KPMG

cutting through complexity

The 2012 Benchmark Survey on VAT/GST

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Contents

About our cover:

A Benchmark: The **Danyang–Kunshan Grand Bridge** is the world's longest bridge. It is a 164.8 kilometers (102.4 mi) long viaduct on the Beijing–Shanghai High-Speed Railway.

Why measure **VAT/GST** performance?

Around the world the shift to indirect taxes, such as Value Added Tax (VAT)/Goods & Services Tax (GST), away from direct tax is clear. Governments increasingly look to indirect tax as a means of maximizing tax yields. However, something has been missing as part of this debate – until now. While the effective tax rate and cash tax rate are metrics commonly used by businesses to measure corporate tax performance, there are limited established benchmarks for the measurement of VAT/GST performance. In fact, even the concept that such performance benchmarks can exist for VAT/GST is alien to many.

However, we believe in the old adage that "what gets measured gets done"; therefore, we think it is critical for businesses to objectively assess how efficient and effective they are at managing what is rapidly becoming one of the most important and riskiest of global tax obligations.

Sounds sensible, doesn't it? Assessing VAT/GST management should help make the case for change and assist in designing suitable performance measures to track performance over time and against industry or other benchmarks.

That's where KPMG's Benchmark Survey on VAT/GST comes in. In 2011, KPMG's Global Indirect Tax Services practice published the first publicly available Benchmark Survey on VAT/GST. Twelve months on, we are now delighted to release the 2012 Benchmark Survey on VAT/GST which builds on last year's survey while taking it to a different level by doubling the number of respondents and drilling down into more detailed areas.

In addition, this year we have done a separate section at page 32 of the survey focusing on businesses operating in the Financial Services (FS) sector looking at where there may be significant differences between respondents in the FS and non-FS sectors.

KPMG's Global Indirect Tax Services practice will continue to conduct the survey on an annual basis to monitor the evolution of VAT/GST tax benchmarks globally. The information which we gather will offer insights to businesses that allows them to assess emerging best practices, industry benchmarks and geographic or other variances.

We invite you to read our 2012 Benchmark Survey on VAT/GST and encourage you to reflect on what it means for your business by asking yourself the following questions:

- How is my business managing its VAT/GST obligations now?
- How does it compare to the survey results?
- What would I like to change?
- How can I build the case for change?
- How will I be able to measure the "value-add"?

Profile of respondents

- 225 respondents representing businesses headquartered in 24 countries.
- Twenty-four percent of respondents work in financial services companies.
- Seventy-three percent of respondents have VAT/GST turnover above US$1 billion, 38 percent have turnover above US$10 billion, and at least 28 percent have turnover of above US$20 billion (larger businesses).
- Only 35 percent of respondents are VAT/GST specialists. The remainder have a general tax or finance background.

Executive summary

In summary, our survey highlights:

- Despite the shift to indirect tax globally, VAT/GST remains **under-resourced, under-measured and under-managed** in most businesses. New business models, globalization, finance function transformation, and rapid legislative change are putting VAT/GST management under even more pressure. Simply put, most businesses are not keeping pace. Results show:
  - a **lack of VAT/GST performance benchmarks** visible to the CFO and the wider business.
  - a **lack of full-time resources** allocated to the management of VAT/GST, at local, regional and global levels.
  - **limited embedded processes** of sufficient quality to effectively manage VAT/GST from end-to-end across the business, although the situation has improved over 2011.
- Businesses face **increased compliance risks,** with increasing interest, penalties and business disruption costs and rising **reputational risk.**
- Given the scale of VAT/GST throughput being handled by global businesses, there is no doubt that **significant opportunities are being missed** to manage risk more efficiently and effectively, improve cash flow and reduce bottom-line cost.
- There is greater evidence of quality VAT/GST management in Europe, the Middle East and Africa (EMEA). In Asia Pacific (ASPAC) and Latin America (LATAM), however, businesses should **be concerned about how compliance risks are being managed.** This is particularly relevant in jurisdictions where the size of VAT/GST throughput is increasing, local rules are becoming more complex, and no specialist local resources are in place who understand local culture, VAT/GST treatments and tax authority behavior.
- **Larger businesses demonstrate higher levels of performance** benchmarking and resource allocation to VAT/GST.
- Compared to the 2011 survey results, there is tangible evidence that some businesses have started to **take steps in the right direction** to assert effective VAT/GST management on a global scale. For example, accountability for VAT/GST has shifted significantly, with more tax departments assuming ownership from Finance. We believe that the starting point for the effective management of VAT/GST is absolute clarity over where in the business its ownership sits.
- Businesses with effective VAT/GST management are still in the minority. There is **still a very long way to go** before the resources, processes and technology strategies are embedded and accountabilities set to adequately manage the global VAT/GST challenges. Given the rapid pace of change, which is expected to continue through 2012 and beyond, even the more advanced businesses are simply running to stand still while others are falling even further behind.
- CFO's in the **FS sector** are much more likely to judge the effectiveness of their tax department with VAT/GST in mind and set key performance indicators (KPIs) to do just that.

Any differences between the **2012 and 2011 survey results?**

At a high level, responses to the 2012 and 2011 surveys are remarkably similar. Given the number and global spread of respondents, this consistency strongly supports and corroborates the survey results and our conclusions.

However, we note the following differences that we believe signal underlying shifts in behaviors or perceptions over the last 12 months.

Tax functions are taking increased responsibility for VAT/GST: As noted, there is a significant shift in where accountability for VAT/GST rests in the business, with the tax function taking greater responsibility from the finance function.

More Global and Regional Heads of VAT/GST: There is a material increase in the number of organizations reporting a Global and/or Regional Head of VAT/GST, which complements the increased awareness of VAT/GST and increased responsibility within the tax function for VAT/GST management.

Shift in tax function performance metrics: When measuring overall tax department performance (including corporate tax and VAT/GST), we see a much sharper focus on the effective tax rate, as opposed to other measures such as the timely and accurate submission of returns and the minimization of interest and penalties. Similarly, from a VAT/GST perspective, there is a much sharper focus this year on improving VAT/GST cash flow and reducing VAT/GST costs, reflecting a shift to value creation rather than risk management.

Importance of VAT/GST awareness: Raising awareness of VAT/GST within the business has emerged as the most commonly held goal for VAT/GST performance, ahead of the more traditional financial and compliance-oriented goals. However, timely and accurate submission of VAT/GST returns remains the most important.

Increased pressure on VAT/GST teams with no equivalent increase in resources: The workload of VAT/GST departments has greatly increased – with more time being spent on managing VAT/GST audits, VAT/GST planning, internal training and raising awareness of VAT/GST in the business.

Increase in existence, design and implementation of VAT/GST policies: The existence of policies to manage VAT/GST across the entire business and the quality of their implementation appears to have increased, however, the percentage of respondents noting them as very good or excellent remains low.

Survey findings **in detail**

Key VAT/GST metrics

We asked respondents a series of questions that build a picture of how VAT/GST affects their business and to understand what metrics are in place to measure their performance.

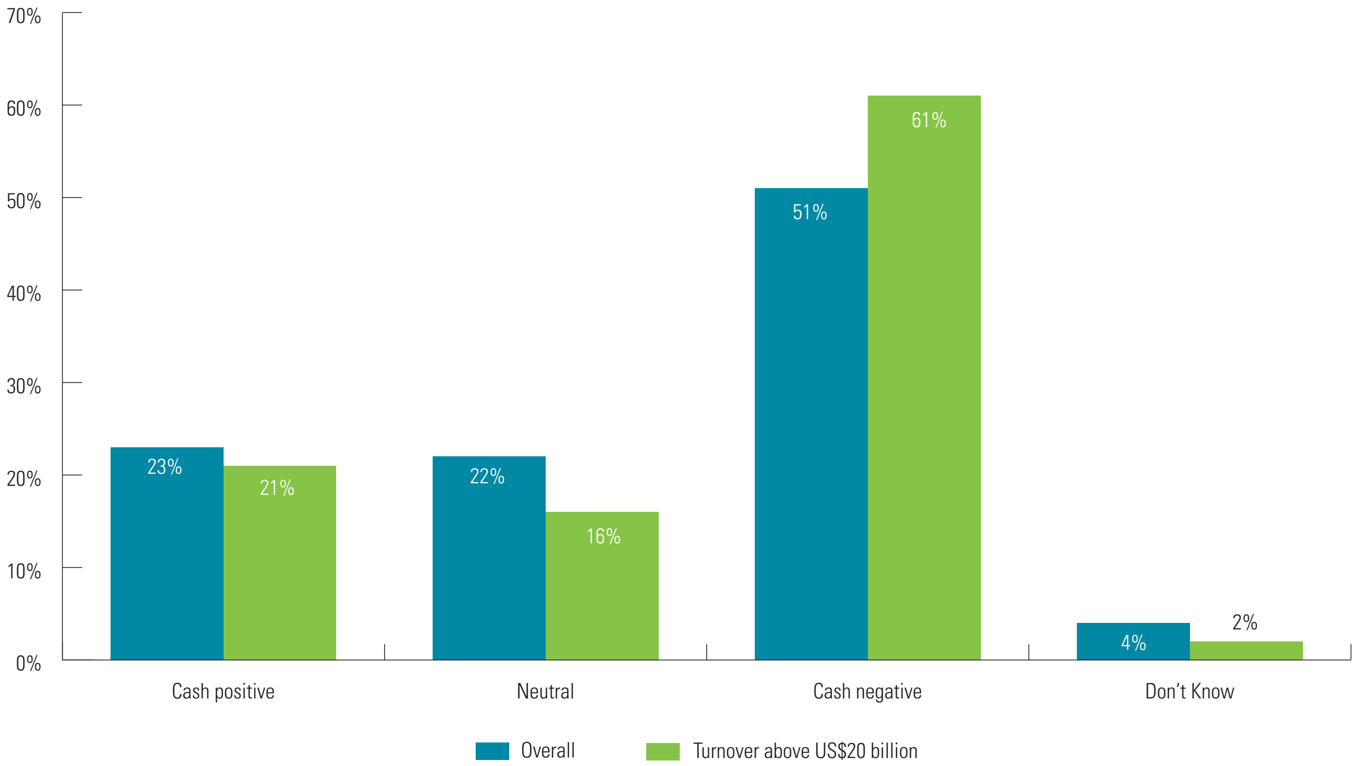
What is the net impact of VAT/GST on businesses?

As Figure 1 shows, more than half of the respondents feel that VAT/GST has a negative cash effect on their business, while 22 percent see it as neutral and 23 percent as cash-positive. This picture differs markedly for the larger businesses. Here, 61 percent consider VAT/GST to be cash-negative, while only 16 percent see it as neutral and 21 percent as cash positive.

Determining the true impact that VAT/GST has on a company's cash position is complex. Factors to consider include all of the VAT/GST inflow (VAT/GST on customer payments plus VAT/GST refunds from tax authorities) and VAT/GST outflows (VAT/GST on supplier payments plus VAT/GST payments to tax authorities). The timing of these flows varies considerably. The timing of the flows to and from the tax authorities vary from country to country depending on whether the business is in a payment or repayment position, whereas the flows with customers and suppliers happen on a daily basis.

> **More than half** of the respondents feel that **VAT/GST** has a **negative cash** effect on their **business.**

Figure 1: What is the net impact of VAT/GST on businesses?



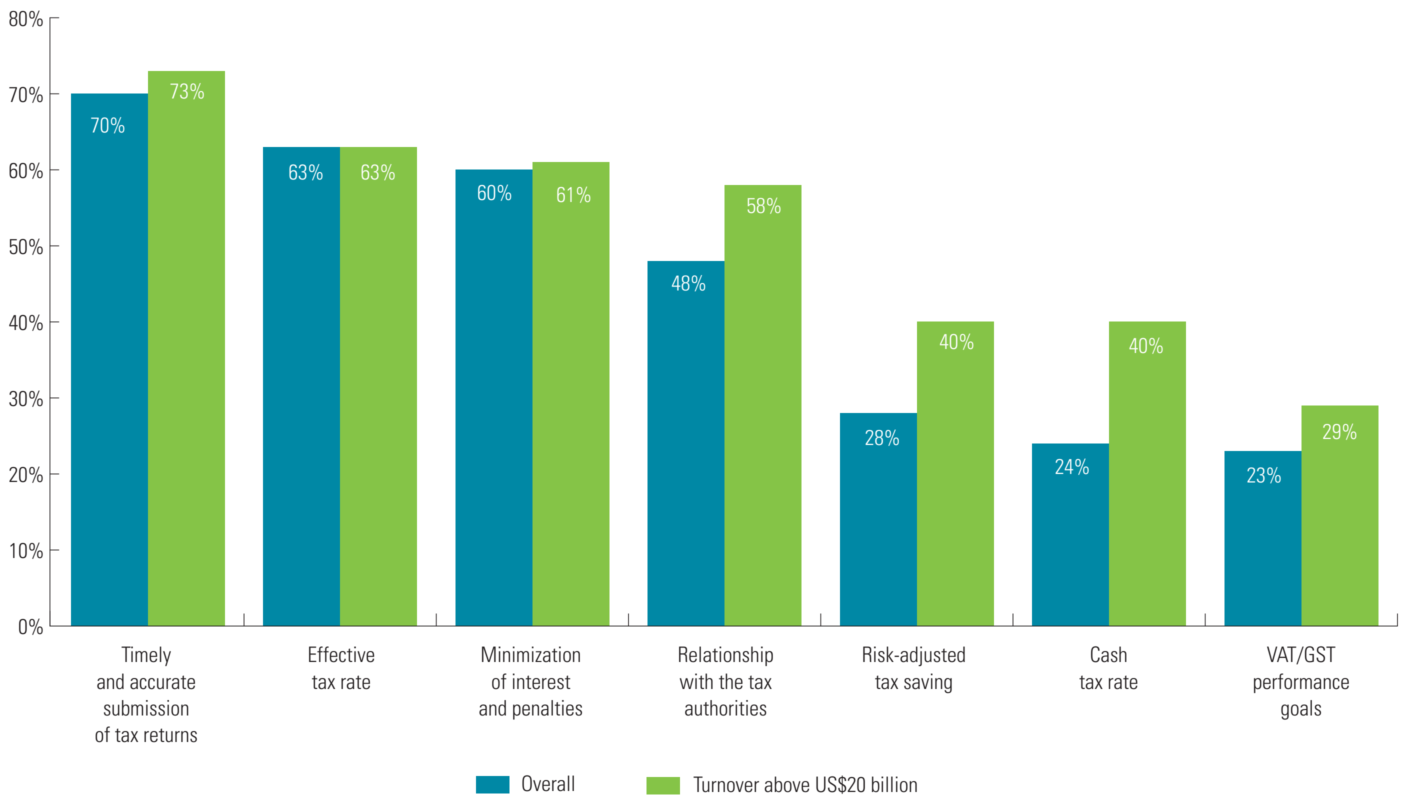
Source: KPMG International, March 2012.

Only **23 percent** of respondents have specific **VAT/GST** performance goals visible to their **CFO.**

Which metrics do the CFO and the Head of Tax use to measure the efficiency and effectiveness of your tax department's performance?

Our survey this year showed significantly more focus on all the metrics used to measure tax departments' efficiency and effectiveness as a whole (including corporate tax and VAT/GST). For instance, timely and accurate submission of tax returns went from 52 percent in 2011 to 70 percent this year; the effective tax rate metric went from 57 percent in 2011 to 63 percent this year; and the minimization of interest and penalties from 43 percent to 63 percent. This indicates that much greater emphasis is being placed on tax function performance as a whole.

Figure 2: Which metrics do the CFO and the Head of Tax use to measure the efficiency and effectiveness of your tax department's performance?



Source: KPMG International, March 2012.

Of these metrics, which are the three most important?

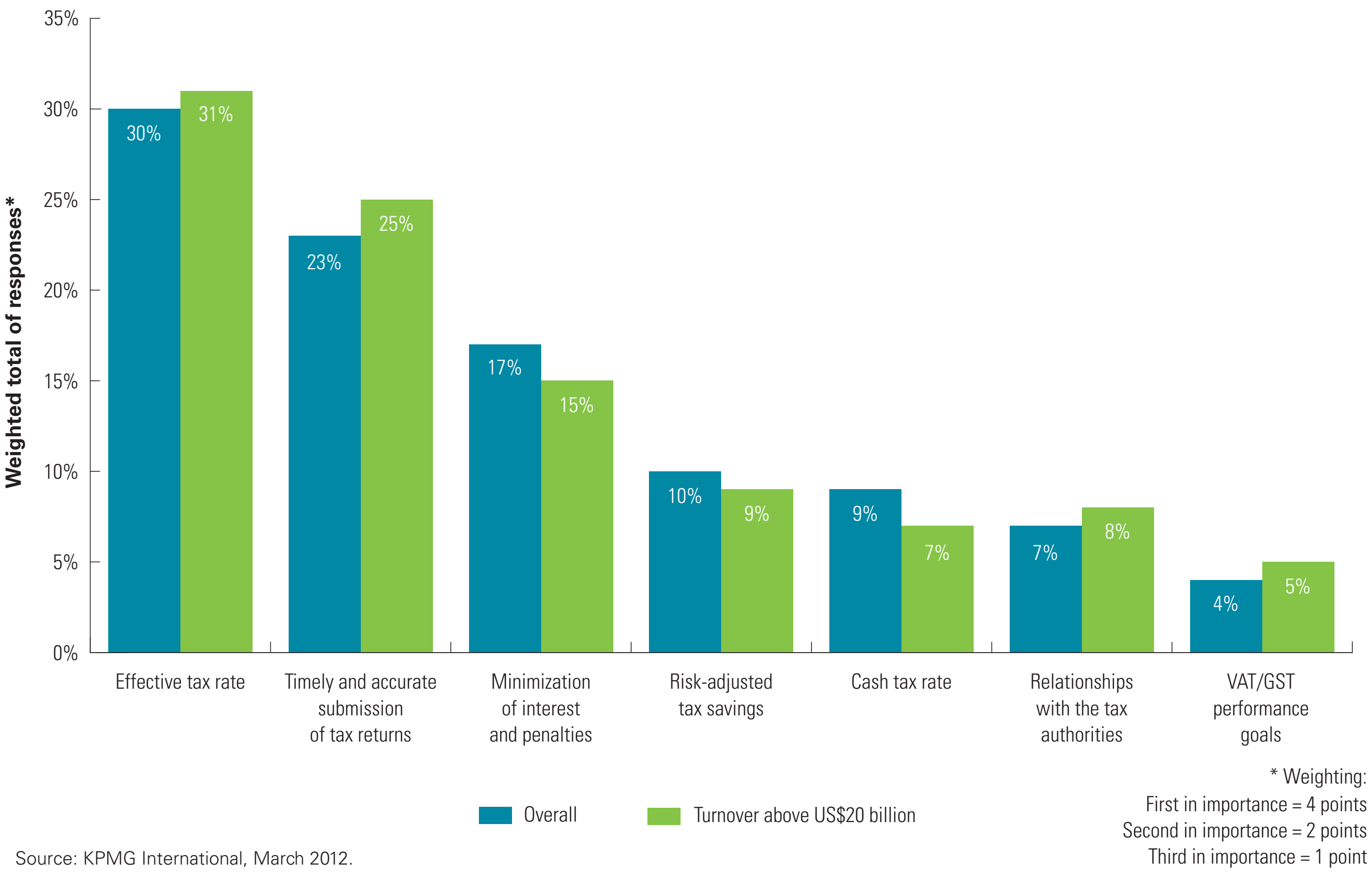
Then, in terms of their preference of the metrics – or what they feel as most important – the top three for both respondents overall and the larger businesses are:

- the effective tax rate
- timely and accurate submission of tax returns
- minimization of interest and penalties.

VAT/GST performance goals were seventh out of seven. This shows that there is still a lot to be done to get the importance of the effective management of VAT/GST on to the radar of the CFO and, indeed, the Head of Tax.

While on the whole there is still scope for improving the visibility and importance of VAT/GST from a risk and value perspective for the CFO, some companies have prioritized it and are making strides in raising its profile.

Figure 3: Of the metrics the CFO and the Head of Tax use to measure efficiency and effectiveness, what are the most important?



Source: KPMG International, March 2012.

Are there any additional goals for VAT/GST agreed between the Head of Tax and the Head of VAT/GST to measure the efficiency and effectiveness of your VAT/GST department performance?

The survey result for this question was consistent with last year's survey in finding that, suprisingly over 69 percent (67 percent in 2011) of respondents do not have specific VAT/GST goals agreed to (see Figure 4a).

However, for the larger businesses, the proportion without specific goals falls to 50 percent.

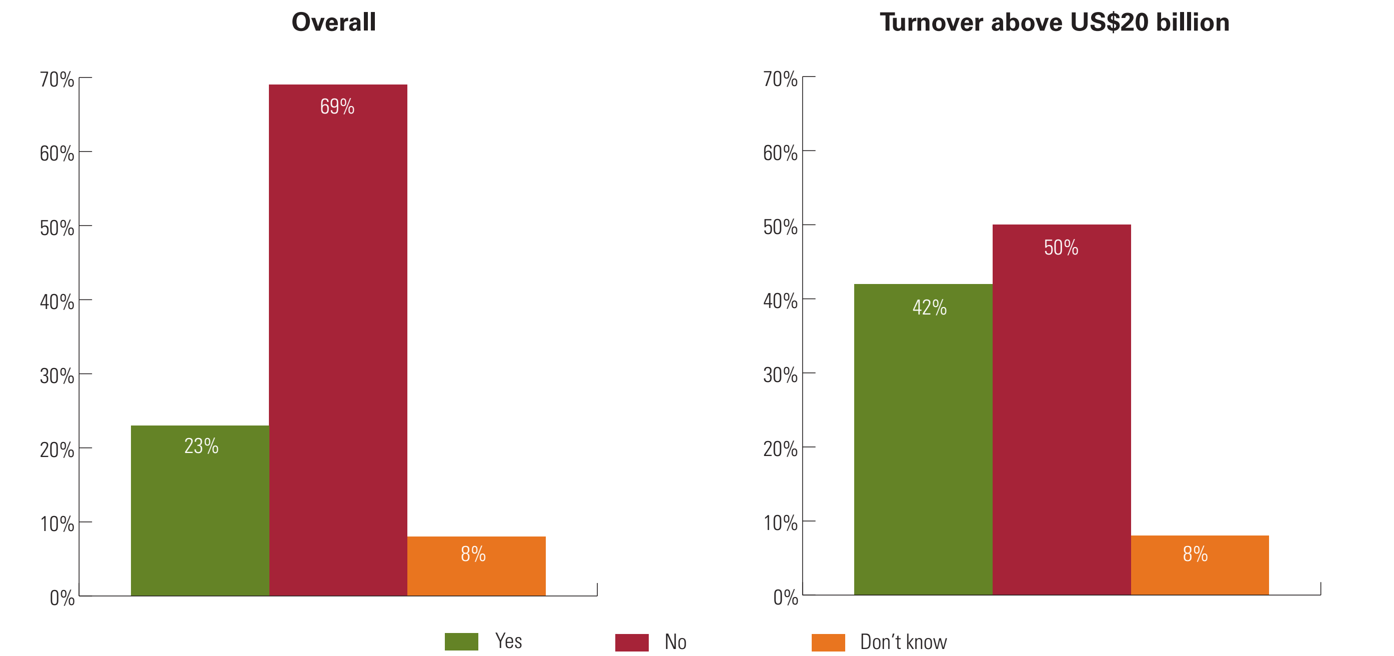
In our view, Heads of VAT/GST clearly should have team and personal goals in place. However, the survey results suggest that these are not goals for which the CFO would typically hold the Head of Tax accountable, except for those few businesses where the VAT/GST goals are a key metric.

What are the additional goals agreed to between the Head of Tax and the Head of VAT/GST to measure the efficiency and effectiveness of your VAT/GST department performance?

This year, we found that the most common additional goals were:

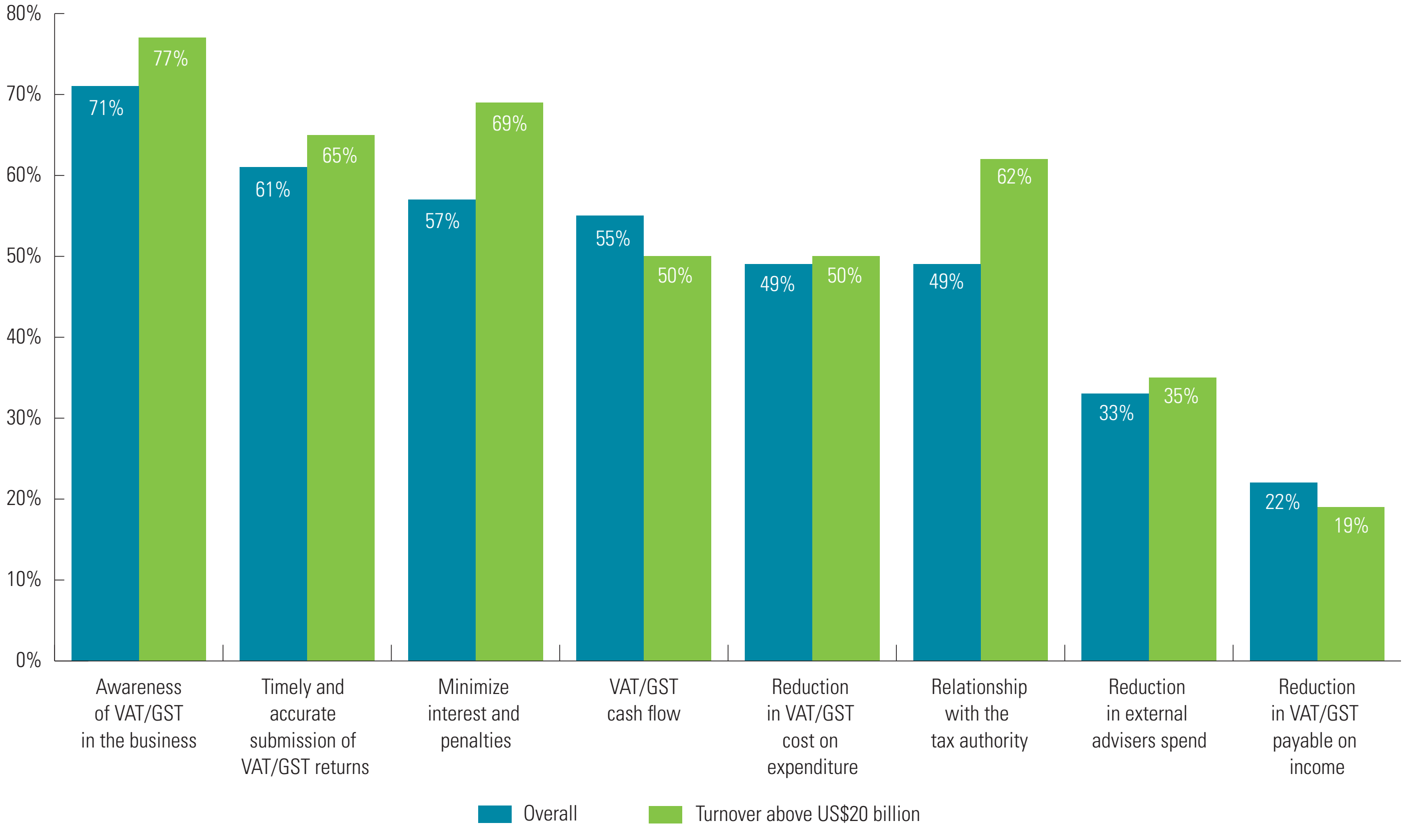
- awareness of VAT/GST in the business
- timely and accurate submission of VAT/GST returns
- minimization of penalties and interest (see Figure 4b).

Figure 4a: Are there any additional specific goals for VAT/GST agreed to between the Head of Tax and the Head of VAT/GST to measure the efficiency and effectiveness of your VAT/GST department performance?



Source: KPMG International, March 2012.

Figure 4b: What are the additional goals agreed to between the Head of Tax and the Head of VAT/GST to measure the efficiency and effectiveness of your VAT/GST department performance?



Source: KPMG International, March 2012.

Of these additional goals between the Head of Tax and Head of VAT/GST, which are the top three key metrics in terms of VAT/GST?

In businesses where specific VAT/GST goals are agreed between the Head of Tax and the Head of VAT/GST (23 percent of the respondents), generally, the most common goals are not the most popular.

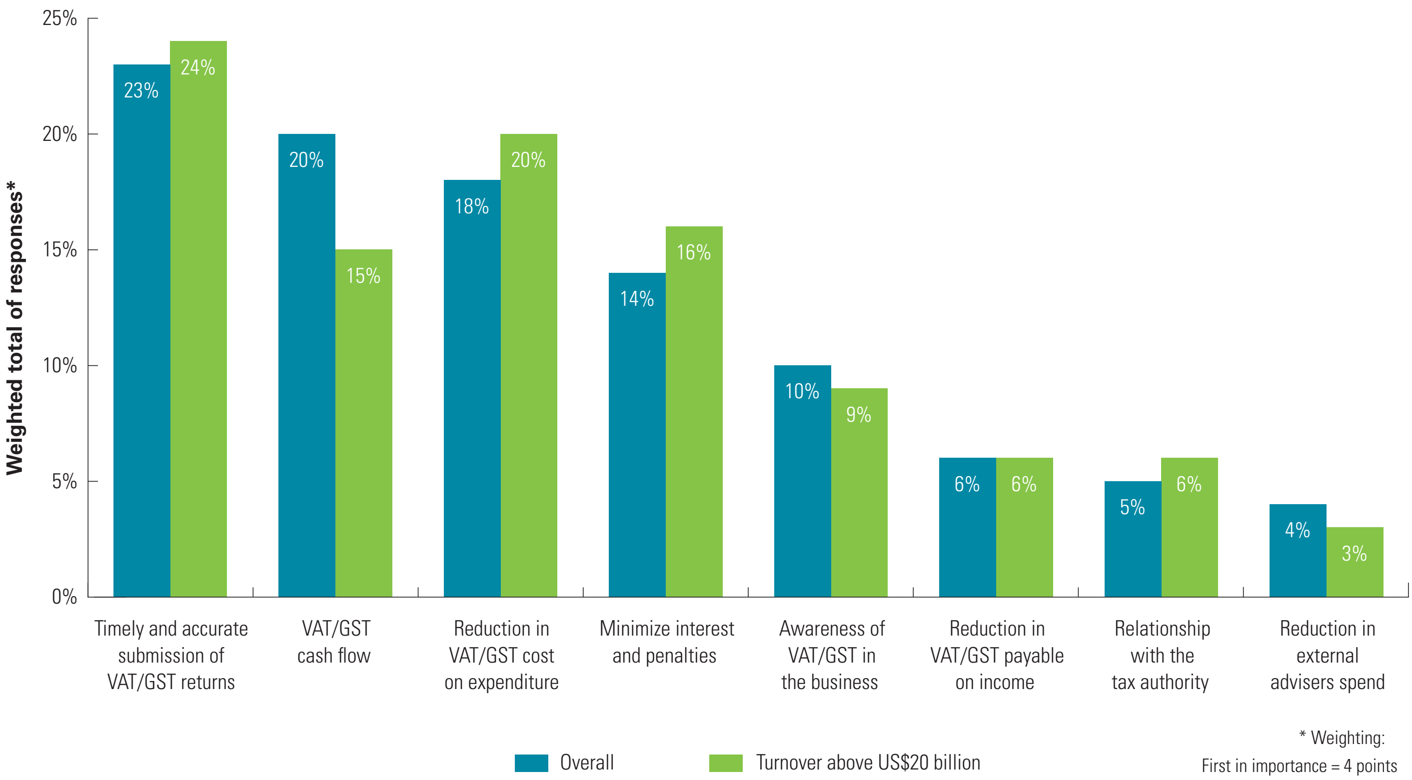
Figure 5 shows that the three most important Key Performance Indicators (KPIs) in order of preference were:

- timely and accurate submission of VAT/GST returns
- VAT/GST cash flow
- reduction in VAT/GST payable on income.

The results for the larger businesses are roughly similar, with the timely and accurate submission of VAT/GST returns being more important than VAT/GST tax cash flow. Interestingly, although the new goal regarding awareness of VAT/GST in the business was the most common goal for these businesses, it ranked low on the list of most important metrics. Compared to, for example, the reduction of VAT/GST payable or the payment of penalties due to the late submission of tax returns, awareness of VAT/GST lacks direct visible impact on businesses' finances.

The 2012 survey suggests that there has been somewhat of a shift in emphasis from managing risk to creating value with VAT/GST cash flow and reduction in VAT/GST cost on expenditure featuring highly although it should be recognized for the larger businesses, minimization of interest and penalty costs does nudge VAT/GST cash flow into fourth place. This swing may well be a result of either the continued economic crisis in many countries and therefore the pressure on tax departments to deliver more value or the inclusion of a greater number of financial services respondents who would, in particular, be motivated to reduce VAT/GST costs. Similarly, from a VAT/GST perspective, there is a much sharper focus this year on improving VAT/GST cash-flow and reducing VAT/GST costs, reflecting a shift to value creation rather than risk management.

Figure 5: Of these additional goals between the Head of Tax and Head of VAT/GST, which are the top three key metrics in terms of VAT/GST?



* Weighting:
First in importance = 4 points
Second in importance = 2 points
Third in importance = 1 point

Source: KPMG International, March 2012.

Structure and **organization**

63 percent of businesses do not have a **Global Head** of VAT/GST.

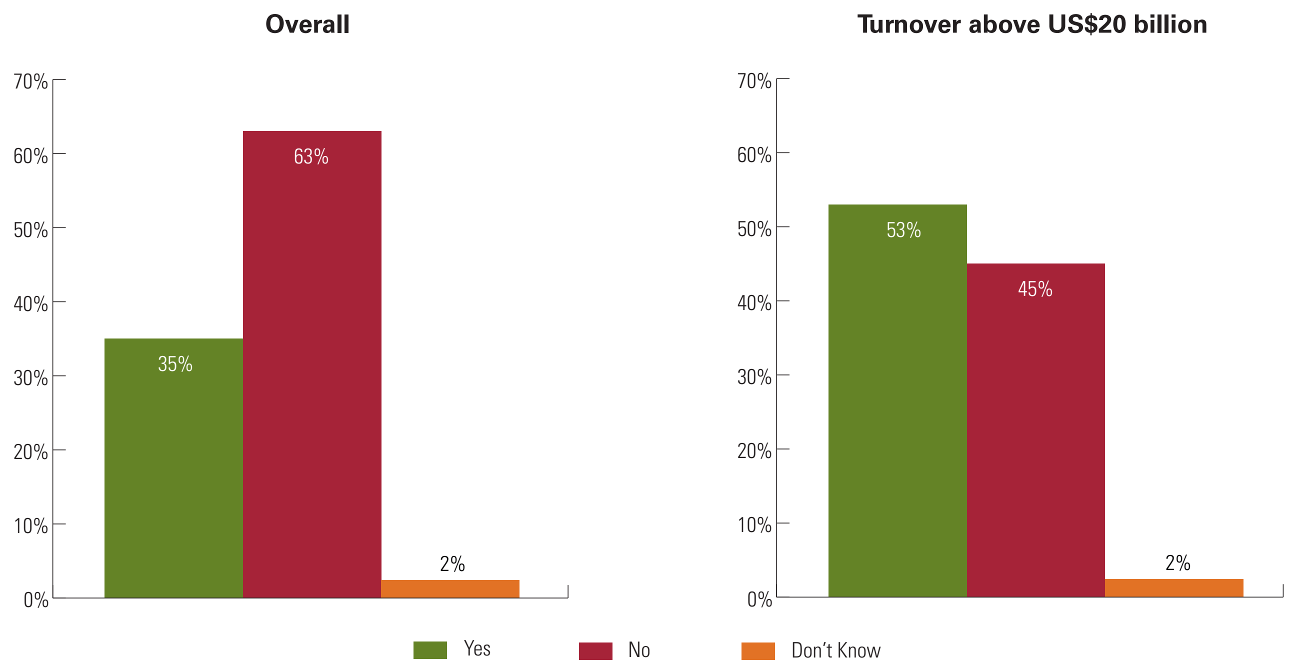
We asked respondents a series of questions about how they are structured and organized.

Global and Regional Heads of VAT/GST

Figure 6 shows that 35 percent of businesses do have a Global Head of VAT/GST, up 5 percent from last year.

Predictably, however, over 50 percent of the larger businesses have Global Heads of VAT/GST.

Figure 6: Do you have a Global Head of VAT/GST?



Source: KPMG International, March 2012.

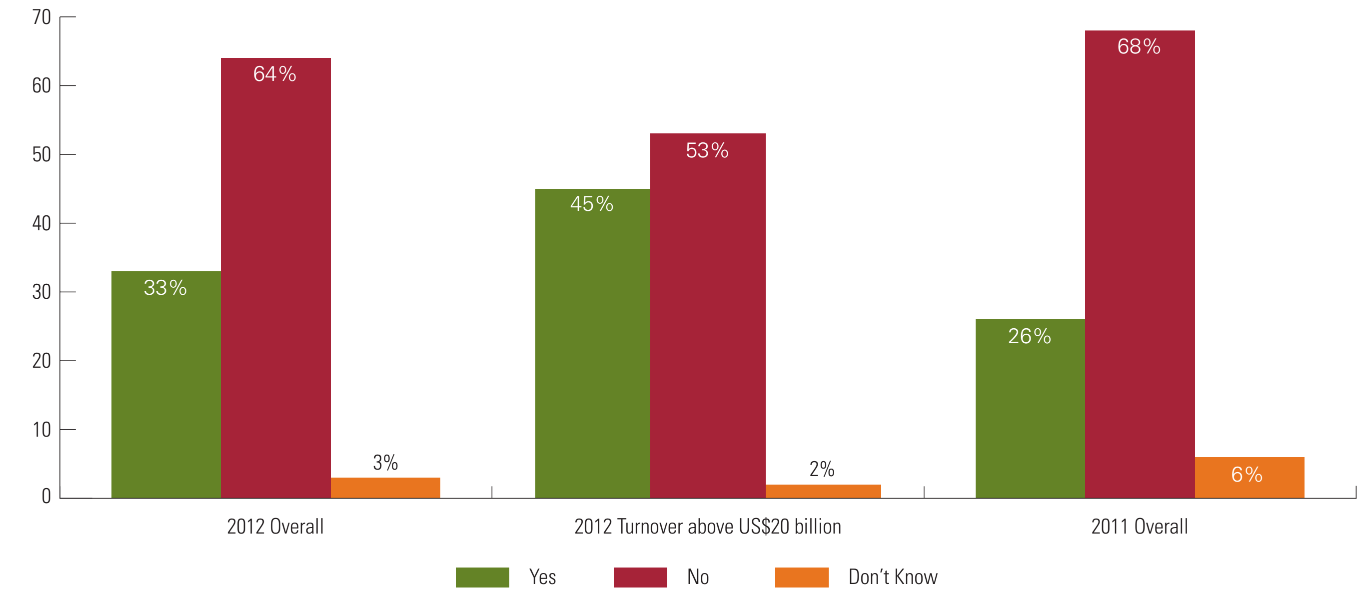
Do you have Regional Heads of VAT/GST?

In terms of the specific regions for which Regional Heads of VAT/GST have responsibility, while Figure 7 shows the overall results, EMEA was the clear leader at 65 percent reflecting the greater maturity and tradition of VAT/GST specialism.

North America was next at 39 percent, most likely driven by the extension of US Sales and Use Tax roles to a broader regional remit. ASPAC, at 37 percent, demonstrates a somewhat higher level of regional coverage than might have been anticipated, perhaps reflecting the increasing importance of VAT/GST in the region. LATAM, at 24 percent, has the lowest level of regional head of VAT/GST coverage reflecting the relative immaturity of VAT/GST specialism.

Businesses clearly have invested in the last twelve months in Global and Regional Heads. Even still, given the complexity of VAT/GST and the amount of throughput, it is surprising that businesses do not invest more in these critical roles.

Figure 7: Do you have Regional Heads of VAT/GST?



Source: KPMG International, March 2012.

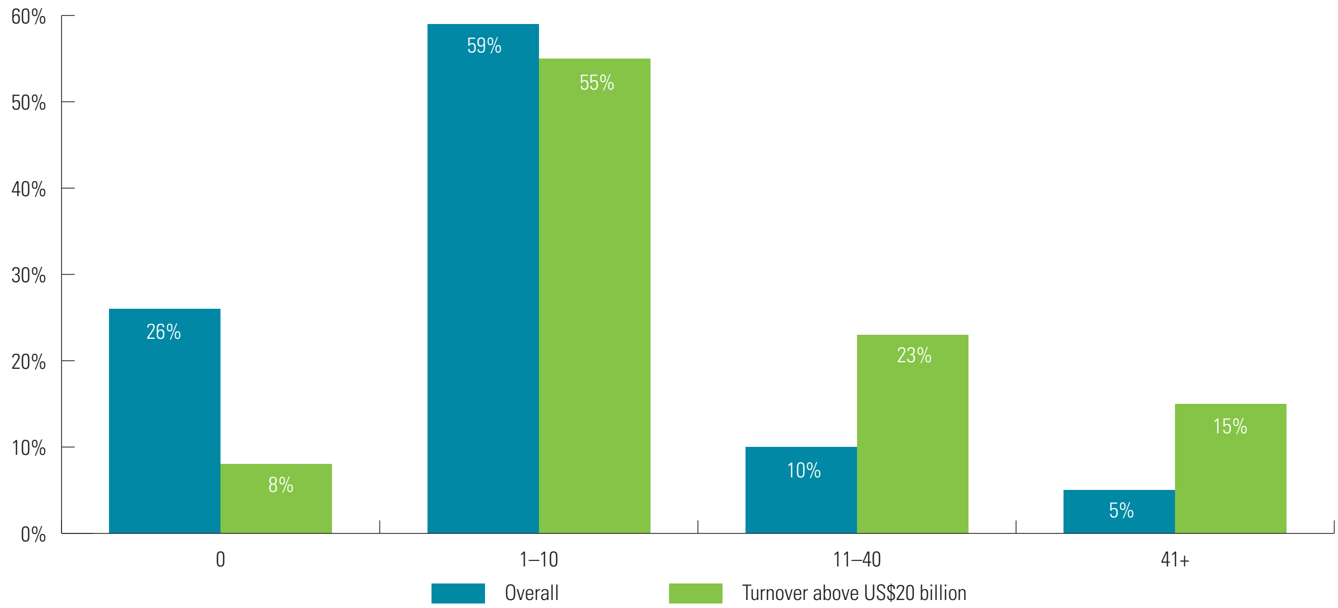
Most businesses have less than **10 full-time employees** managing **VAT/GST** globally, at an average cost of just under **US$1 million.**

Global VAT/GST resources

Fifty-nine percent of respondents have between one and 10 full-time employees (or equivalents) focused on VAT/GST tax worldwide (see Figure 8). As anticipated, the survey showed that the larger businesses have the most full-time staff focused on VAT/GST globally.

What is more surprising is that one-quarter of respondents have no full-time equivalent VAT/GST specialists at all, and that 8 percent of the larger businesses are coping without specialized, dedicated resources.

Figure 8: How many full time equivalent VAT/GST specialists do you employ globally?



Source: KPMG International, March 2012.

Figure 9 shows that the number of VAT/GST specialists located in EMEA is more than double the number located in North America, ASPAC or LATAM. These results are largely similar regardless of business size.

Given the maturity of VAT/GST regimes in EMEA, and particularly in Europe, the deployment of more specialized resources in EMEA should be expected. Higher average VAT/GST rates in Europe compared with other parts of the world may also be a factor.

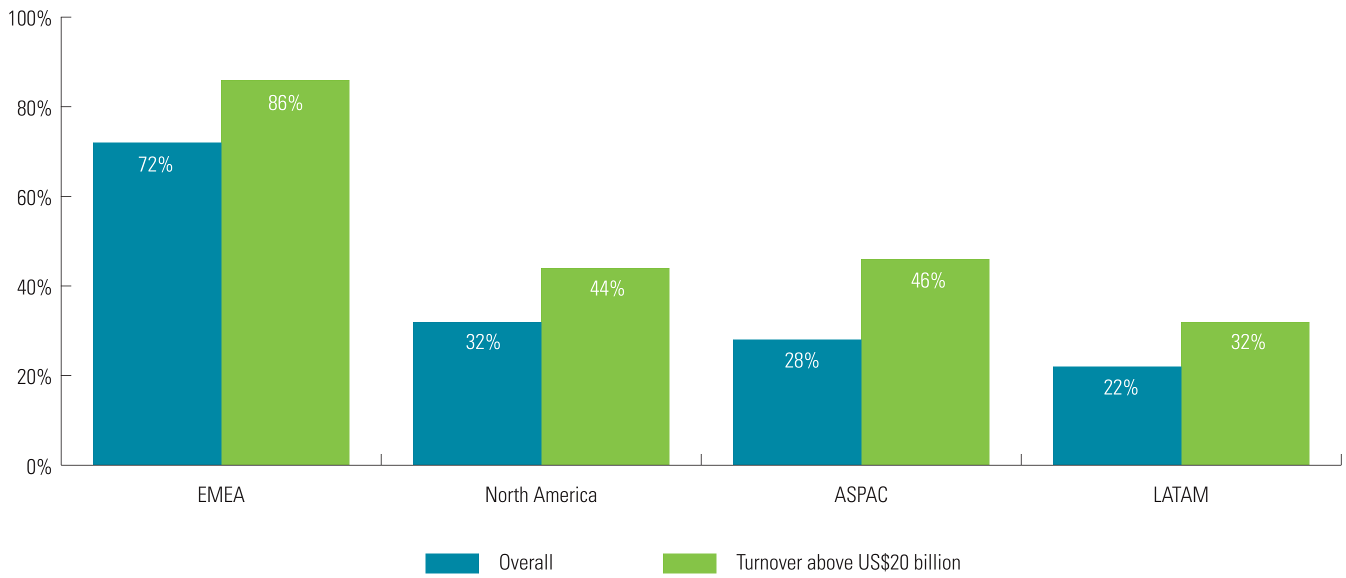
By the same token, the more recent introduction and lower rates of LATAM VAT/GST regimes may explain why lower proportions of tax specialists are located there. However, given the complex and evolving nature of VAT/GST regimes in the region we feel certain that this will change over time.

At what level of seniority are most of your VAT/GST specialists?

In this year's survey, we explored the seniority of VAT/GST staff and the associated payroll cost (see Figures 10 and 11). Although the number of respondents to this question was low, the results show that the seniority level tends to be below management level. This result explains why the payroll spend for global indirect tax teams tends to be rather low (overall less than US$1 million).

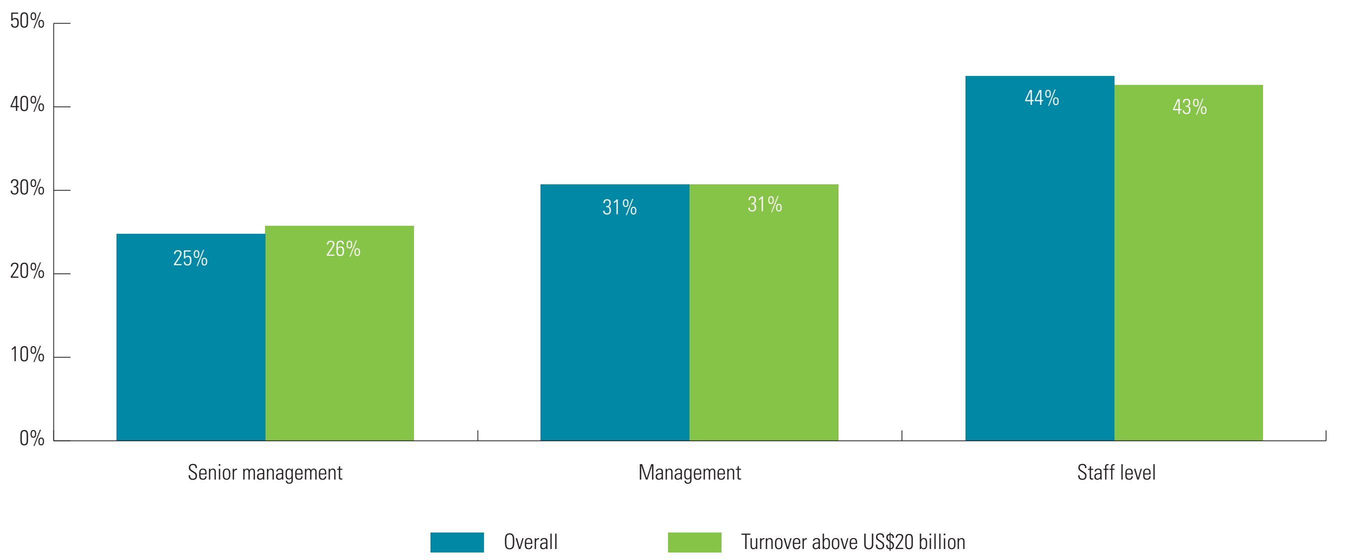
Reflecting their higher throughput and greater complexity of VAT/GST compliance, larger businesses have more management and senior management VAT/GST resources and their payroll costs are correspondingly higher.

Figure 9: In which region(s) are your VAT/GST specialists located?



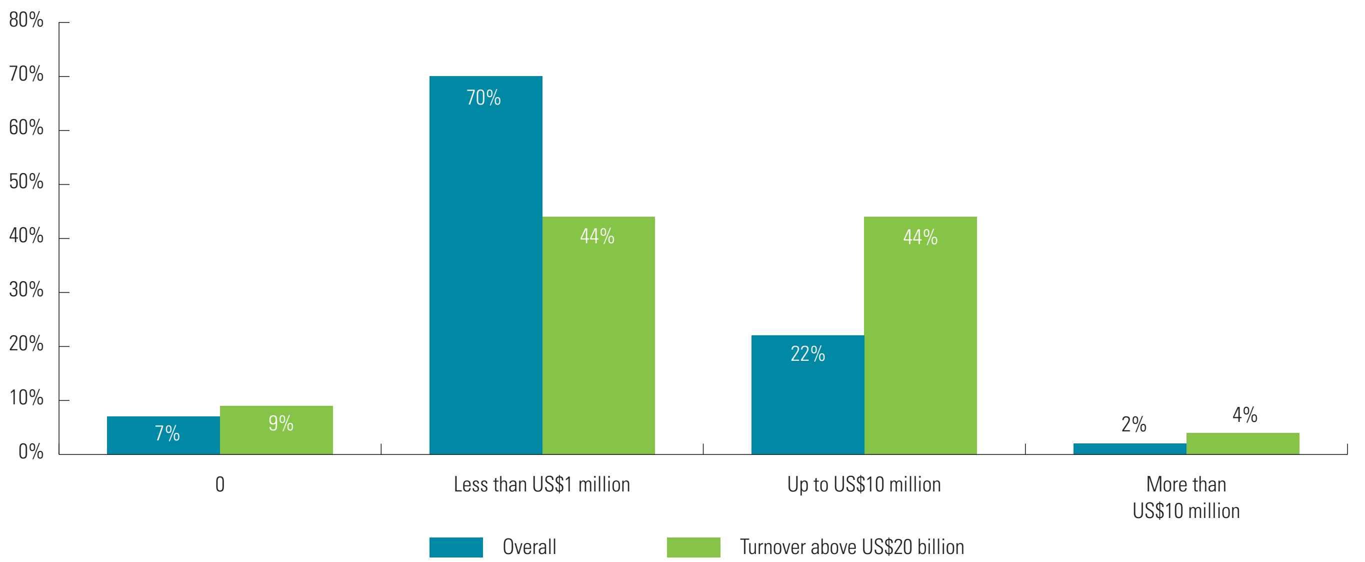
Source: KPMG International, March 2012.

Figure 10: What level of seniority are the majority of your VAT/GST specialists?



Source: KPMG International, March 2012.

Figure 11: What are your annual estimated payroll costs for your VAT/GST specialists?

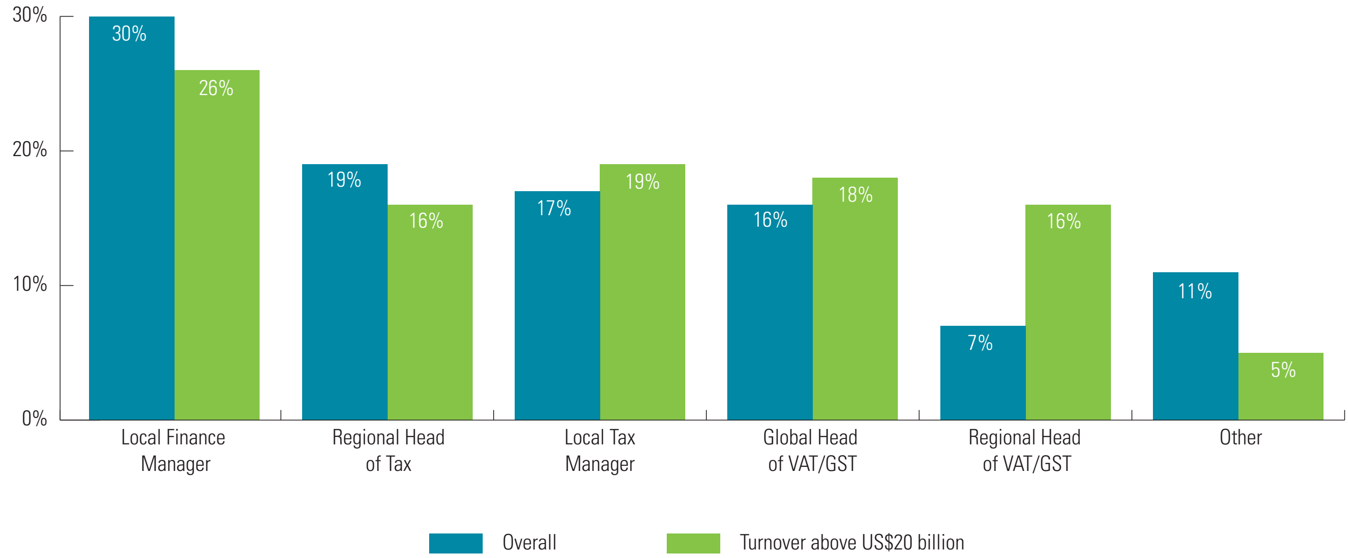


Source: KPMG International, March 2012.

Who do the local/regional VAT/GST specialists report to?

This year we explored reporting lines of the local VAT/GST specialists for the first time. Figure 12 shows there is little variance according to size of business. Most VAT/GST specialists report to the local finance manager. This local reporting line is likely to be important and not simply a function of the (relative) lack of Regional/Global Heads of VAT/GST. Most businesses have Regional Heads of Tax, yet the survey response for reporting to the local finance manager is nearly twice as popular as for Regional Head of Tax.

Figure 12: Who do the local/regional VAT/GST specialists report to?



Source: KPMG International, March 2012.

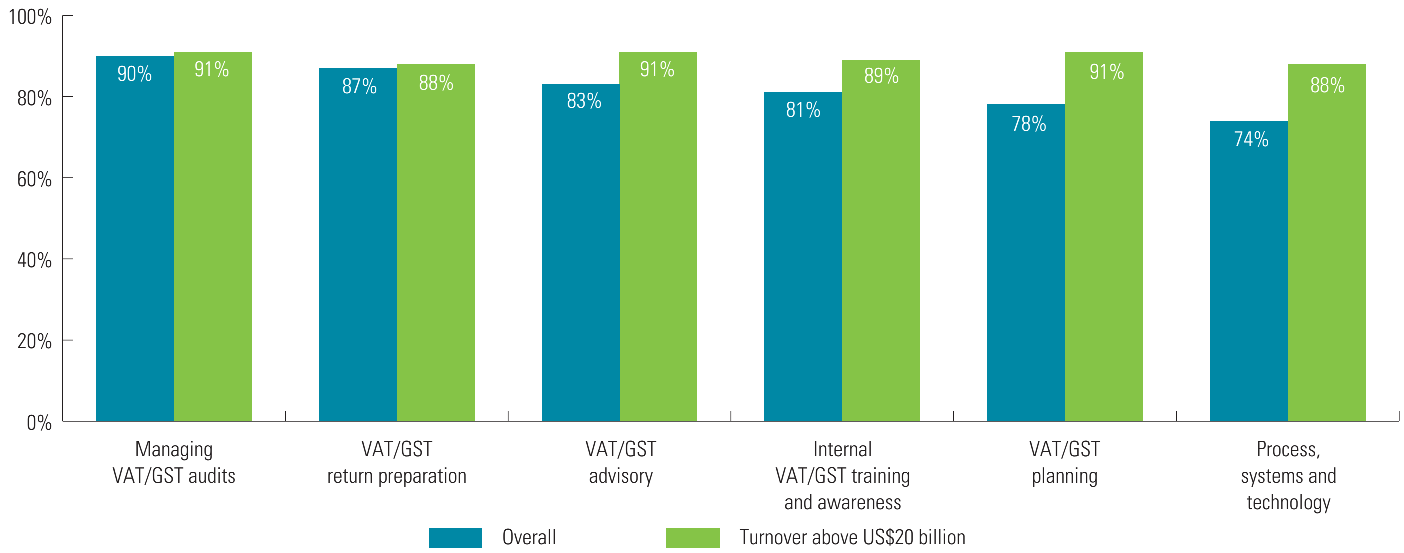
Range of tasks covered by dedicated VAT/GST resources and amount of time spent

Our survey shows that resources from VAT/GST departments are dedicated to a large range of activities. Managing of VAT/GST audits, preparing of VAT/GST returns and providing advice to the business rank as the most popular tasks (see Figure 13).

Compliance management is the most time consuming (34 percent of total time), followed by providing VAT/GST advice to the business (26 percent; see Figure 14 on next page). Process, systems and technology and VAT/GST planning both took up 15 percent of total time spent. The results show that most businesses focus on managing risk and complying with the existing rules. Compared to 2011, however, VAT/GST planning is attracting more focus (78 percent in 2012 versus 47 percent in 2011).

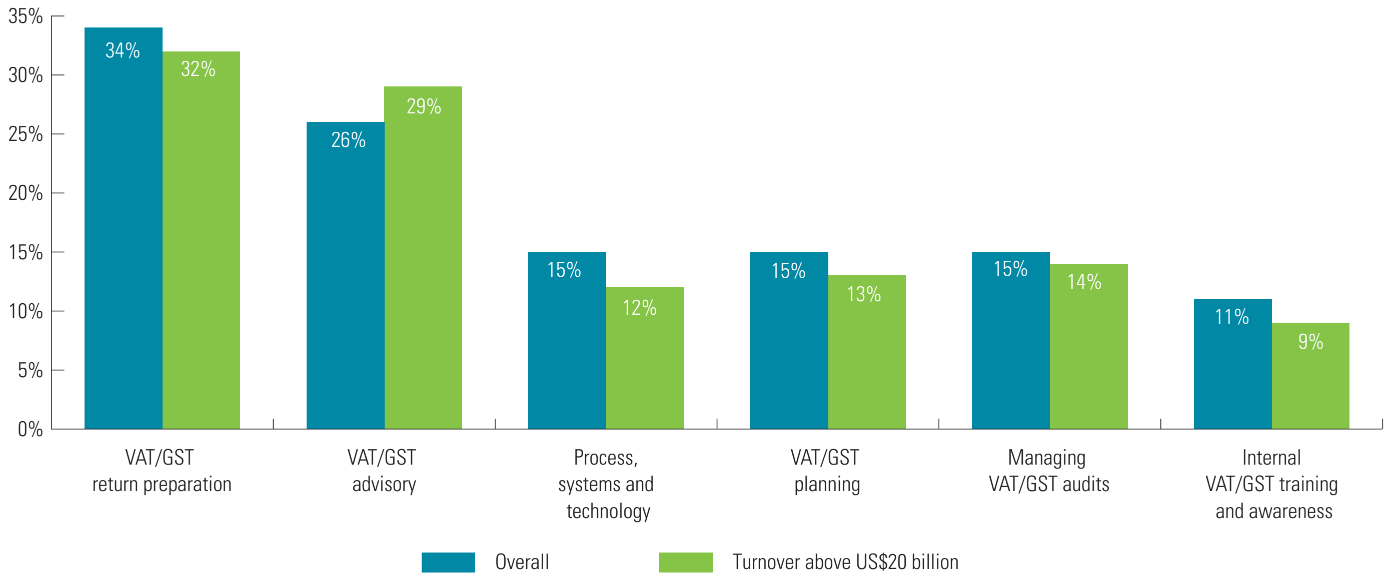
In the larger businesses, the most amount of time is spent managing VAT/GST audits, preparing VAT/GST returns and providing advice to the business.

Figure 13: What are the range of tasks undertaken by your VAT/GST specialists?



Source: KPMG International, March 2012.

Figure 14: On what tasks is time spent by your VAT/GST specialists?



Source: KPMG International, March 2012.

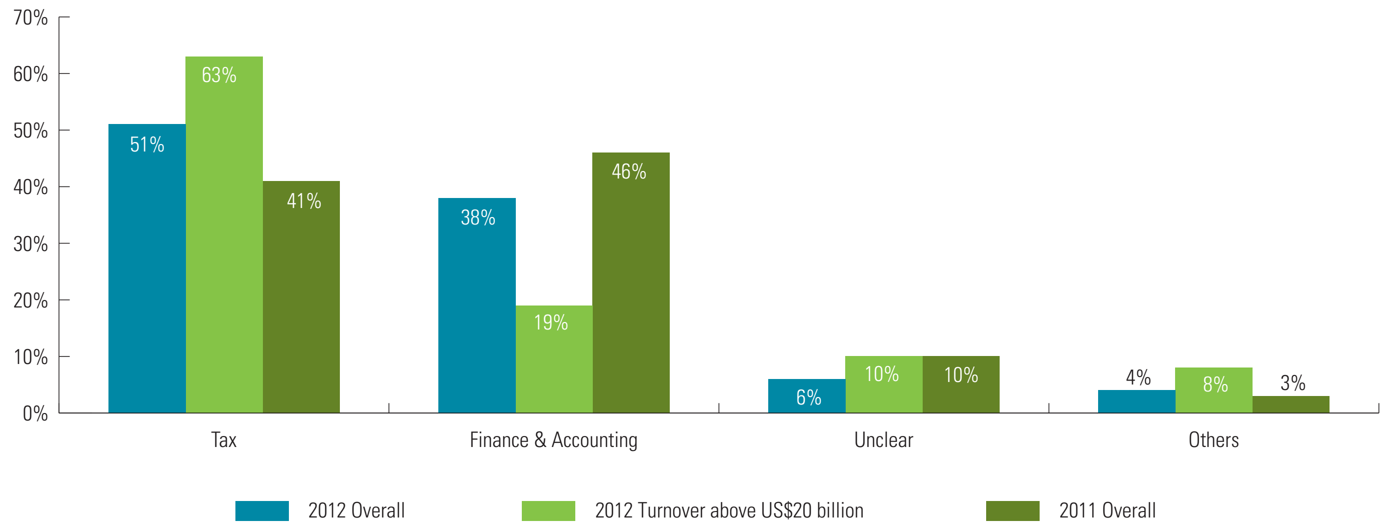
Accountability for **VAT/GST** in the business

Last year's survey showed that **Finance & Accounting** was accountable for VAT/GST in **46 percent** of cases. This year, **51 percent** say **VAT/GST** is a Tax function and not a **finance function responsibility.**

We also explored VAT/GST governance practices, starting with who has accountability for VAT/GST in the business. This issue is at the heart of effective VAT/GST management. Last year's survey showed that Finance & Accounting were accountable for VAT/GST in 46 percent of cases. Tax was accountable in 41 percent of the cases. For the larger businesses, Tax had ownership in 54 percent of cases and Finance & Accounting in 29 percent of cases.

This year, the results are somewhat different. Tax has ownership in 51 percent of cases and Finance & Accounting in 38 percent (see Figure 15). And for the larger businesses, Tax has accountability in 63 percent of cases and Finance & Accounting in 19 percent. This change suggests that Tax is increasingly being seen as the accountable function rather than as a mere service provider which, in our view, recognizes the increasing complexity of VAT/GST.

Figure 15: Who is accountable for VAT/GST in your business?



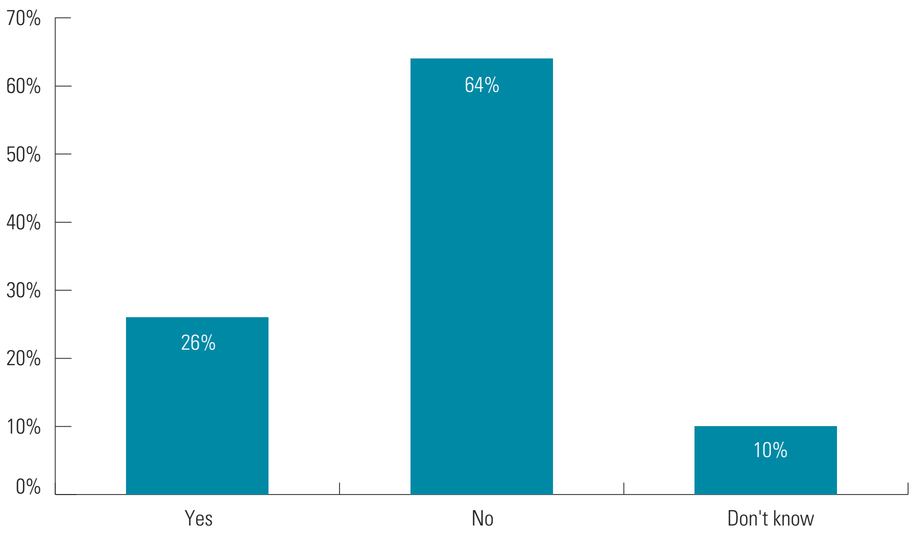
Source: KPMG International, March 2012.

What regions does your Global Head of VAT/GST have visibility over?

This new question added for 2012 addresses the visibility that Global Heads of VAT/GST have over VAT/GST compliance undertaken locally. Only 26 percent have such visibility with no material difference for the very largest businesses. While you might expect the Global Head of VAT/GST to oversee the locally prepared VAT/GST returns, the fact that many do not suggests a fundamental difference in the role of the Global Head between a "service provider" to the business on one hand, and an "accountable person" on the other.

Only **26 percent** of Global Heads of VAT/GST have visibility over the **VAT/GST returns** prepared locally. Of that 26 percent, visibility is mostly focused on the EMEA region.

Figure 16: Does the Global Head of VAT have visibility over VAT/GST returns prepared locally?



Source: KPMG International, March 2012.

Global and regional **VAT/GST** policy design & implementation

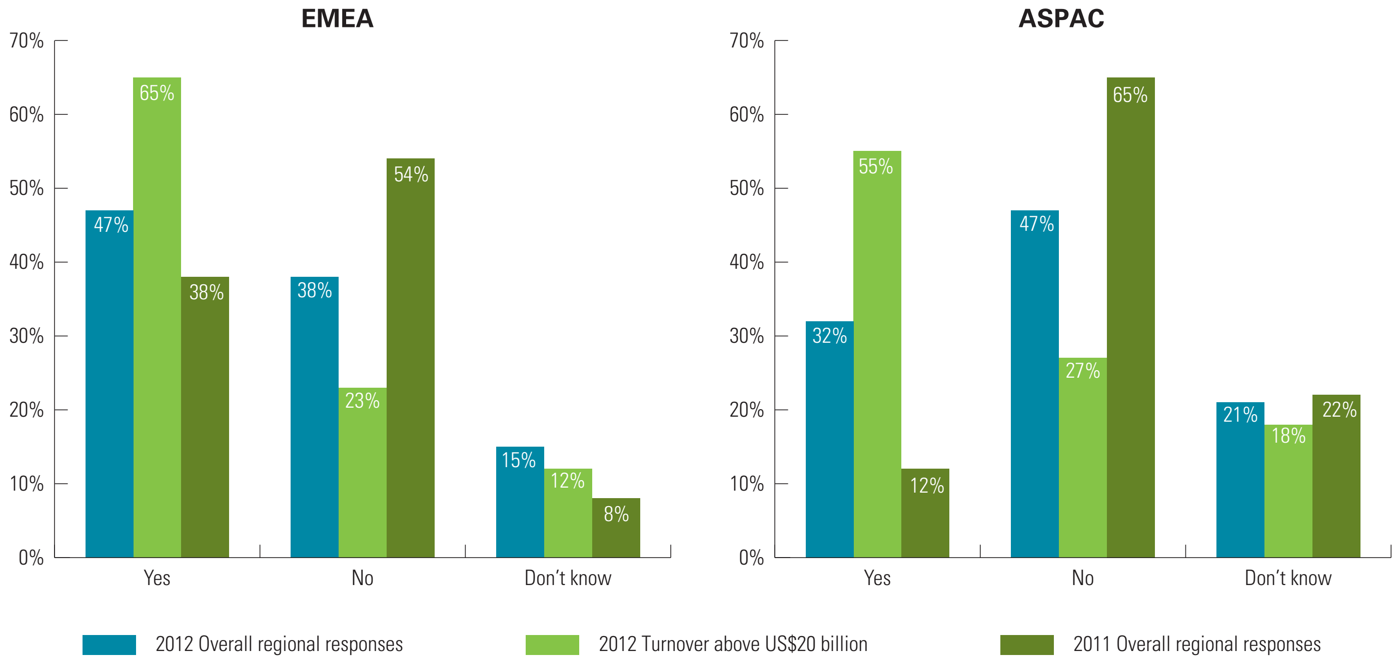
Do you have policies in place across your business in EMEA, ASPAC, North America and LATAM that specifically set out how VAT/GST should be managed?

Having clear policies in place that set out how VAT/GST should be managed across the "Order to Cash", "Purchase to Pay" and "Record to Report" processes is key to effective VAT/GST tax management. So many people and processes touch on VAT/GST that the only way to ensure timely and accurate submission of VAT/GST returns is to provide clear, practical guidance to the business and to tax-sensitize underlying systems and processes as much as possible.

Thus we explored whether businesses had VAT/GST policies in place on a regional basis. Our survey shows that on average 47 percent of EMEA respondents have such policies (up from 38 percent last year), ASPAC 32 percent (up from 12 percent last year), LATAM 20 percent (up from 12 percent) and 33 percent in North America (see Figures 17a and 17b). This shows that businesses, particularly in EMEA are recognizing the importance of getting VAT/GST policies in place, and they are actually implementing them.

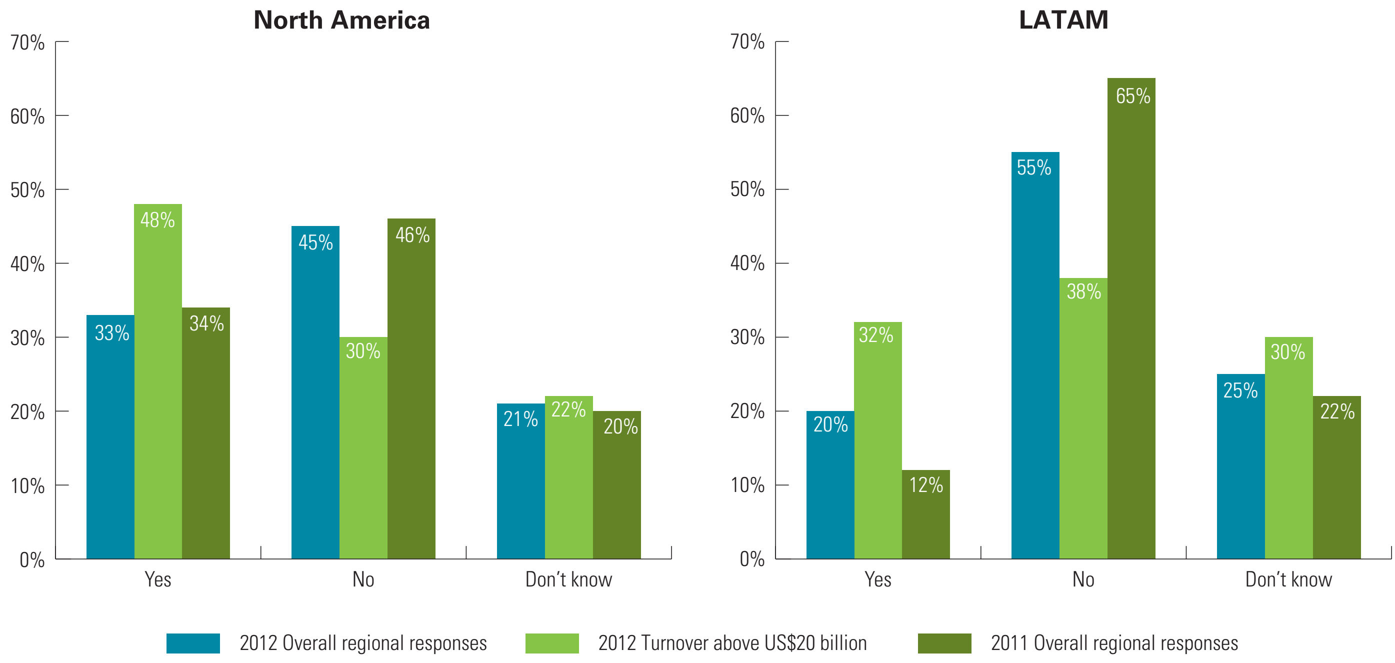
We then compared the current year overall result to that for the larger businesses. While the result for EMEA is 47 percent, it is 65 percent for the larger businesses. The result for ASPAC is 32 percent and 55 percent for the largest. In LATAM the result is 20 percent and 32 percent for the largest. In North America, it is 33 percent and 48 percent for the largest. This shows that the overall result is significantly skewed by the results of the larger businesses who are leading the charge in putting policies in place.

Figure 17a: Do you have policies in place across your business in EMEA, ASPAC, North America and LATAM that specifically set out how VAT/GST should be managed?



Source: KPMG International, March 2012.

Figure 17b: Do you have policies in place across your business in EMEA, ASPAC, North America and LATAM that specifically set out how VAT/GST should be managed?



Source: KPMG International, March 2012.

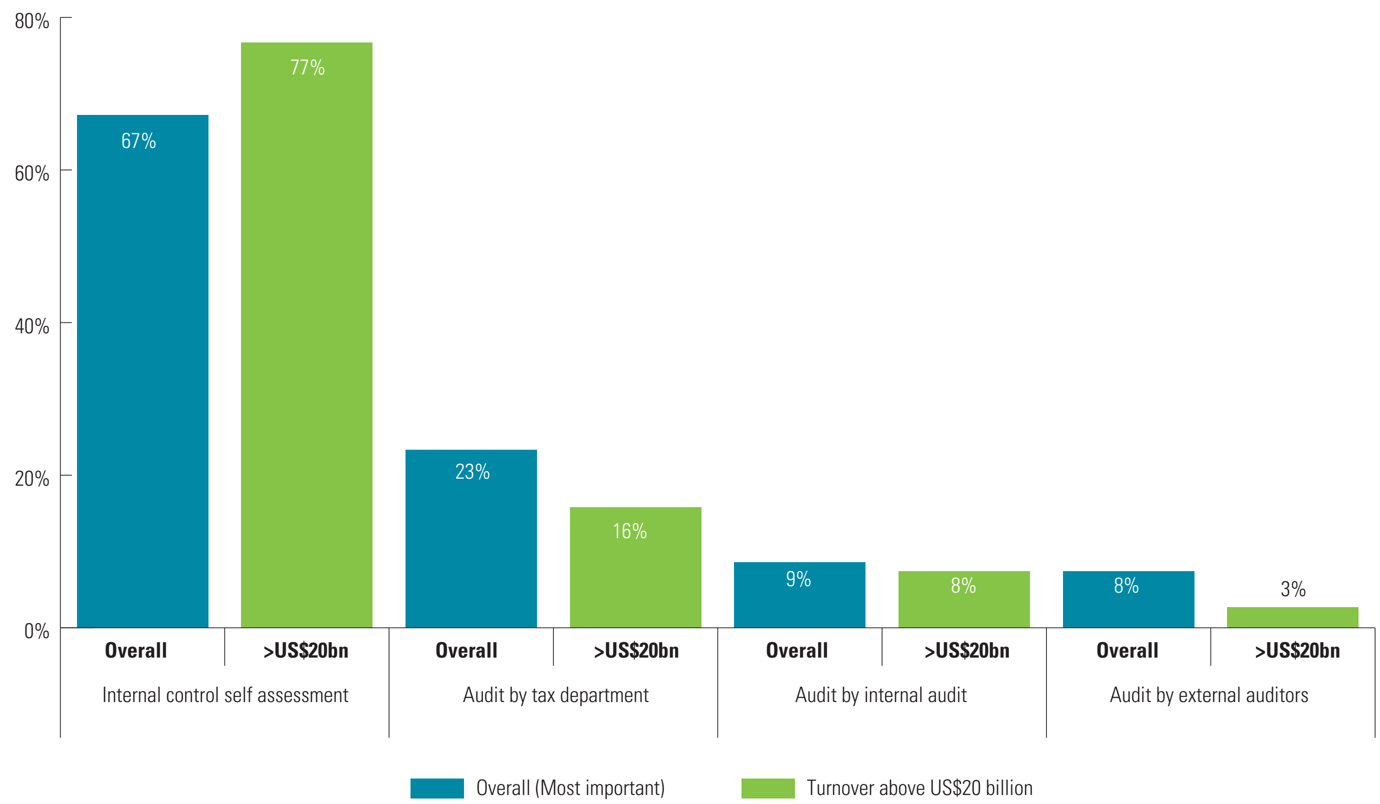
How do you ensure that these VAT/GST policies are embedded within the underlying business process?

When we asked how the businesses ensure that the VAT/GST policies are embedded within the underlying business process, the response is similar to last year. Embedding some form of internal control self-assessment is by far the most popular means, followed by audit by the internal tax department and then by internal audit (see Figure 18).

Internal control self-assessment is even more popular in the larger businesses, with a corresponding reduction in the popularity of the importance of audits by the internal tax department or by external auditors.

The responses are consistent with the "three lines of defense approach" to risk management. By this approach, risk is best managed at the first line of defense by the process owners, guided by clear policies and subject to review by the tax department as subject matter experts (the second line) and followed by internal audit or external audit to provide independent assurance (the third line).

Figure 18: How do you embed VAT/GST policies within the underlying business process?



Source: KPMG International, March 2012.

Only **32 percent** of respondents rate their **VAT/GST tax policies** as very good or excellent. Only **20 percent** rate the **implementation** of the policies as **very good** or **excellent.**

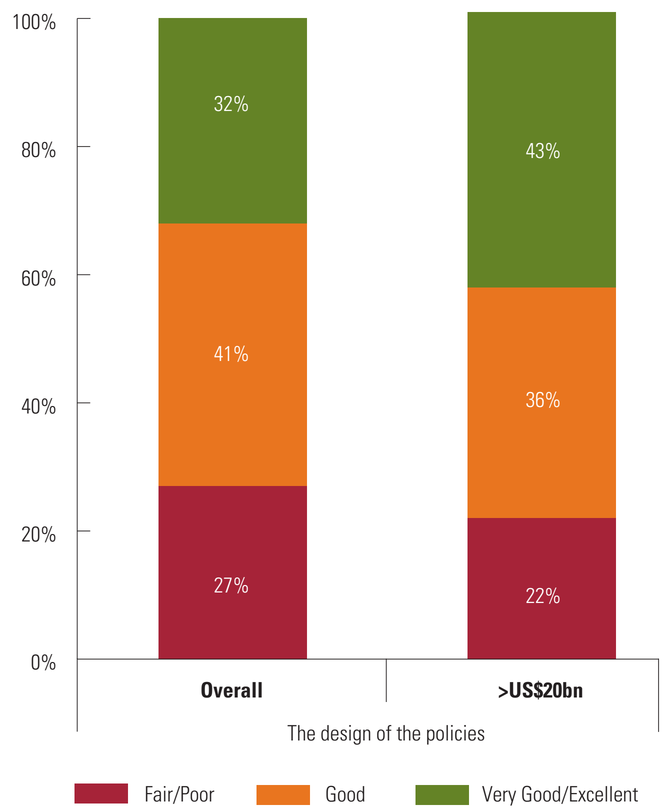
How do you rate the design and implementation of your VAT/GST policies?

For businesses that have VAT/GST policies in place, we examined the quality of policy design and implementation (see Figures 19a and 19b). This shows that overall 32 percent of businesses score their design as very good or excellent and 22 percent score their implementation as very good or excellent.

Forty-three percent of the larger businesses score the design as very good or excellent (compared to 32 percent overall) and 20 percent score their implementation as very good or excellent (compared to 22 percent overall).

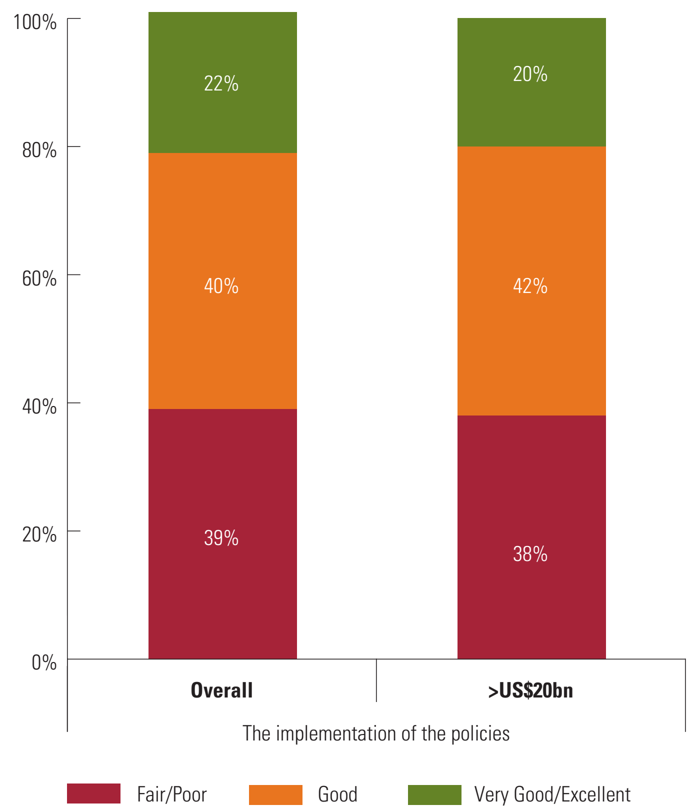
These results suggest that designing policies that are understood by the business and are comprehensive, but not onerous is one challenge, while effective embedding is quite another.

Figure 19a: How do you rate the design of your VAT/GST policies?



Source: KPMG International, March 2012.

Figure 19b: How do you rate the implementation of your VAT/GST policies?



Source: KPMG International, March 2012.

VAT/GST reporting

Where are VAT/GST returns prepared in your business?

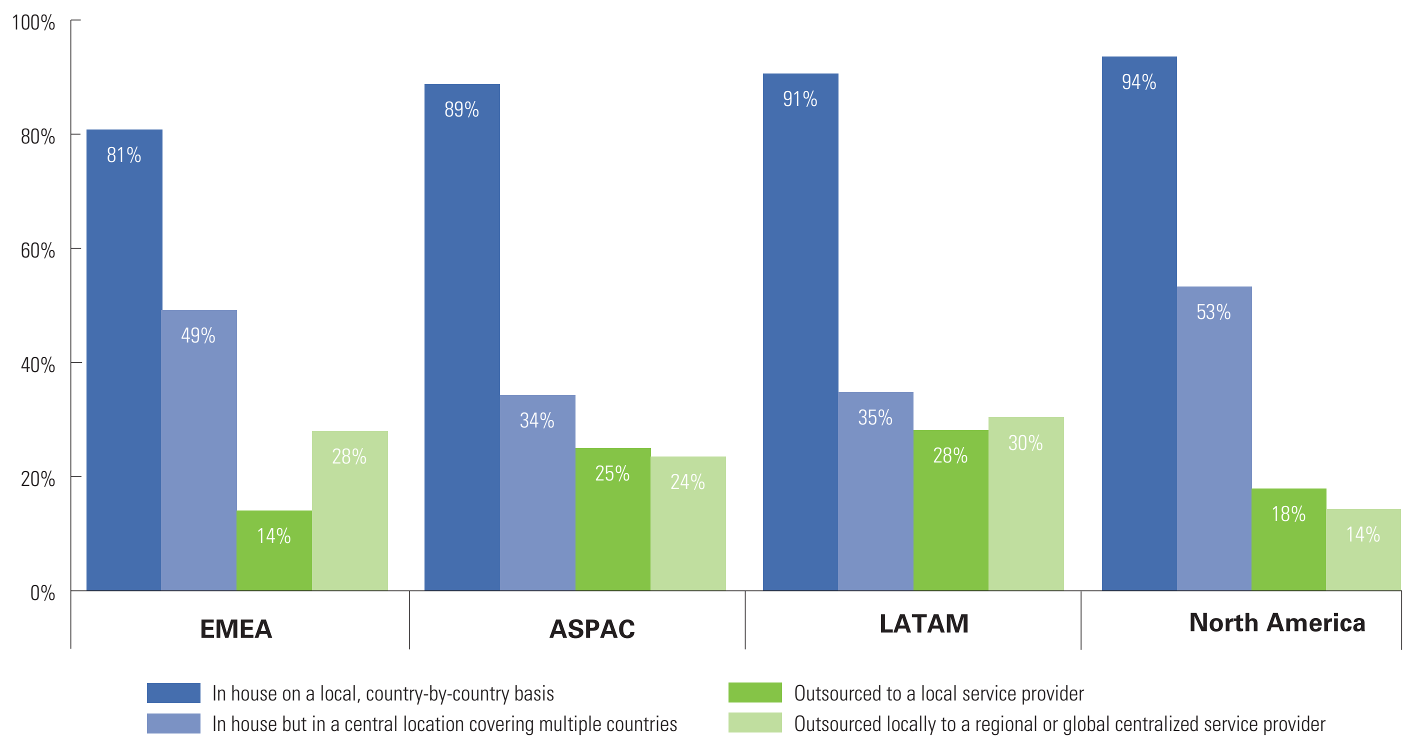
We asked a series of questions about the VAT/GST return preparation process.

In EMEA, VAT/GST returns are most commonly prepared in-house in the preparer's local country. Compared to last year, more EMEA respondents have returns prepared in-house in a central location. The number of outsourced return preparations have also increased, even more so for larger companies.

These results indicate a trend toward shared servicing. They may also suggest that larger businesses are increasingly recognizing the benefits of outsourcing in providing access to economies of scale, specialiized local knowledge and industry best practices.

In ASPAC and LATAM the picture is similar. Most VAT/GST returns are prepared locally, regardless of business size. This result reflects the lack of technology-enabled alternatives to locally prepared returns.

Figure 20a: Where are VAT/GST returns prepared in your business – Overall

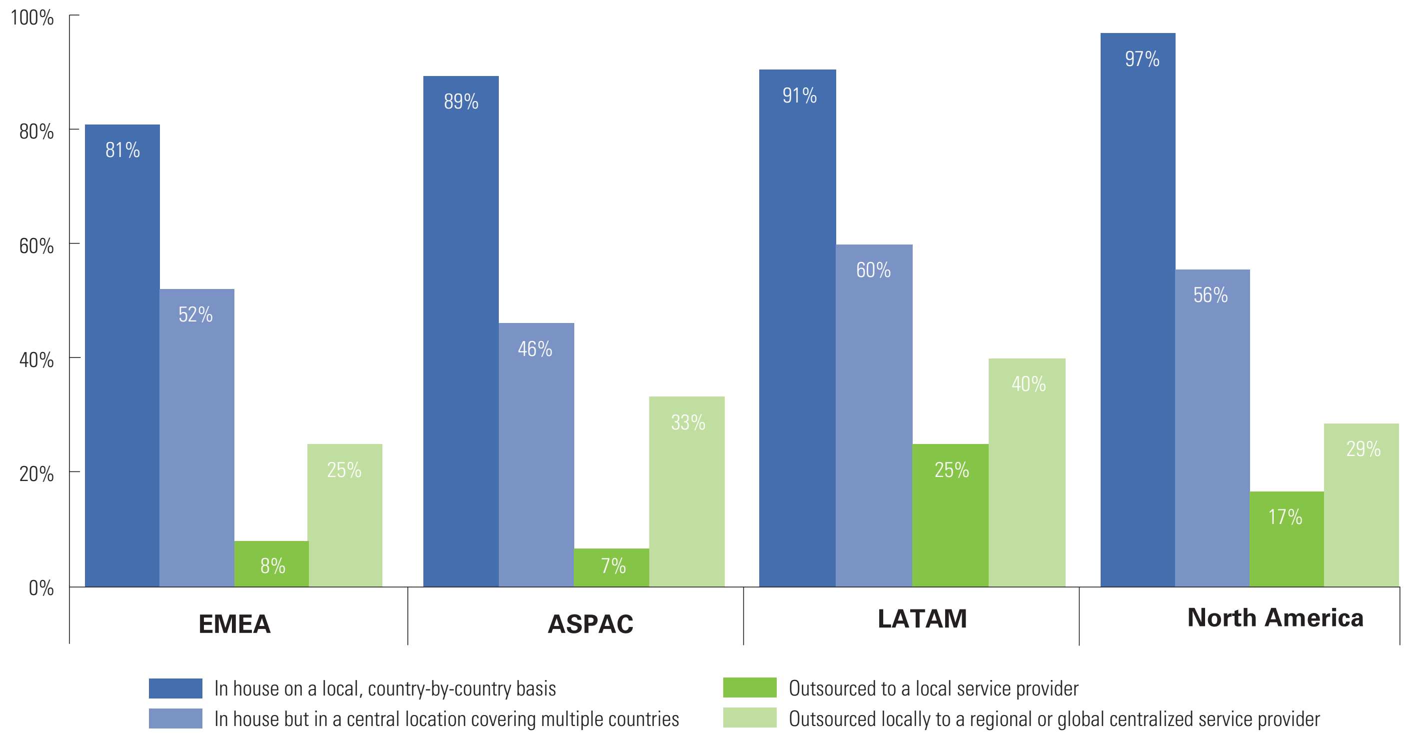


Source: KPMG International, March 2012.

Most businesses prepare **VAT/GST returns** in-house on a local **country by country** basis.

In North America, the result are similar to those of EMEA. By far the most popular method is to prepare returns in house on a local, country-by-country basis. These results are the same for businesses of all sizes. However, many are also preparing returns in house but in a central location covering multiple countries.

Figure 20b: Where are VAT/GST returns prepared in your business? Businesses with greater than US$20 billion in annual turnover



Source: KPMG International, March 2012.

Technology and the **future**

Functionality in the native **Enterprise Resource Planning (ERP) system** is seen as the most **important component** of technology.

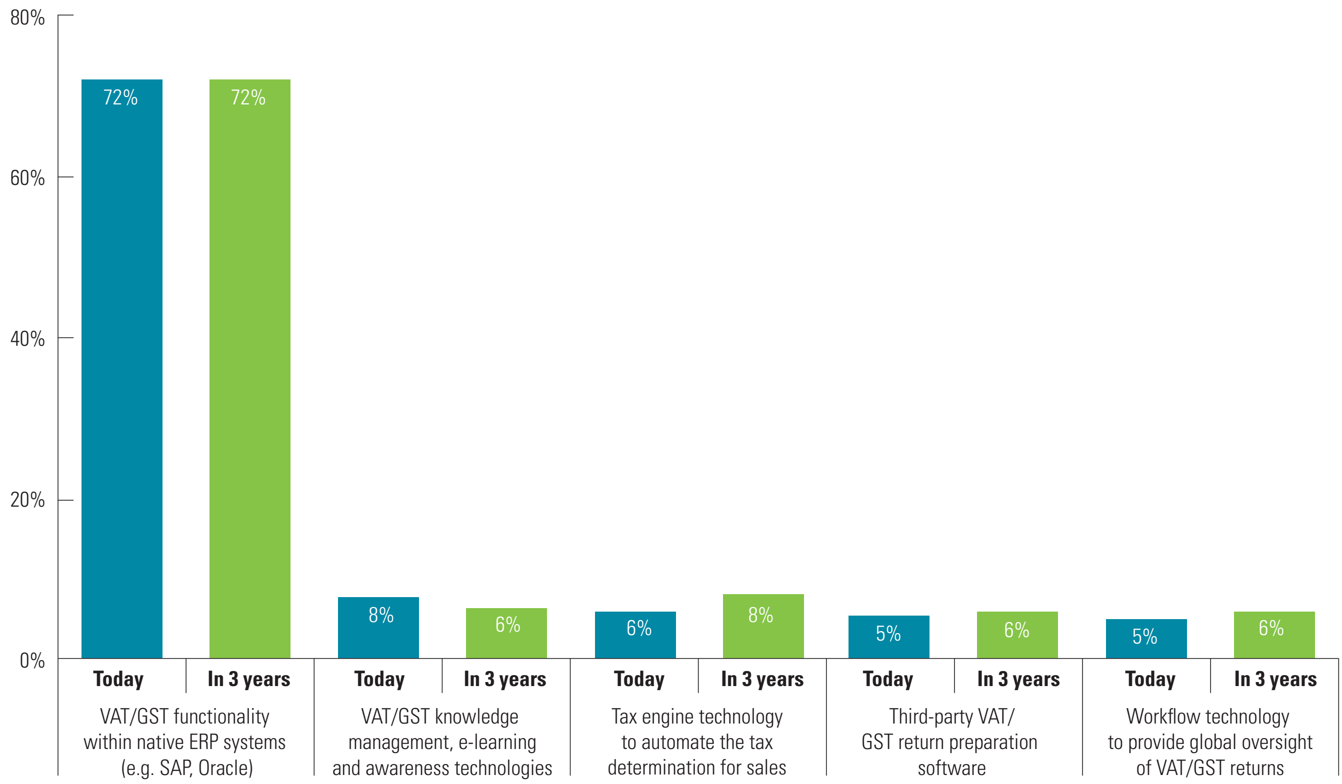
This year we also asked respondents about the future and specifically to rank the importance of various types of technology, today and in 3 years, that will help them manage their VAT/GST affairs.

Importance of various types of technology today and in three years in managing VAT/GST affairs

Overall respondents say that VAT/GST functionality within their native ERP systems is by far the most important technology solution for them managing their VAT/GST affairs (see Figure 21a).

Other forms of technology such as VAT/GST reporting tools or tax engines are seen as considerably less important. Respondents see little difference between their situation today and in 3 years.

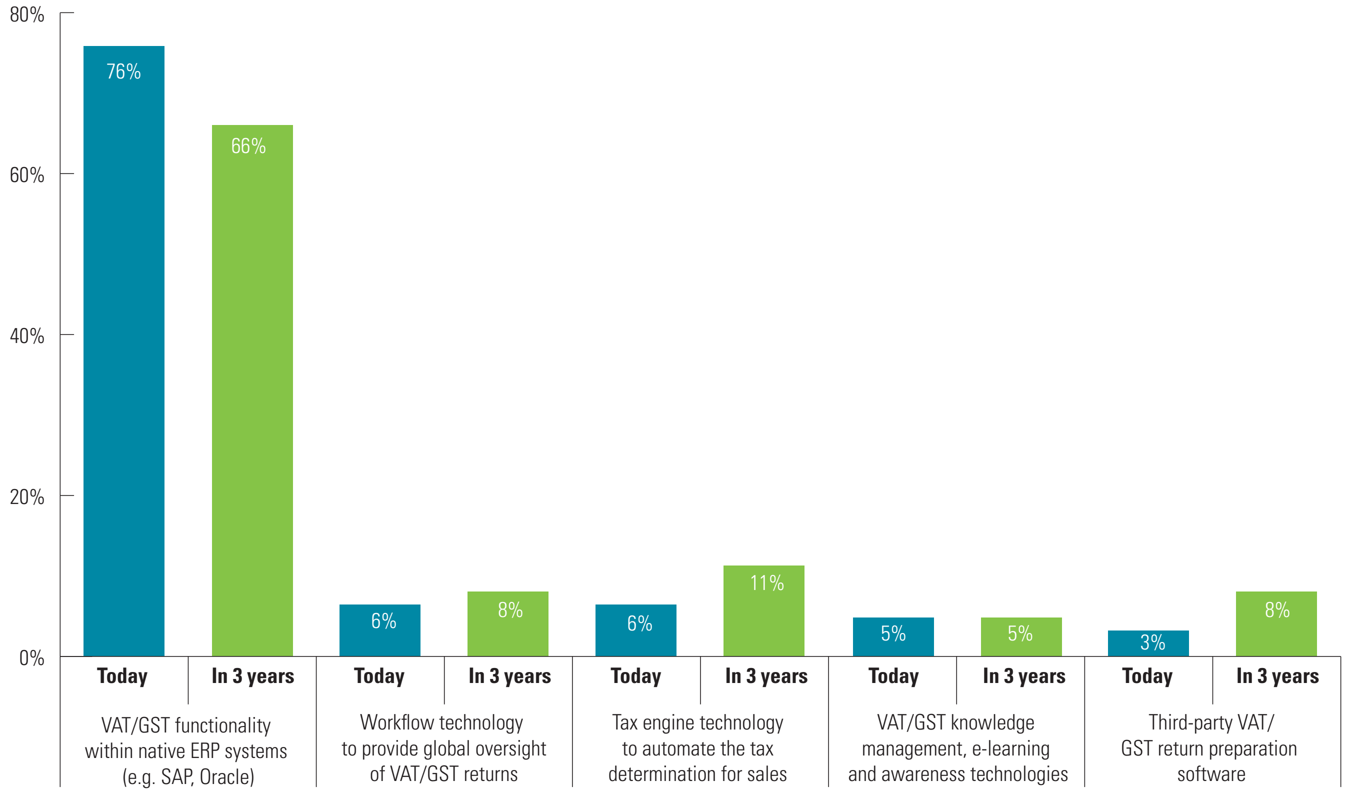
Figure 21a: Regarding the role of technology in managing your VAT/GST affairs, what is most important to your business today and your estimate of its likely importance in 3 years? – Overall



Source: KPMG International, March 2012.

When you look at the larger businesses, the importance of native ERP systems remains a constant, although there is some sign-posting in the years to come of the relative importance of tax engines as a means to automate the tax determination for sales and purchases and the associated reporting obligations (see Figure 21b).

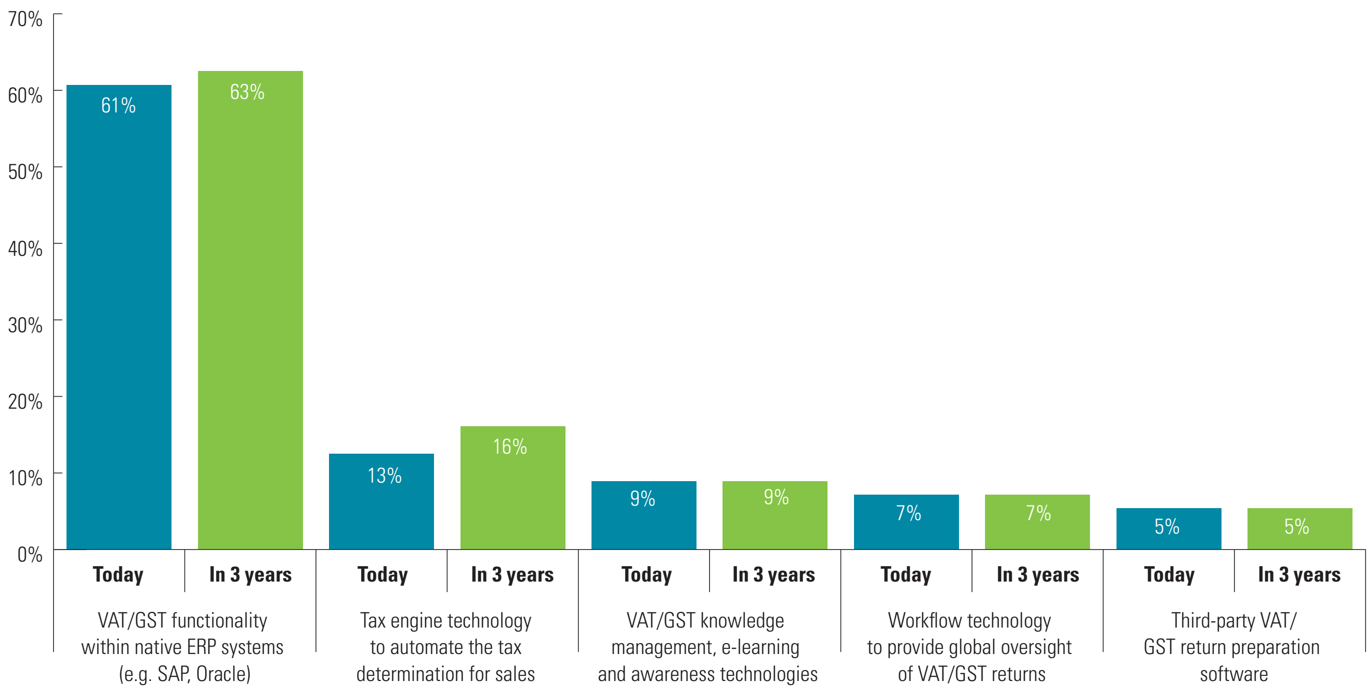
Figure 21b: Regarding the role of technology in managing your VAT/GST affairs, what is most important to your business today and your estimate of its likely importance in 3 years? Business with greater than US$20bn in annual turnover



Source: KPMG International, March 2012.

Tax engines are common place in the US to the point that they are almost a pre-requisite for State and Local Tax (SALT) compliance given the multiple taxing jurisdictions and rates that businesses have to contend with. We therefore cut the responses to this question to look at respondents whose headquarters are in the US. This shows that while there is greater importance placed on tax engines both today and in 3 years, the importance of native ERP systems to managing VAT/GST affairs remains significant and overwhelming; although a lack of understanding of the benefits and capabilities of tax engines could in part account for their relative low scores.

Figure 22: For the US only, regarding the role of technology in managing your VAT/GST affairs, what is most important to your business today and your estimate of its likely importance in 3 years?



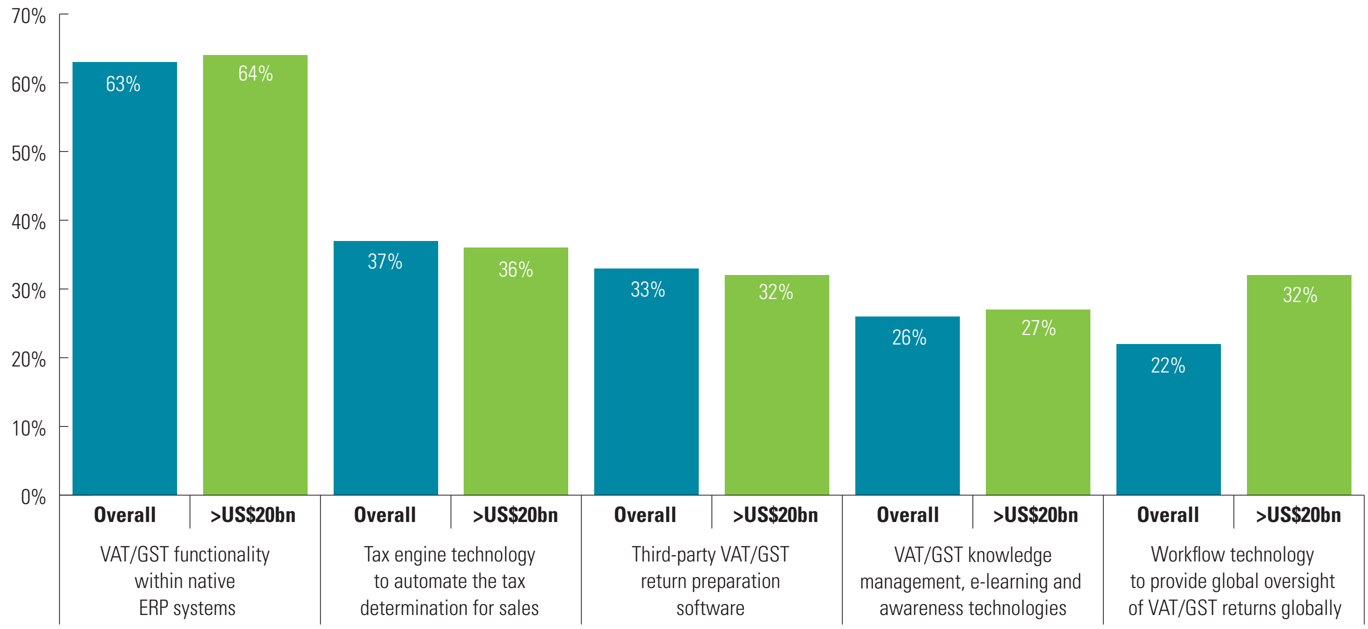
Source: KPMG International, March 2012.

In terms of future investment in **VAT/GST management, 39 percent** prioritized investment in processes, **35 percent** prioritized technology and **26 percent** prioritized people.

In relation to technology, where do you expect to invest in the next three years?

We then looked at which aspects of technology businesses are likely to invest in the next 3 years. Overall, respondents shows a clear preference to investing in VAT/GST capability of native ERP systems although the gap between investment in native ERP versus tax engines is much closer than their relative importance would suggest (see Figure 23). This could perhaps be explained by virtue of the fact that implementing a tax engine is seen as a more expensive up front cost than better utilizing the capability of the existing ERP system. Interestingly, there is little difference between the overall results and the results for the larger businesses.

Figure 23: In relation to technology, where do you expect to invest in the next 3 years?

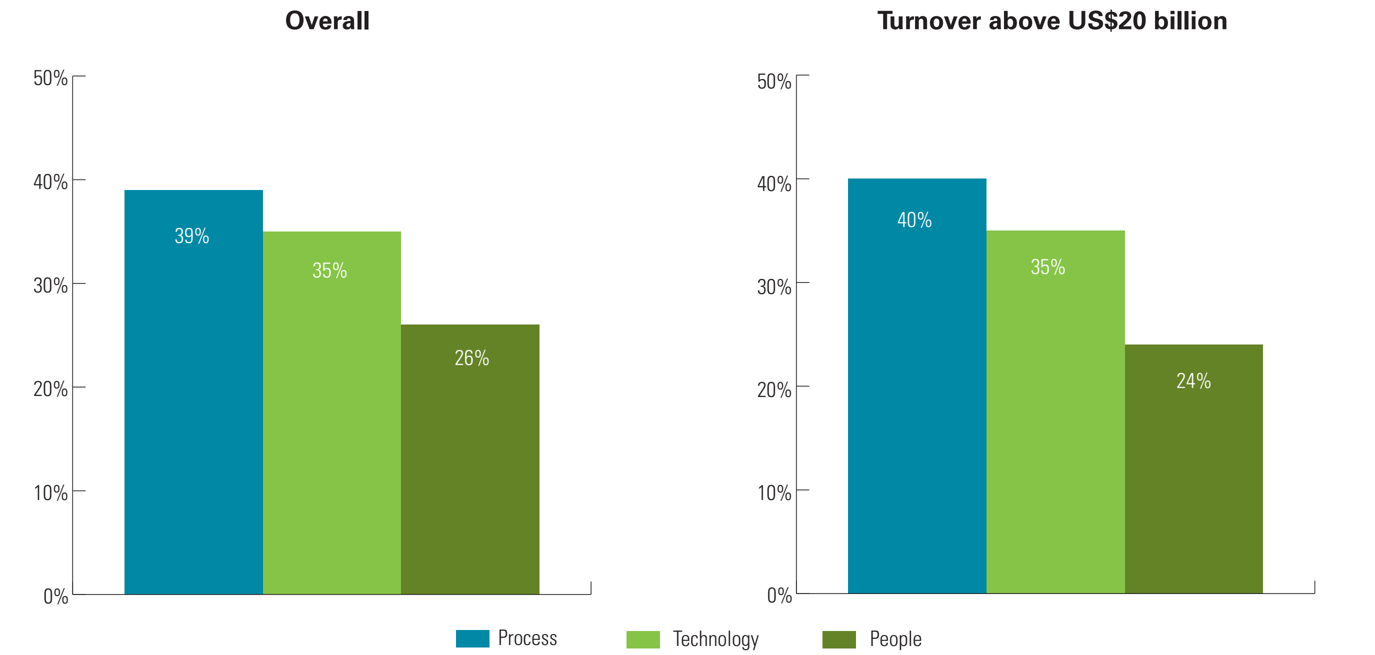


Source: KPMG International, March 2012.

To manage VAT/GST more effectively and efficiently, do you expect to invest more in the next 3 years in process, technology or people?

To close out our survey, we then explored with respondents where they expected to make investments to manage VAT/GST more efficiently and effectively. As shown in Figure 24 the responses are pretty evenly split between process, technology and people, with a slight preference for process. Interestingly there is very little difference between the results for all respondents and those for the very largest businesses. This supports our view that the fundamentals for the management of VAT/GST are equally relevant irrespective of the size of business and that businesses need to invest equally across the spectrum.

Figure 24: To manage VAT/GST more effectively and efficiently, do you expect to invest more in the next 3 years in process, technology or people?



Source: KPMG International, March 2012.

Financial services overview

NOTE: The results shown in the 2012 Benchmark Survey on VAT/GST comprise the total combined results for all respondents, both financial. services and non-financial services. The results shown in this section compare selected results for financial services respondents (24 percent of total) with non-financial services respondents (76 percent of total).

The FS sector is made up of some of the largest and most complex businesses in the world. In addition, the VAT/GST environment for FS businesses is very different to that in which most other businesses operate. Accordingly, we thought that it would be useful to separately analyze the results of our 2012 Benchmark Survey on VAT/GST for respondents in the FS sector to identify any significant differences in how they are managing VAT/GST globally as compared to non-FS businesses.

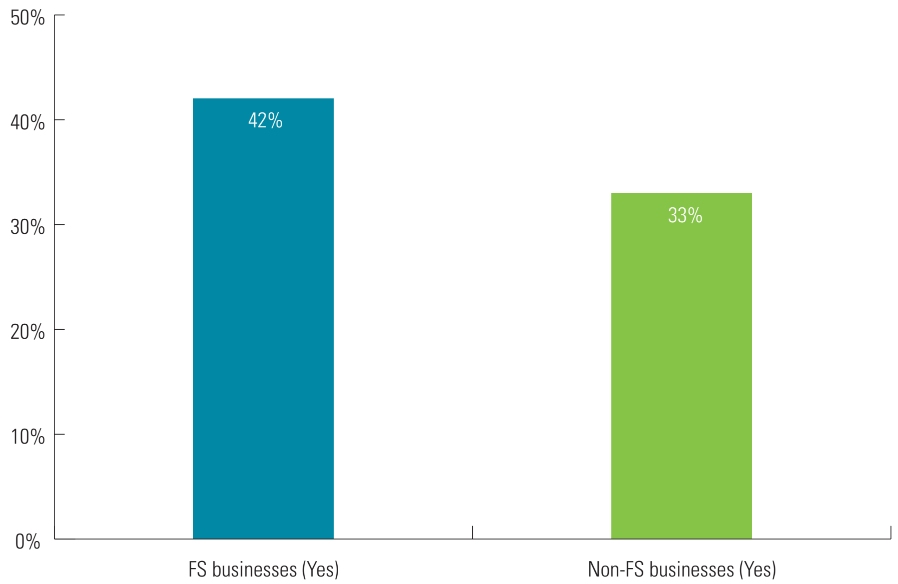
Overall, the responses from the FS sector were broadly in line with non-FS businesses, although some marked differences appear.

VAT/GST resources

Businesses in the FS sector are much more likely to have a Global or Regional Heads of VAT. Forty-two percent of FS businesses reported having a Global Head of VAT/GST compared with 33 percent for non-FS businesses (see Figure 25). The divergence is even greater for Regional Heads of VAT/GST, with 51 percent for the FS sector compared with only 27 percent for non-FS businesses.

There is also evidence of slightly higher levels of full time equivalent resources dedicated to VAT/GST management within the FS sector. This is most evident within the EMEA region, which likely reflects both the complexity of the FS VAT/GST regime in the EU (and its maturity) but also the fact that VAT/GST represents a very real and visible cost to those businesses. That said, the responses for FS businesses in relation to policy design and implementation were similar to the non-FS businesses and reflects KPMG member firm

Figure 25: Do you have a Global Head of VAT/GST?



Source: KPMG International, March 2012.

FS businesses are **less focused** on managing **VAT/GST** risk than non-FS businesses.

experiences that, notwithstanding the comparatively larger teams, FS and non-FS businesses struggle with embedding robust process and controls across the business as a whole, such as financial and product control, operations etc.

Accountability and reporting

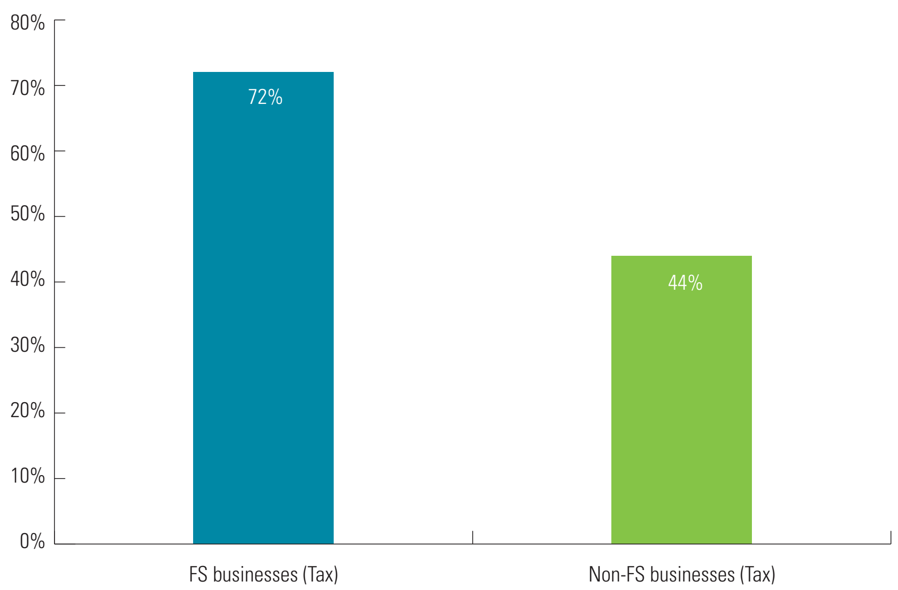
There is a clear difference in where accountability for VAT/GST rests within FS businesses, with 72 percent indicating that accountability sits with Tax rather than Finance & Accounting. This compares to 44 percent for non-FS businesses (see Figure 26).

In terms of whom local and regional VAT/GST specialists report to, FS businesses are much more likely to report to a Global or Regional Head of VAT/GST or Tax; 63 percent for FS businesses compared with 36 percent for non-FS businesses.

These results point towards FS businesses having a more centralized management and ownership of VAT/GST, providing a strong foundation to build effective global VAT/GST management.

Tax departments are much more likely to be accountable for **VAT/GST** in FS businesses than in non-FS businesses **(72% vs. 44%)**.

Figure 26: Who is accountable for VAT/GST in your business?



Source: KPMG International, March 2012.

CFO's in FS businesses are much more likely to have **KPIs around VAT/GST** than in non-FS businesses.

VAT/GST cash effect

FS businesses clearly feel that VAT/GST has a much more cash negative effect on the business than non-FS businesses. Eighty percent of FS businesses indicate that VAT/GST has a cash negative impact versus 42 percent for non-FS businesses. Only 10 percent felt that VAT/GST has a cash positive impact, compared with 27 percent for non-FS businesses. These results are not particularly surprising given the prevalence of VAT/GST exemptions across the FS sector that results in VAT/GST being a real and obvious cost.

Goals

There are a number of interesting differences in the nature of the goals and performance metrics which FS businesses use compared with non-FS businesses, in particular:

- VAT/GST performance goals are more likely to be an important part of the set of metrics used by the CFO and Head of Tax to measure tax function performance for FS businesses, ranking 7 out of 7 for non-FS businesses but 4 out 7 for FS businesses (See Figure 3 on page 7).
- FS businesses are much more likely to have additional VAT/GST goals agreed between the Head of Tax and Head of VAT/GST (42 percent compared with 17 percent overall)
- Not surprisingly, there is a much greater focus in FS businesses on the reduction of VAT/GST cost (68 percent compared with 43 percent overall) (See Figure 4b on page 9).
- The three most important VAT/GST metrics agreed between the Head of Tax and the Head of VAT/GST were consistent across FS and non-FS businesses but the relative importance of VAT/GST cash flow and reduction in VAT/GST expenditure on costs was far greater for FS businesses.

Technology and the future

While FS businesses reported very similar results to non-FS businesses regarding the importance of different technologies in VAT/GST management, there were two quite interesting differences:

- 82 percent of FS respondents indicate that they would be investing more in the next 3 years to enhance the VAT/GST functionality in their ERP system, compared to 57 percent for non-FS businesses
- When it comes to a future focus on people, process or technology to enhance VAT/GST management, the results across all sectors showed reasonably close correlation between all three components. However, for FS businesses, there is a much stronger focus on technology; 42 percent of FS businesses versus 33 percent for non-FS businesses.

These findings perhaps point to a greater focus on automation and technology investment in the FS sector going forward to manage their VAT/GST affairs. It could equally be a reflection of the fact that in KPMG member firms' experience, FS businesses could be starting from a lower base than non-FS businesses but with a real desire to automate more.

The fact that for many FS businesses the critical data is sourced from systems outside of the general ledger environment and instead comes from diverse front and middle office systems has probably made the deployment of technology across the compliance process a more difficult proposition, at least initially, than in non-FS businesses.

Conclusion

In summary, our survey shows that CFO's in the FS sector are much more likely to judge the effectiveness of their tax department with VAT/GST in mind and set key performance indicators (KPIs) to do just that. This is likely to be due to the fact that VAT/GST is a real cost to most FS businesses and, as such, is firmly on the CFO's radar. As a consequence, the Tax function tends to be more accountable for VAT/GST as it has the subject matter expertise to effectively manage it. Interestingly, while more resources are allocated to managing VAT/GST the focus seems to be skewed towards creating value (by reducing cost) rather than managing risk.

Find out more

If you would like to discuss the results of this survey or any other indirect tax matter, please contact your usual KPMG indirect tax contact or refer to the contacts listed.

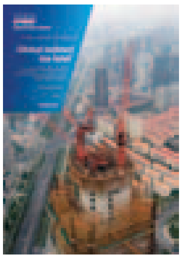
If you are not an existing KPMG client we would welcome the opportunity to discuss what KPMG can offer to you – please refer to the list of contacts here or visit www.kpmg.com/indirecttax for a local contact.

VAT/GST Essentials

VAT/GST Essentials provides the key information on VAT/GST for over 65 countries to provide you with quick and easy access to the details you need.

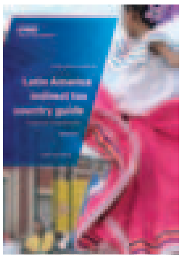
Asia Pacific Indirect Tax Country Guide

This guide offers a comparative look across Asia Pacific borders and the various indirect taxation regimes.



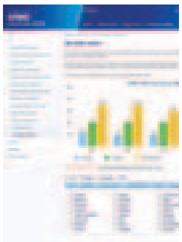
Global Indirect Tax Brief

The Global indirect tax brief brings together articles on international VAT/GST developments, written by KPMG member firms' VAT/GST professionals worldwide and will be of interest to anyone managing VAT/GST in an international business environment.



Latin America Indirect Tax Country Guide

This guide offers a comparative look across Latin America borders and the various indirect taxation regimes.



Tax Rates Online

This online rates tool allows you to compare (the highest) corporate and indirect tax rates within a particular country or a particular tax type across multiple countries.

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