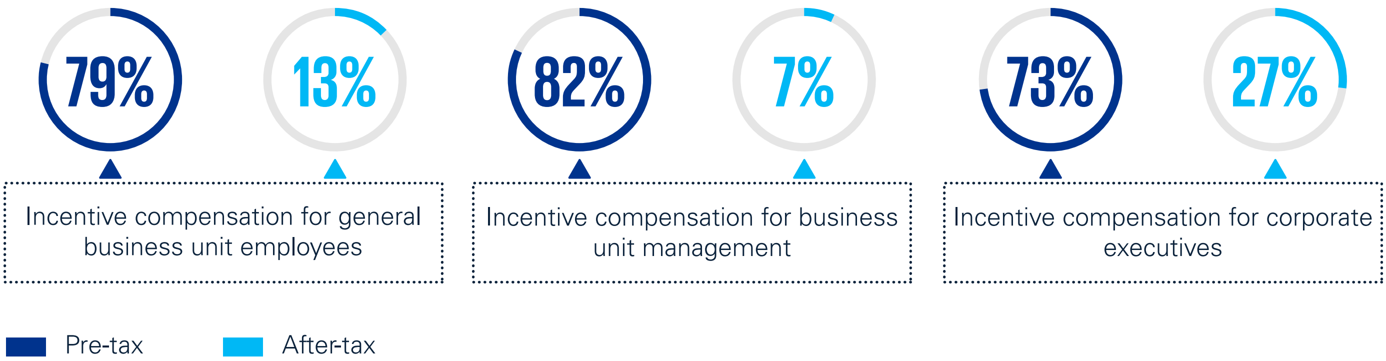
To reward performance, companies are more likely to base some compensation on pre-tax profits than after-tax profits. However, corporate executives are more likely to have their compensation linked to after-tax profits than employees at other levels.

Almost nine in 10 respondents said their tax function awards high performers with annual bonuses. The next most popular rewards for tax staff performance were:

- alternative work arrangements and telecommuting (42 percent)
- cash rewards (spot bonuses) (29 percent)
- deferred compensation (23 percent)

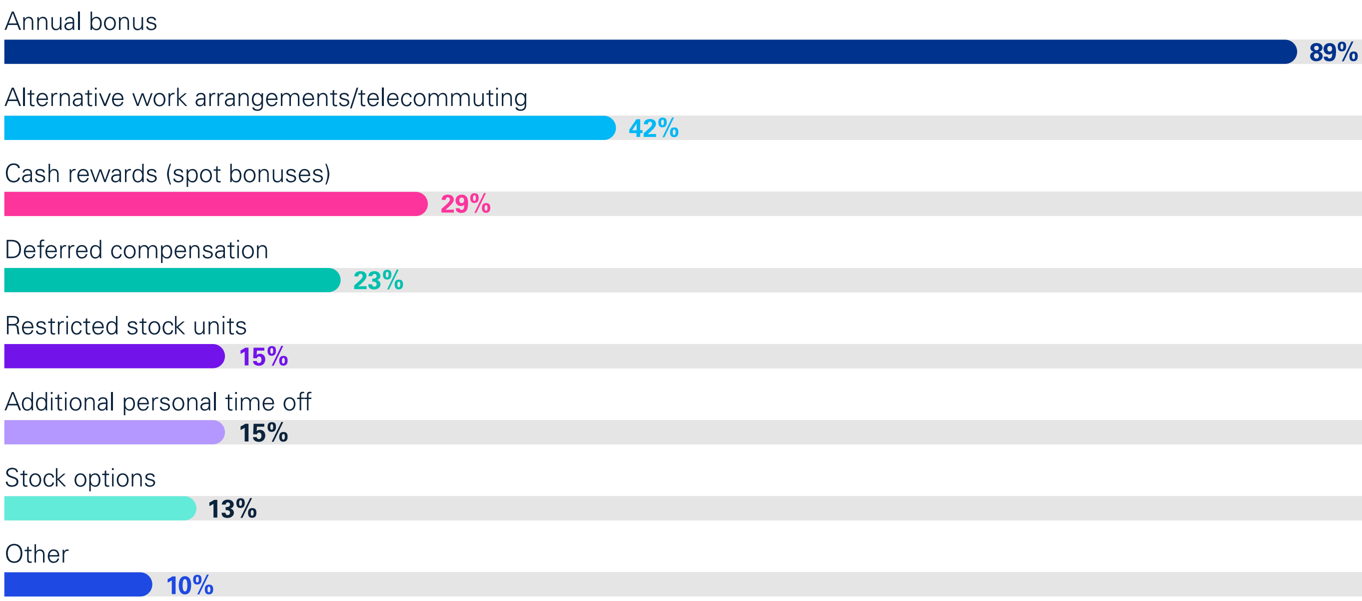
This result highlights the pandemic's legacy as more organizations embrace remote work as a significant element of their compensation strategies for tax and other functions.

Does your company use pre-tax or after-tax profit/loss measurements to help measure employee performance for compensation purposes?



Note: Figures do not total 100% as multiple responses allowed.

Please select the rewards or recognition systems used to encourage high performance from the staff of the tax function.



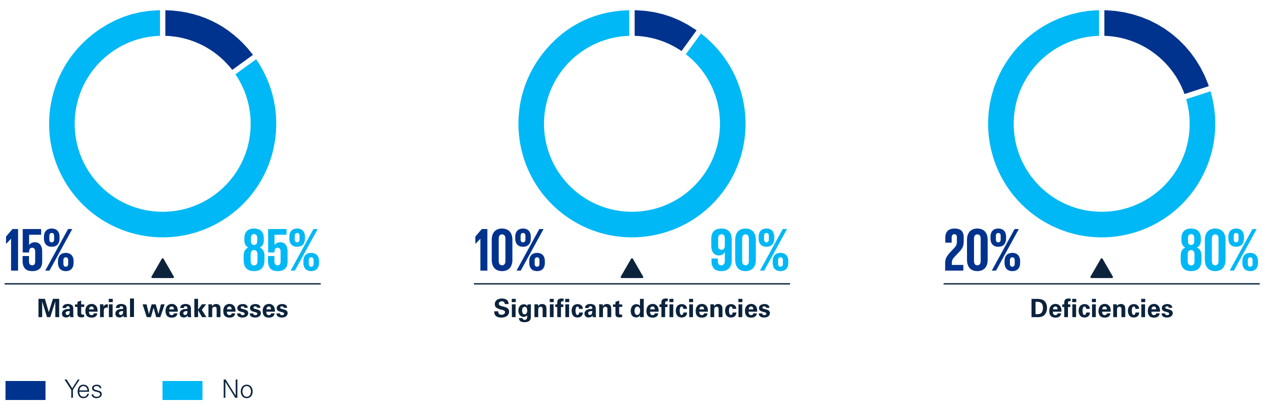
Financial audit results

Based on audits of financial reports for income tax, the focus on standardization and centralization seems to be helping to improve the quality of the tax function's work. However, the shortage of tax talent may be putting the quality of tax functions' financial reporting at risk.

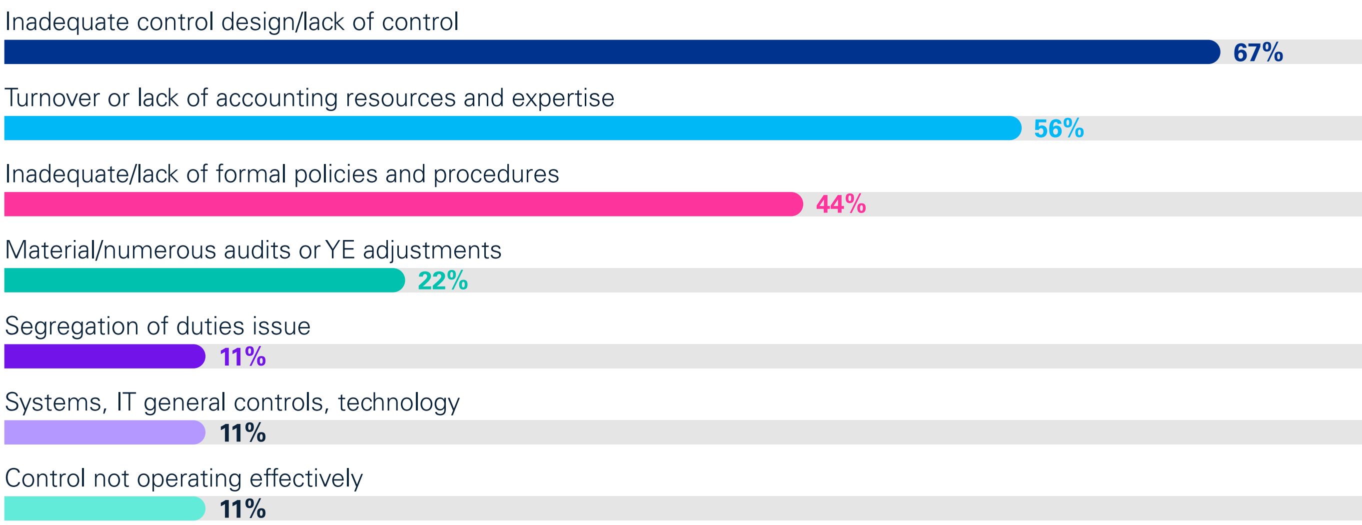
In the past five years, only 15 percent of respondents had material weaknesses identified in their financial reporting on tax. Ten percent reported having significant deficiencies over the same time period, and 20 percent had deficiencies.

What issues led to these lapses? Turnover or lack of accounting resources and expertise was the cause named most often for deficiencies and significant deficiencies. For more serious material weaknesses, turnover was ranked as a leading cause by 67 percent of respondents.

In your financial reporting for income tax in the past five years, have you experienced:



What were the primary issues contributing to the material weaknesses?



Key takeaways:

- Survey results confirm a shift in tax function priorities from reactive compliance to risk reduction.
- More private company respondents said their tax function's primary strategy is most closely aligned with risk reduction than those who said their strategies are aligned with value creation or effective business partnering.
- To measure the performance of their tax function, management of respondent companies gave the most importance to how well the tax team manages tax risk, meets tax compliance deadlines and supports corporate strategy.
- Annual bonuses are the most popular rewards to high performing tax talent, while remote work and telecommuting has rapidly become the second most popular performance-related benefit.
- The focus of standardization and centralization seems to be helping to improve the quality of the tax function's work within private companies, but tax talent shortages may be putting this quality at risk.

Private company tax functions of the future

At the beginning of this report, we noted that an efficient and effective tax function is structured to ensure that accountabilities are clear, the right mix of dedicated and shared resources are available, and processes and technologies are leveraged to improve consistency, quality and efficiency.

Survey results suggest that today's companies are prepared to invest in their tax functions to ensure they can meet the challenges of the future. However, it appears that challenges lie ahead as tax functions struggle with recruitment and retention issues while managing the complexities of tax transformation projects.

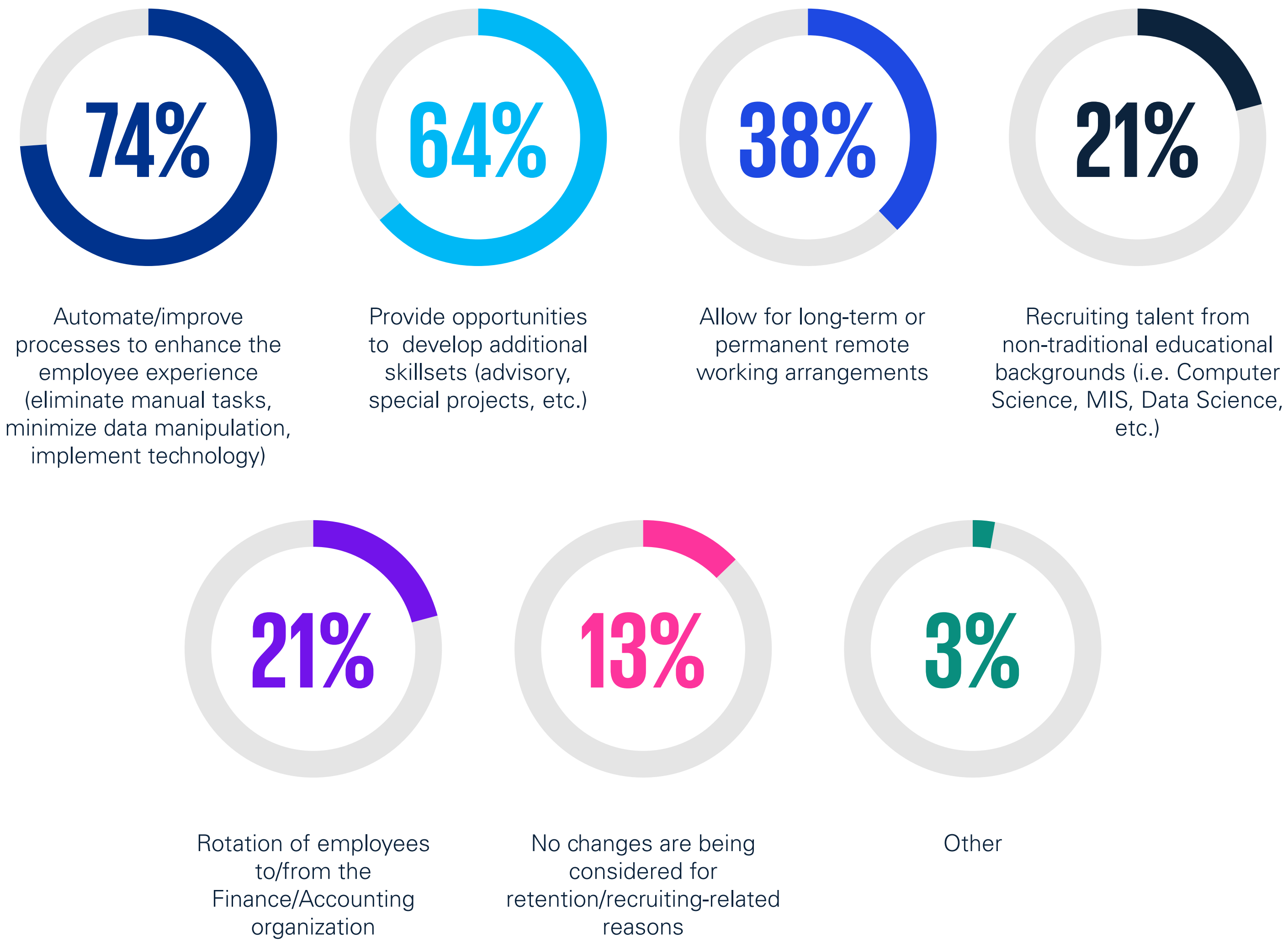
Staffing and sourcing

Almost one-third of private company respondents expect tax head counts to remain the same over the next five years. Almost two-thirds expect their number of FTEs to increase in their home country and almost one-third percent anticipate a rise in FTEs in non-home countries. Twenty-nine percent of those expecting increases project their home country head counts to grow by 25 percent or more, while 44 percent expect a 25 percent or more increase in their non-home country head counts.

In view of these anticipated increases in FTEs, many private companies are stepping up their efforts to attract and retain tax talent. The top strategies that respondents plan to put in place to boost their brands as employer are:

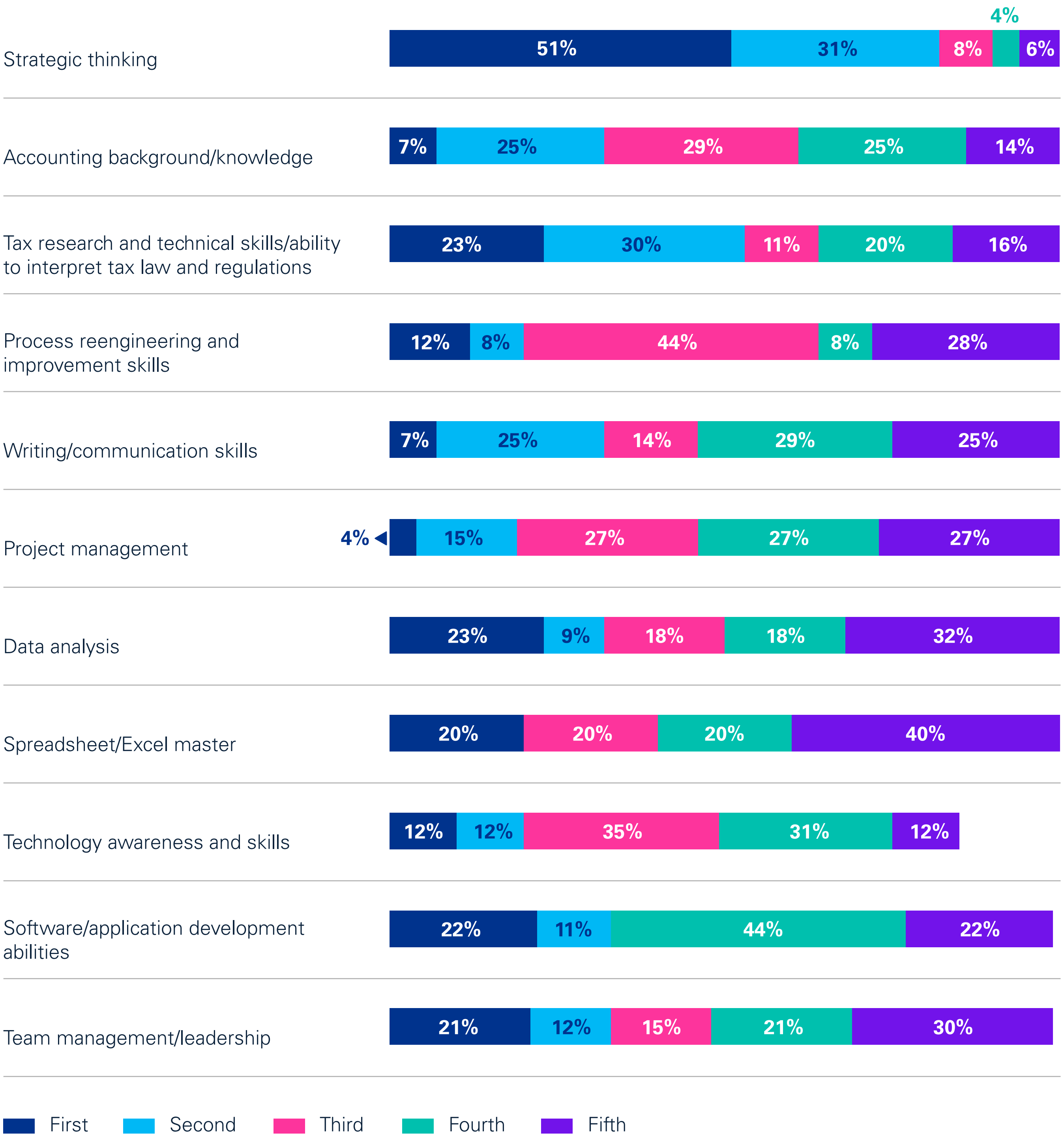
- automating and improving processes to enhance the employee experience
- providing opportunities to develop additional skills
- allowing for long-term or permanent remote working arrangements
- recruiting talent from non-traditional educational backgrounds (i.e. computer science, management information systems, data science)
- rotating employees between tax and finance/accounting functions

Are you considering any of the following changes to attract or retain tax talent?



Upgrading the tax function's skillsets is also on the agenda for many of the respondents. When asked what skills they think are the most important ones needed in the tax function to ensure it operates at its full potential in the future, strategic thinking was the most popular answer, named by just over half of the respondents, followed by data analysis (23 percent) and tax research and technical skills, including the ability to interpret tax law and regulations (23 percent).

What do you view as the most important skills needed in the tax function to ensure it operates at its full potential in the future?



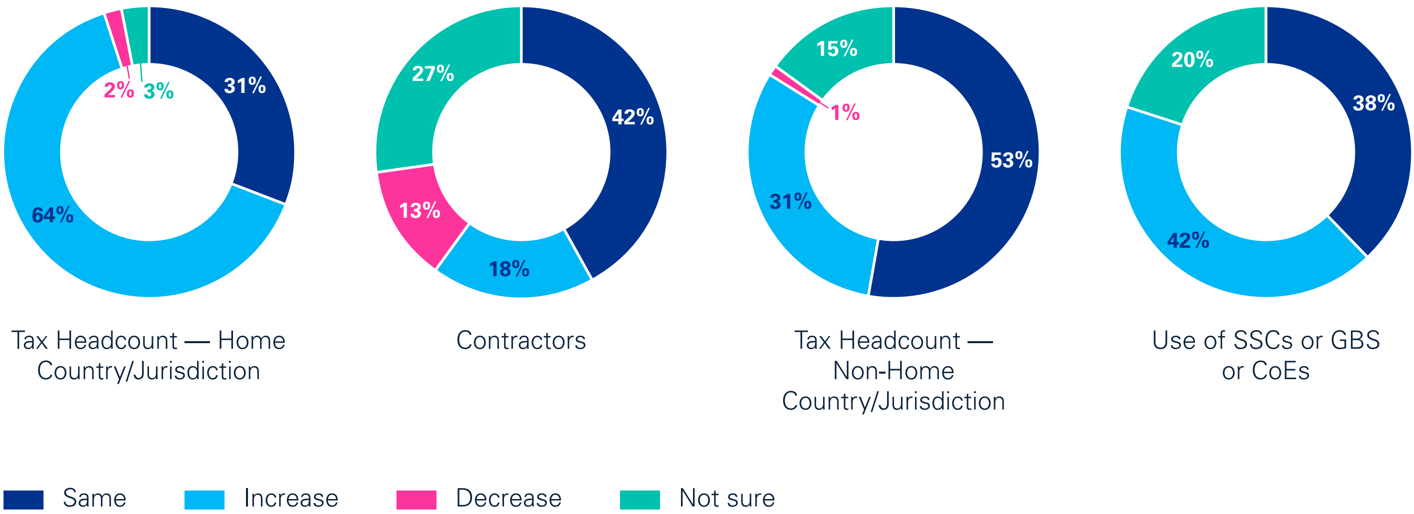
Note: Figures may not total 100% due to rounding

In the next five years, 38 percent of respondents expect to increase their use of co-source resources from shared service centers, global business services or centers of excellence — with over one-quarter of these respondents expecting use of these sources to rise by more than 25 percent. Eighteen percent of respondents plan to bring more contractors into their sourcing mix.

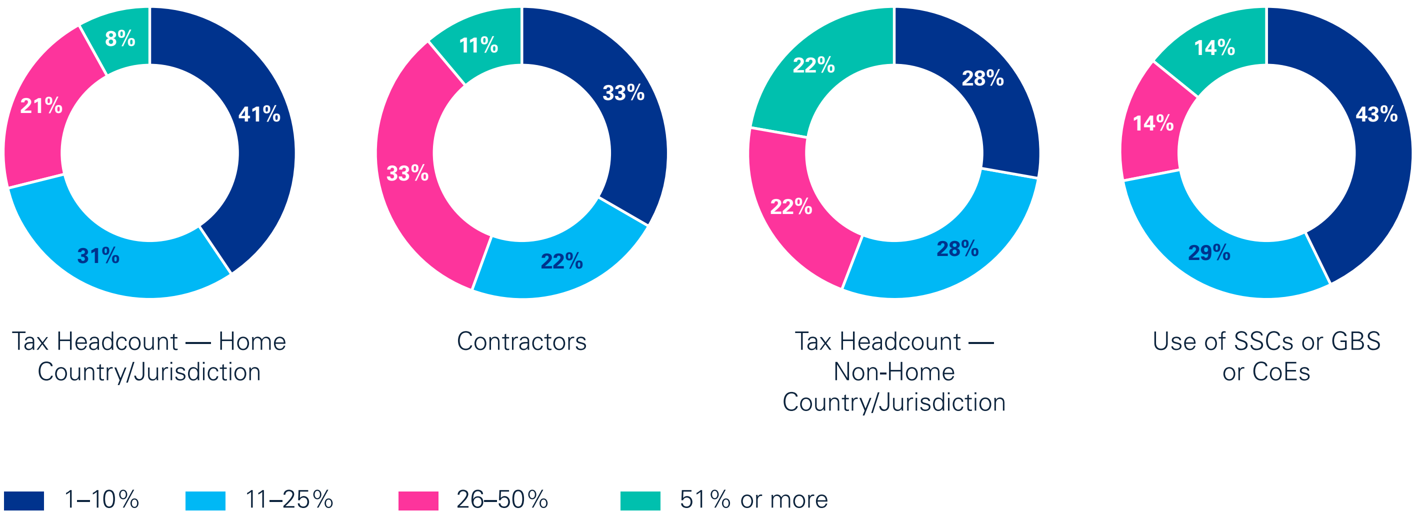
Where tax service providers are concerned, the majority of organizations expect their use will remain the same or decrease in the areas of tax consulting services for tax planning, transfer pricing, and special projects.

A significant 59 percent plan to increase their use of tax technology and transformation consultants within five years, and 40 percent of these respondents expect that use to rise by more than 25 percent.

In the next five years, what will your resource model look like?



What is the expected increase?

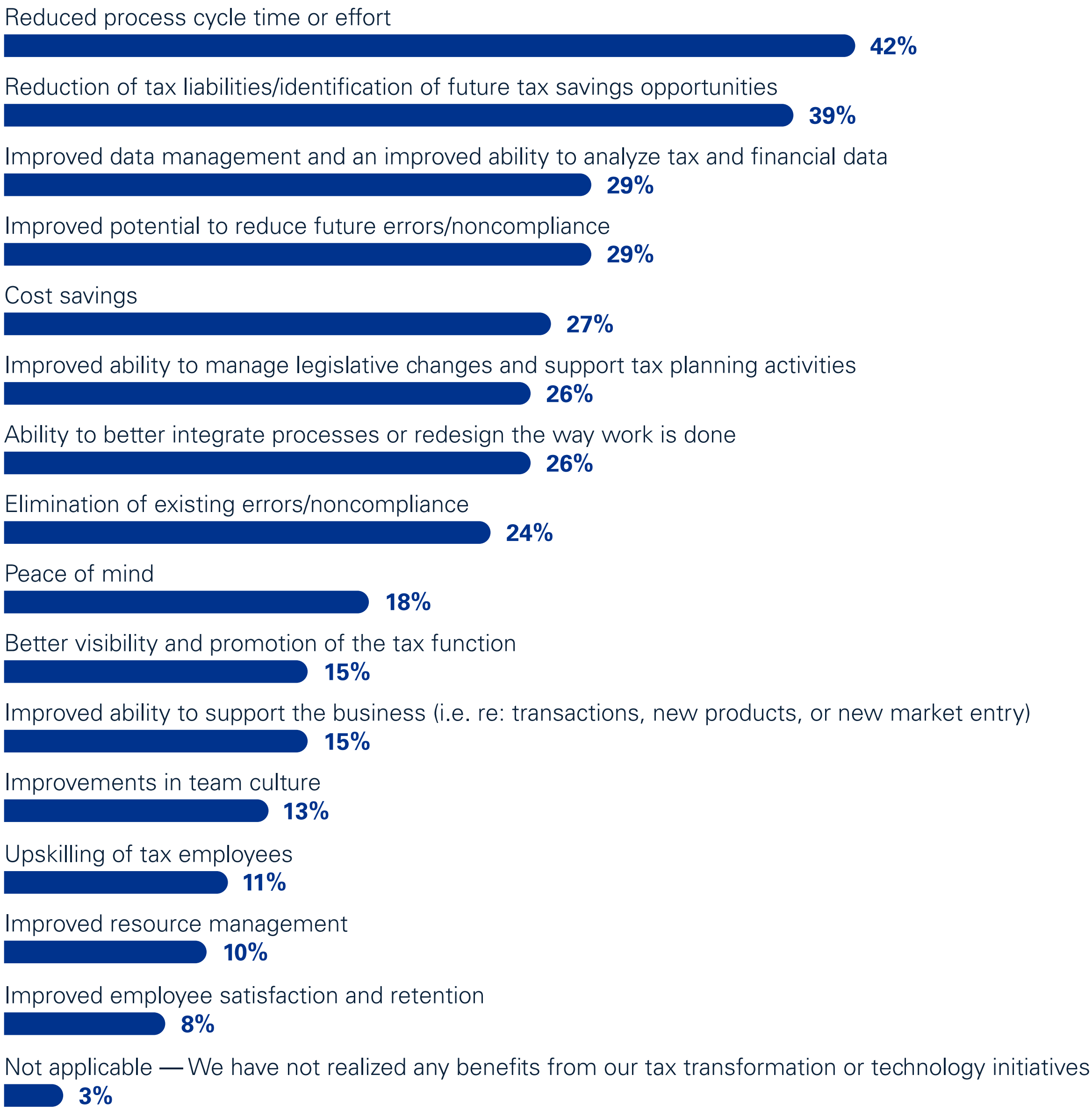


Benefits of tax transformation

Virtually all tax leaders reported that their companies had undertaken tax transformation/technology initiatives with some degree of success. Private company tax leaders surveyed said the top benefits realized from their tax transformation initiatives are:

- reduced process cycle time or effort
- reduction of tax liabilities/identification of future tax savings
- improved potential to reduce future errors/non-compliance
- improved data management and an improved ability to analyze tax and financial data
- cost savings

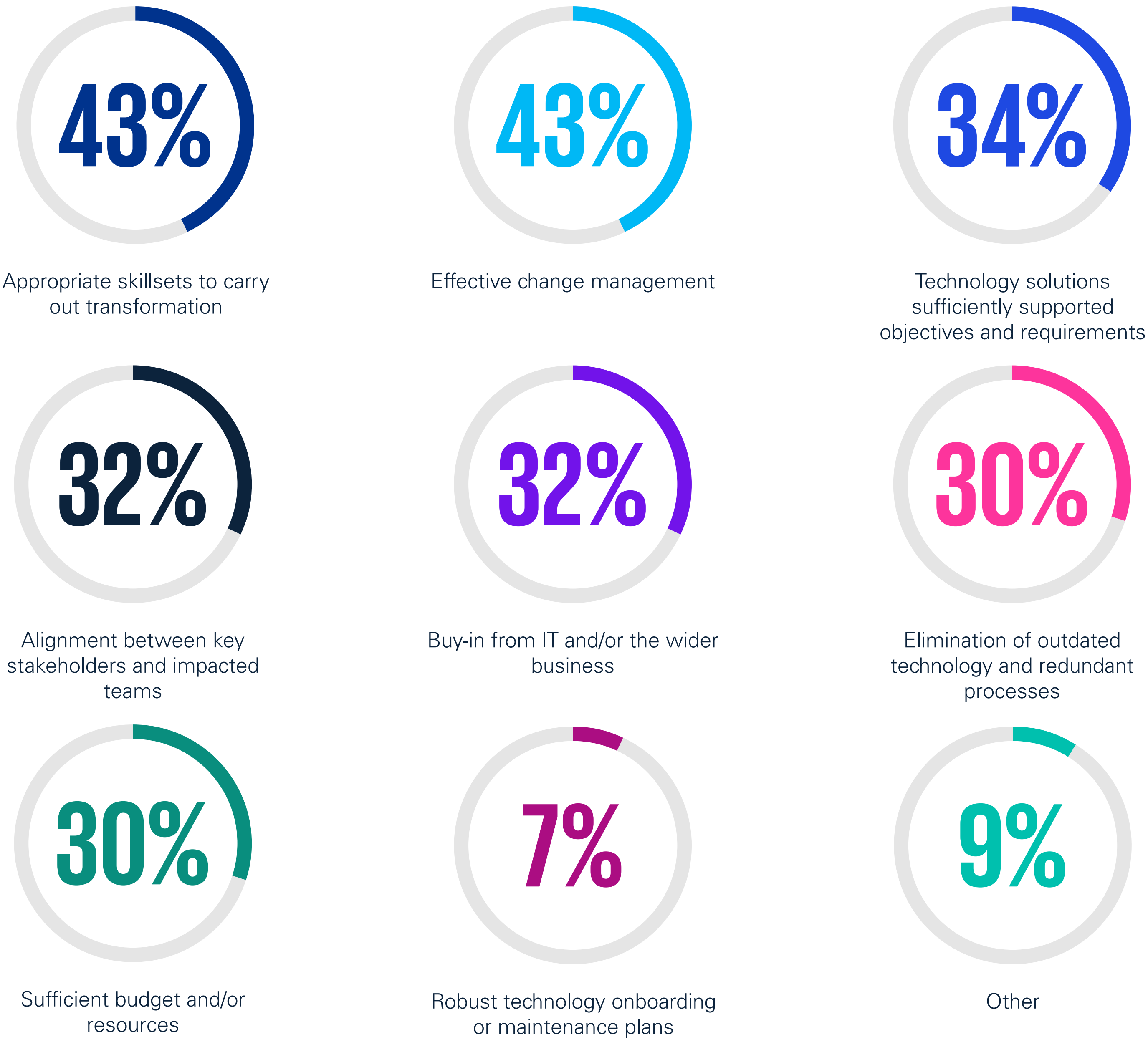
In general, what benefits have been realized from any successful tax transformation/ technology initiatives that you have undertaken?



What makes tax transformation projects successful? Effective change management and having the appropriate skillsets to carry out the transformation topped the list with 43 percent of private company tax leaders ranking these the highest. Having technology solutions that sufficiently supported objectives and requirements was ranked highly as well.

Tax leaders who have seen unsuccessful transformation projects attributed the failure most commonly to improper or lack of budget and having technology solutions that didn't work as promised or expected. This was followed by a lack of skills to carry out the transformation initiative and resistance to change or ineffective change management.

Why have your tax transformation or technology initiatives/projects been successful?



Why have your tax transformation or technology initiatives/projects (if any) been unsuccessful?

31%
Improper or lack of budget

31%
Technology solutions didn't work as promised or expected

29%
Lack of skills to carry out transformation

24%
Resistance to change or ineffective change management

16%
Lack of alignment between key stakeholders and impacted teams

16%
Limited buy-in from IT and/or the wider business

16%
Not applicable — We have not had any unsuccessful tax transformation or technology initiatives

16%
Outdated technology and redundant processes were not eliminated

4%
Lack of technology onboarding or maintenance plans

6%
Other

Priorities for improvement

Looking ahead, the private company tax leaders surveyed are looking to improve their tax function's processes through standardization and more use of technology.

When asked what process improvements they most hope to achieve, the top answer was to improve process standardization. Only five percent say they have achieved this.

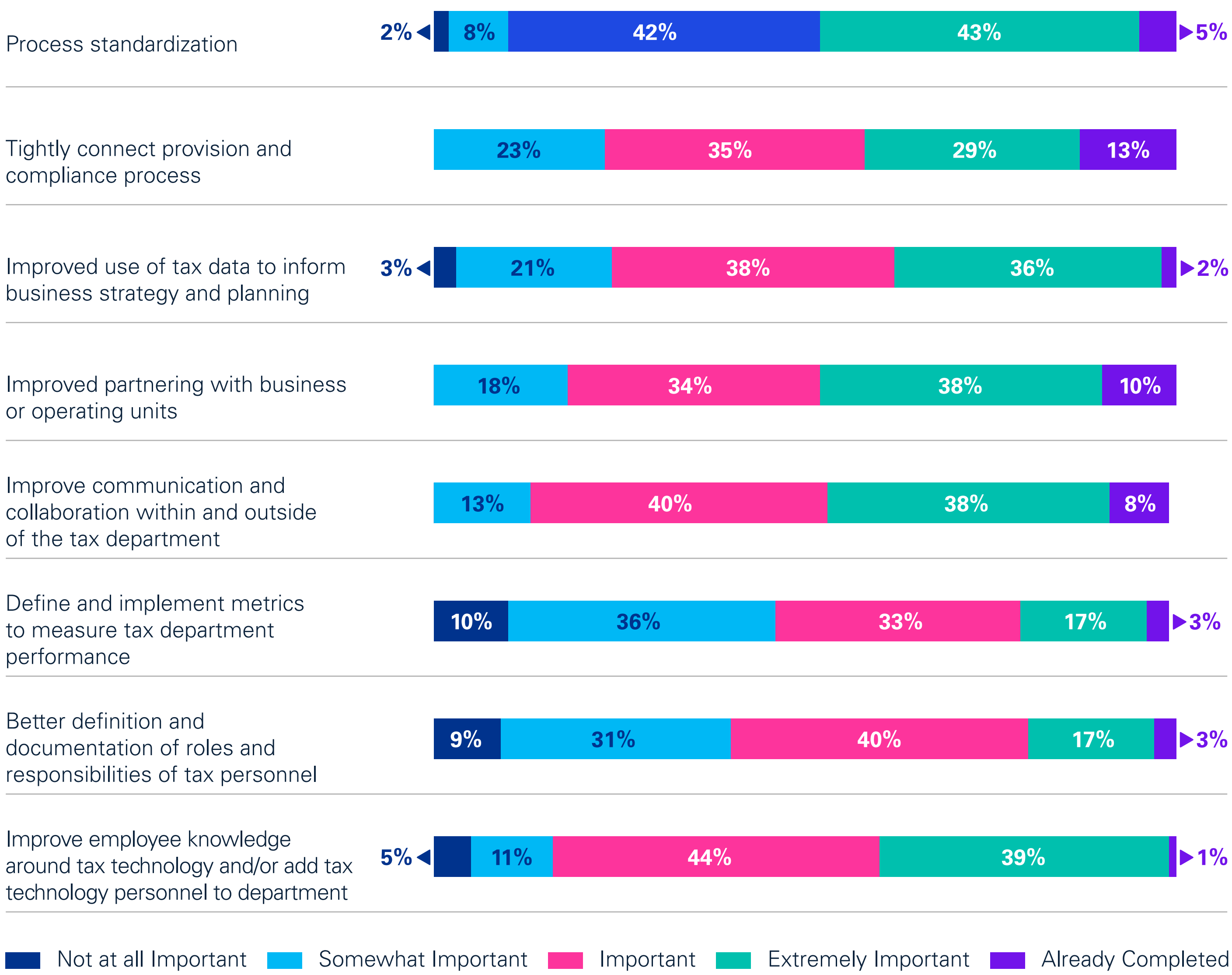
Over three-quarters of the Chief Tax Officers surveyed thought it important or extremely important to improve communication and collaboration within and outside of the tax function. Another eight percent have already done so.

Also important for nearly three-quarters of respondents was improving the use of tax data to inform business strategy and planning. Again, only a small minority (2 percent) have made this step.

Despite this focus on technology, however, only 21 percent of respondents said their tax function has dedicated tax personnel exclusively to tax technology matters or tax process improvement.

For more detailed analysis of the current state of tax functions' technology-related priorities and challenges, priorities, see our special companion report *Inside global tax functions: Tax, technology and data.*

Please rate the following process improvements you hope to achieve.



Within your tax function, do you have a dedicated tax technology or process improvement person or group dedicated exclusively to tax technology matters or tax process transformation?

Key takeaways:

- Chief Tax Officers are starting to see the benefits of completed tax transformation projects, including shorter cycle times, reduced tax costs, fewer errors and better compliance. For success, however, it appears that effective change management is essential.
- In the next five years, most companies expect to increase their number of FTEs, as well as their use of co-source resources from shared service centers, global business services or centers of excellence.
- Process standardization is the most sough process improvement for private company tax functions. Many of them are stepping up their efforts to attract and retain more FTEs.
- Upgrading the tax function's skillsets is also on the agenda for many of the respondents, with strategic thinking the most-sought skill by far, followed by data analysis, and tax technical and research skills.
- Along with enhancing tax technology skills, future priorities for improvement for private company respondents include improving communication and collaboration within the tax team and with other functions and making better use of tax data in the business planning process.
- Despite the emphasis on technology and transformation, only 21 percent of respondent tax functions have dedicated tax personnel exclusively to tax technology matters or tax process improvement.

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Private Enterprise

About KPMG Private Enterprise Tax

With private companies around the world facing a number of opportunities and challenges as a result of geopolitical shifts, technological innovation, globalization, new business and consumer demands, and more, the need for sound tax advice is now more crucial than ever. You know KPMG, you might not know KPMG Private Enterprise Tax. Our advisers in member firms around the world are dedicated to working with you and your business, no matter where you are in your growth journey.

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