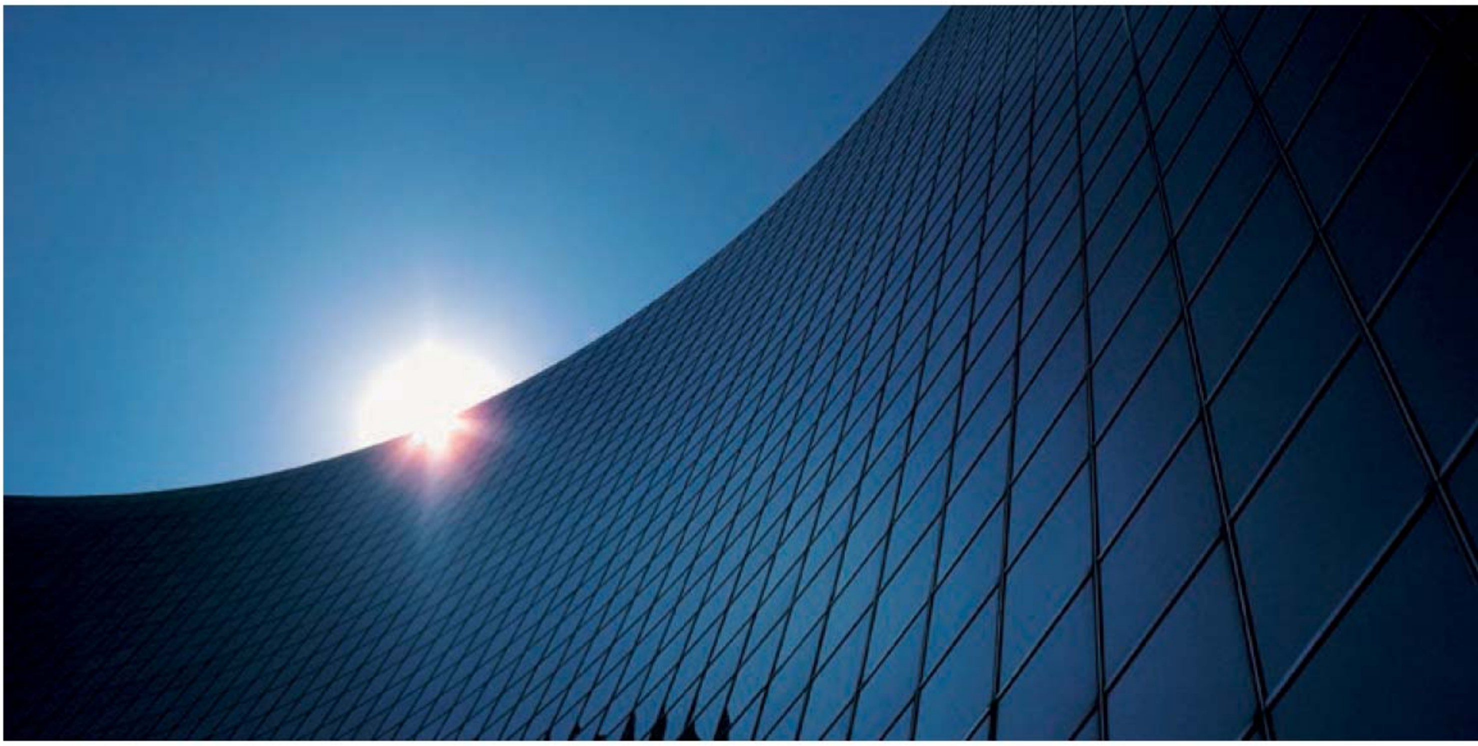
Deloitte.

European Tax Survey
The benefits of stability



Results and discussion

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Executive summary

Background

The external environment has rarely been more challenging for heads of tax. Governments and tax authorities traditionally seek to increase tax receipts in times of austerity. Public scrutiny has increased for many, particularly in Western Europe.

Looking inwards, changes within businesses are driving an evolution of the tax department. Tax compliance increasingly operates on a current (real-time) basis. Tax specialists need to combine business and technical expertise to drive value for their organisations.

But how much has this really affected heads of tax? What keeps them awake at night? Which jurisdictions are perceived as the most challenging and where in Europe it is seemingly becoming easier to do business?

In order to help understand this fast-changing landscape, Deloitte undertakes an annual survey to track trends as viewed by heads of tax.

Almost 1,000 companies across Europe participated in the Deloitte Tax Survey in 2013. The responses were often surprisingly unanimous for organisations that vary in size and structure, operating in different economies.

Headline findings

- The Netherlands and the UK were seen as the most favourable of the large jurisdictions, from a tax perspective, for inward investment. Both had worked hard to become more attractive to multinational companies, and this seemed to be working.

- Italy and Russia were viewed as the most challenging of the large jurisdictions, due to rapid legislative changes, ambiguity and different views of how tax positions should be interpreted.

- Above all, heads of tax wanted stable tax legislation. The biggest issue many cited was that already complex tax systems were being further complicated by rafts of new laws. Aside from the burden of keeping up with the changes and educating their teams, this was the main cause of tax uncertainty – frequent law change was also the thing that most would reduce in order to make their own countries more competitive.

- 75% of respondents had been subject to a tax audit in the past three years. More than a third would be likely to litigate if they felt that a tax investigation was unjust, either in terms of the process or the outcome.

- There was a clear divide with regard to the level of public debate around tax. The west of Europe – in particular Luxembourg, Switzerland, the UK, and the Netherlands – were facing media scrutiny, pressure from special interest groups and heated discussion around what constitutes a just and fair tax system. In the first three, this scrutiny was focused on multinationals; in the Netherlands the issue was mainly directed at the government. Eastern European countries, such as the Czech Republic and Hungary, were not recognising tax as a major public issue.

- Contrary to some public perceptions, the measure of success for heads of tax was not lowering the effective tax rate (or ETR), but strongly compliance-focused: filing of returns in a timely manner and working with the business to ensure there are no nasty surprises around the corner.

- Heads of tax were also changing where they spend their time as they become more integrated with the business and in direct discussion with its operational parts. Tax technical roles may form part of the team, but the communication skills and focus needed by the head of tax these days are much broader.

- Respondents appeared to be stretched. Many had demanding roles but relatively small teams. Most (55%) had global or regional responsibilities and yet were operating with teams of fewer than three people.

- Shared Service Centres (SSCs) are available to support over half of those who responded. Two thirds used SSCs for some or all of their tax compliance work.

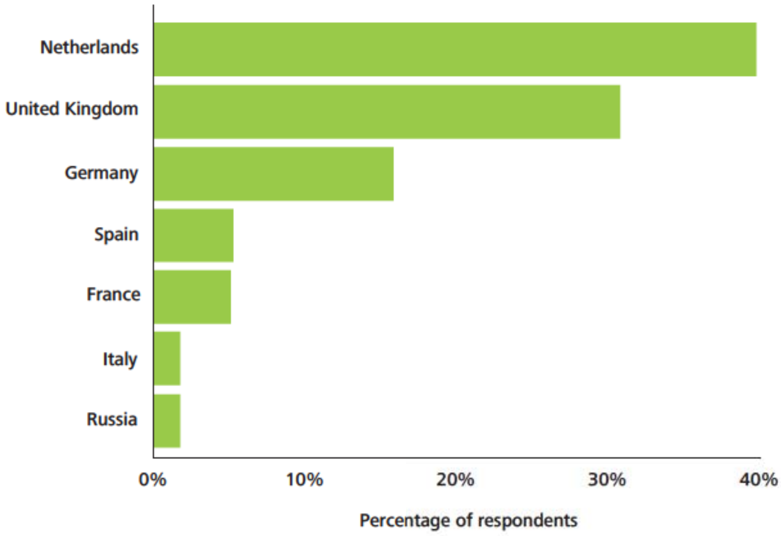
Operating in Europe

Most favourable jurisdictions from a tax system perspective

Respondents were asked to rate the major European economies – France, Germany, Italy, the Netherlands, Russia, Spain and the UK – in terms of which was deemed to be the most favourable from a tax system perspective. The reason for restricting views to the major economies was to recognise that many organisations do business in those economies and, therefore, their tax regimes affect many multinational groups.

The most favourable major economy to operate in was the Netherlands, closely followed by the UK.

Figure 1. Most favourable of the large economies from a tax system perspective



The Netherlands was cited as having an easy and 'professional' tax system. It was seen as predictable, easy to contact the tax authorities and to receive a ruling within a few weeks. Respondents continually referred to the simplicity of its tax system and the ease of dealing with authorities.

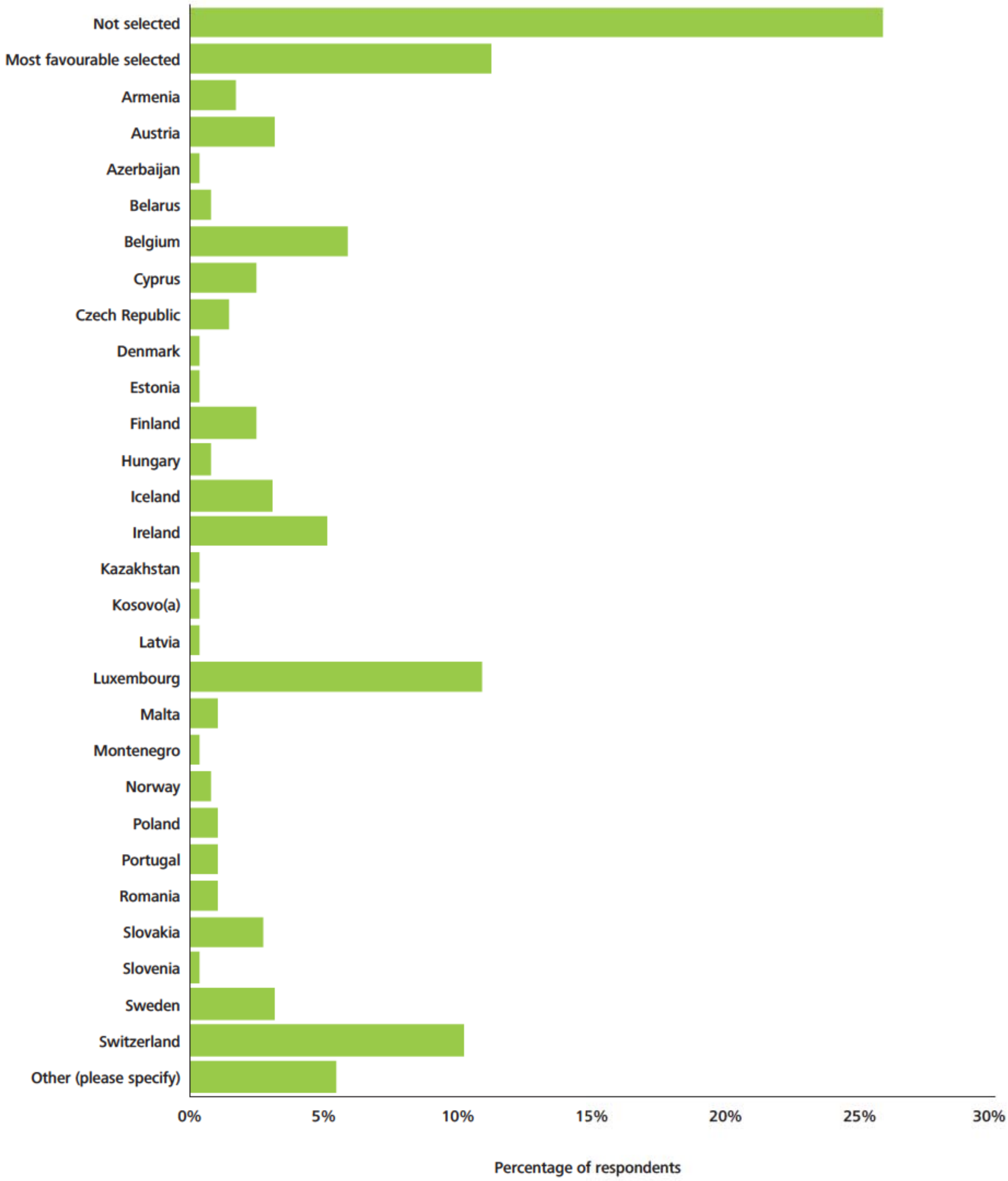
For the UK, the tax officials were often praised as being helpful, and many of the respondents viewed it as operating international best practice. The tax authorities were viewed as pragmatic, clear and open.

Most favourable smaller jurisdictions from a tax system perspective

Respondents were then asked to select from the smaller European economies whether there was another country more favourable than the major economy already rated. Luxembourg and Switzerland were viewed as most favourable by the highest number of respondents, followed by Belgium and Ireland.

47% of respondents from the Netherlands picked their own country as the easiest to operate in and only 43% had experienced a tax authority audit in the Netherlands in the past three years. 58% of UK respondents picked their own country as the most easy to operate in, even though 73% had experienced a tax authority audit.

Figure 2. Is there a country among the smaller economies that is more favourable from a tax perspective than any of the large economies?



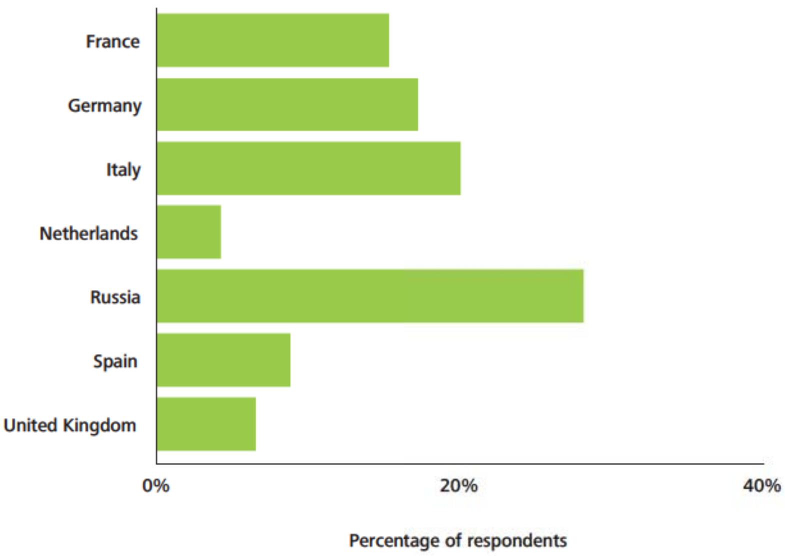
Votes for "other" were largely gathered by non-European jurisdictions such as Singapore.

Most challenging large jurisdictions from a tax system perspective

Respondents were also asked to consider which of the major European economies were the most challenging from a tax system perspective. Russia was viewed as the most difficult of the seven largest European economies in which to operate. The main reasons stated were uncertainty and complexity. Comments also included that rules appeared opaque and arbitrary, or difficult to understand.

Italy was also viewed as challenging. Comments from respondents pointed out that the Italian tax system – being subject to frequent changes in tax law – suffered from different interpretations over time. This, combined with a very general anti-abuse rule and criminal sanctions for tax issues, were the main reasons for its less favourable ranking.

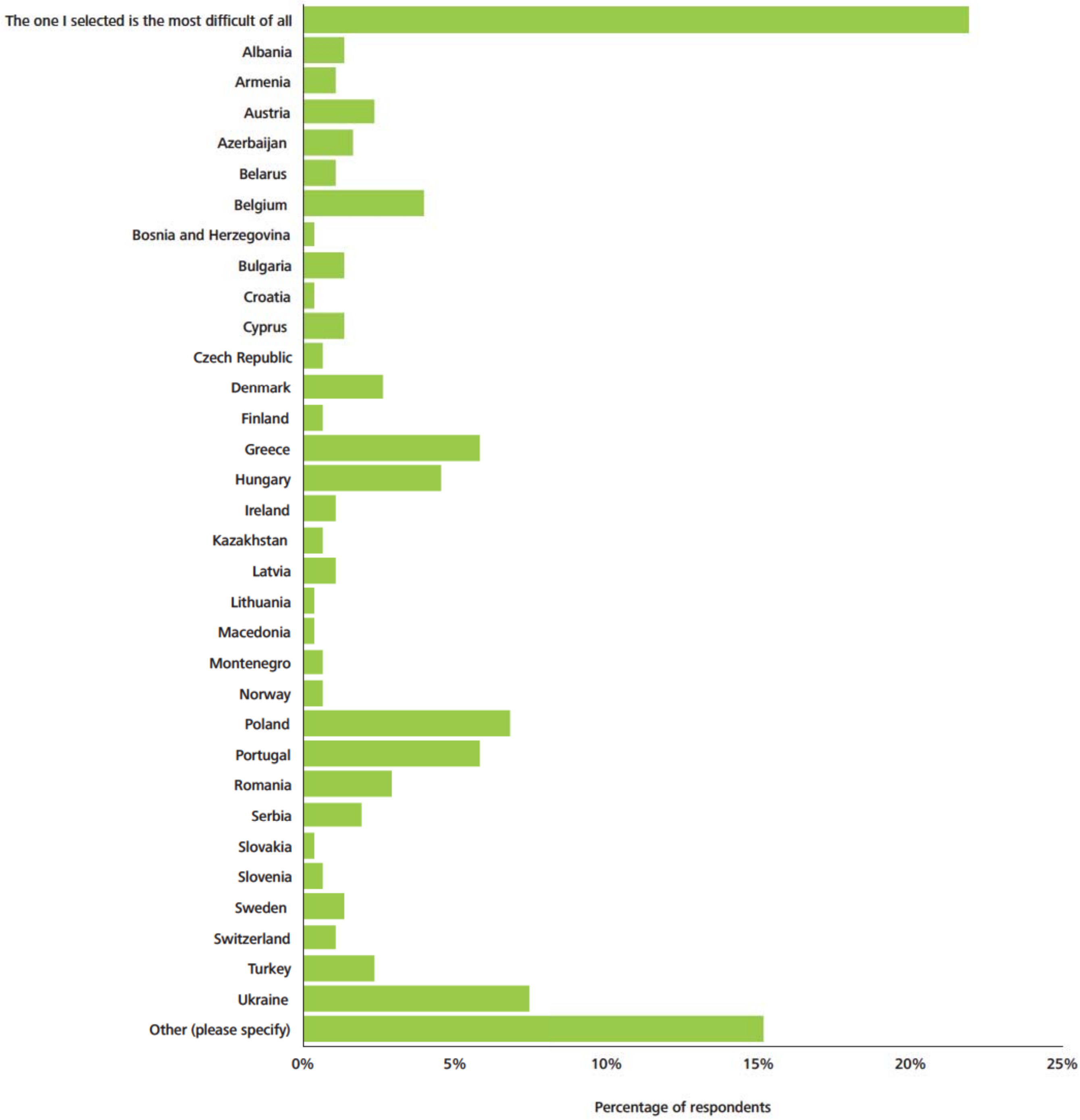
Figure 3. The most challenging of the large economies from a tax system perspective



Russia was viewed as the most difficult of the seven largest European economies in which to operate. The main reasons stated were uncertainty and complexity.

Finally, respondents were asked whether there was a smaller economy that was more challenging than any of the large economies. Here, many respondents stuck with their chosen large economy as the most challenging, particularly Russia. However Greece, Portugal, Poland and Hungary also featured, in that order.

Figure 4. Is there a smaller economy even more challenging than any of the large economies already considered?



Comments on tax regimes

The reasons given for finding tax regimes favourable were strikingly similar – transparency, certainty, a well-designed tax system, and the possibility of forming sensible working relationships with the tax authorities.

"Tax authorities [in the Netherlands] look at the tax accounting and calculation in advance, before the actual return. They assess in advance the company's procedures and policies and basically look at the quality of the company's tax compliance function in order to rubberstamp the actual return."

Respondent based in Cyprus

"There seem to be more possibilities for rulings [in the Netherlands]. UK also seems to be easier to operate business than other EU countries because more oriented towards companies."

Respondent based in France

"Clear rules and a good relationship with [German] tax administration."

Respondent based in Croatia

"[Sweden's tax regime is] fair and simple."

Respondent based in the Netherlands

There was also widespread consensus over why jurisdictions can be challenging from a tax perspective. Respondents did not like uncertainty, legislative change, and tax authorities that are unable or unwilling to find solutions to tax issues created by commercially motivated transactions. Russia, specifically, was cited as having a 'very different tax regime from the rest of Europe' that 'did not mesh well' with other commonly accepted structures for tax systems internationally.

> "[France has] complicated and lengthy procedures, 'odd' rules."

Respondent based in Austria

> "Italy is very tough to handle. Tax law is not something clear but something a company has to bargain on. The court appeals are lasting a really long time. It's just painful."

Respondent based in Switzerland

> "Very specific tax rules and regulations [in Russia], not yet accommodated to EU reality."

Respondent based in Portugal

> "The unpredictability of the tax authorities, complex, ambiguous regulations, bureaucracy."

Respondent based in Poland

Interestingly, few respondents referred to tax rates in their answers, which suggests that jurisdictions can afford to have relatively high tax rates, provided that their tax systems are uncomplicated and flexible.

Respondents were generally more critical of their own jurisdictions than of foreign jurisdictions. A third of French respondents picked their own country as most challenging versus only 15% overall. 37% of German respondents selected their own country versus 17% overall. This may reflect that, for many respondents, their local jurisdiction is where their group's regional or worldwide headquarters are based, and therefore their local tax affairs are likely to be more complex (for example, due to the need to navigate debt financing complexities or controlled foreign company compliance and reporting obligations) than those of their (often relatively straightforward) subsidiary operations.

What makes a country favourable or challenging?

Tax uncertainty

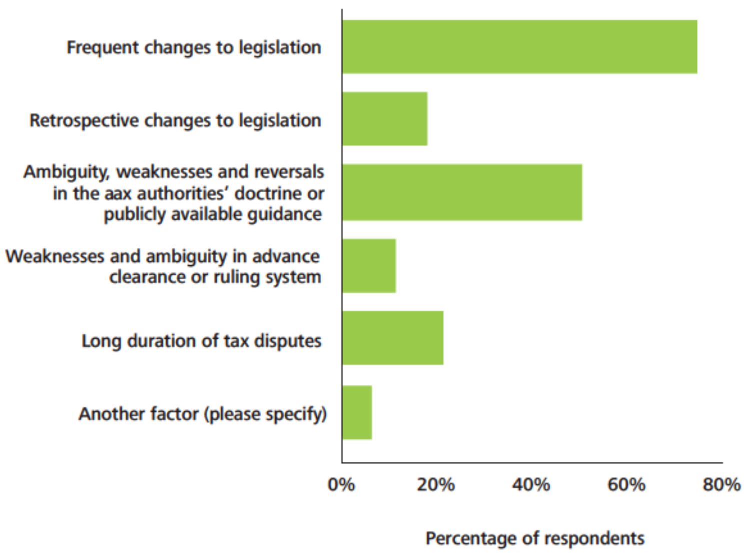
Time and again, respondents cited certainty in their tax position as the key factor that made a jurisdiction favourable for them (and, conversely, uncertainty as the key factor making it challenging).

More than 60% of respondents thought there was a high degree of tax uncertainty in their country. The highest was Hungary, where all but one said they face a high degree of tax uncertainty, and 81% of respondents from Hungary thought it was more uncertain other countries. The exceptions were the Czech Republic with only 34% of respondents and Ireland with 11% of respondents, believing that there was a high degree of uncertainty in their country.

But what is tax certainty/uncertainty? Respondents were asked to select two sources of tax uncertainty from a list of six possible options. The two most common selections were legislation and interactions with the tax authorities.

Frequent change to legislation was viewed as the main cause of tax uncertainty. Three quarters cited this as one of their two main reasons. The second cause of uncertainty, cited by over half, was ambiguity, weaknesses and reversals in the tax authorities' doctrine or publicly available guidance. All of the respondents based in Russia selected this option.

Figure 6. Cause of tax uncertainty



Time and again, respondents cited certainty in their tax position as the key factor that made a jurisdiction favourable.

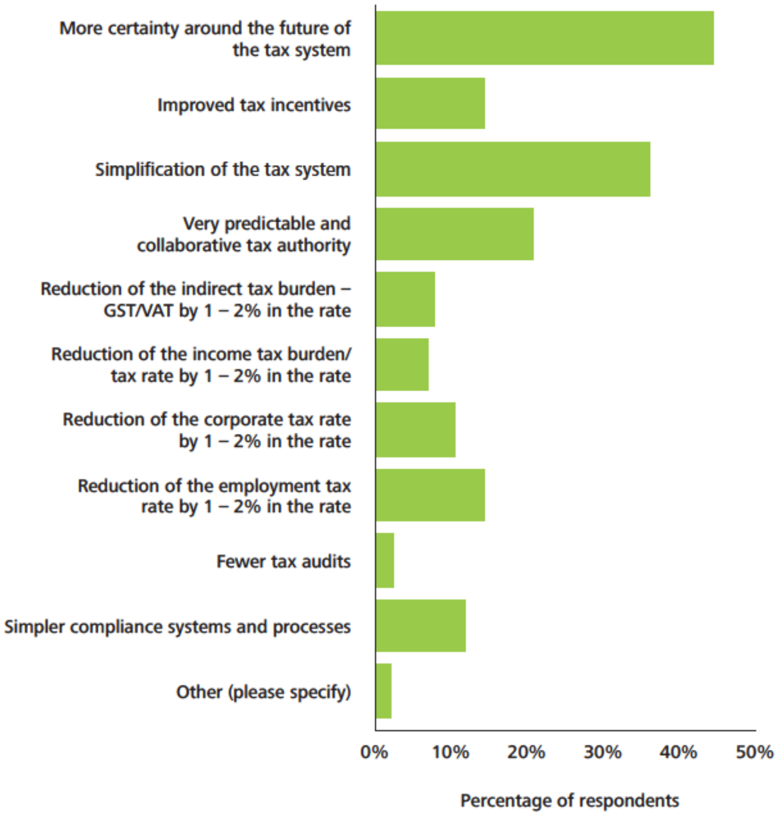
Factors that could increase competitiveness

Respondents were asked what changes to their country's tax legislation would have the greatest positive impact on their country's competitiveness.

More certainty around the future of the tax system was selected by almost half of respondents. Simplification of the tax system was selected by 36%. However, only 20% overall chose a predictable and collaborative tax authority as the main change they would make. This suggests that tax legislation and/or the tax systems themselves are generally the focus of complaint, rather than the tax bodies administering them.

Reductions in employment tax rates were felt to be more important than reductions in corporate tax, income tax, or VAT. Perhaps this reflects the relatively high employment-related social costs in much of Western Europe.

Figure 7. What main change should be made to respondent's own country's tax system?

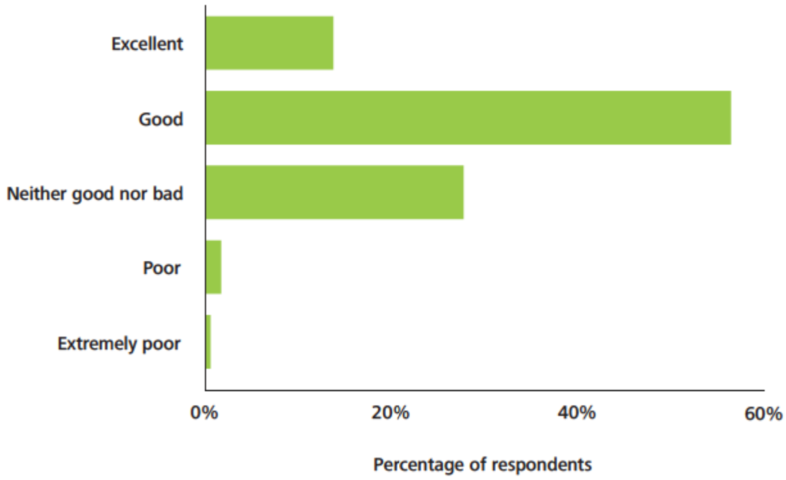


More certainty around the future of the tax system was selected by almost half of respondents. Simplification of the tax system was selected by 36%.

Relations with the tax authorities

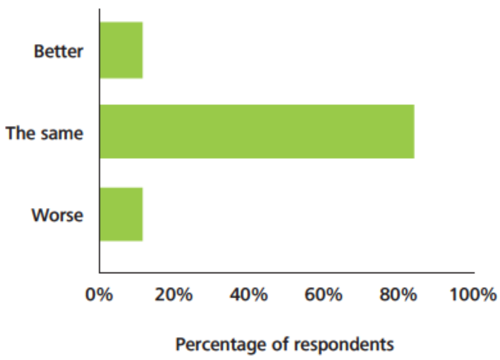
Two thirds of respondents believed their relationship with the tax authorities to be good or excellent with almost all of the remainder viewing it as neutral. A tiny percentage had what they viewed as a poor or extremely poor relationship.

Figure 8. Relations with the local tax authority



Generally, relationships with the tax authorities were relatively stable. 84% of respondents viewed it as the same as it was last year. Only a small percentage (5%) thought it had worsened.

Figure 9. Relationship with the tax authority compared to a year ago



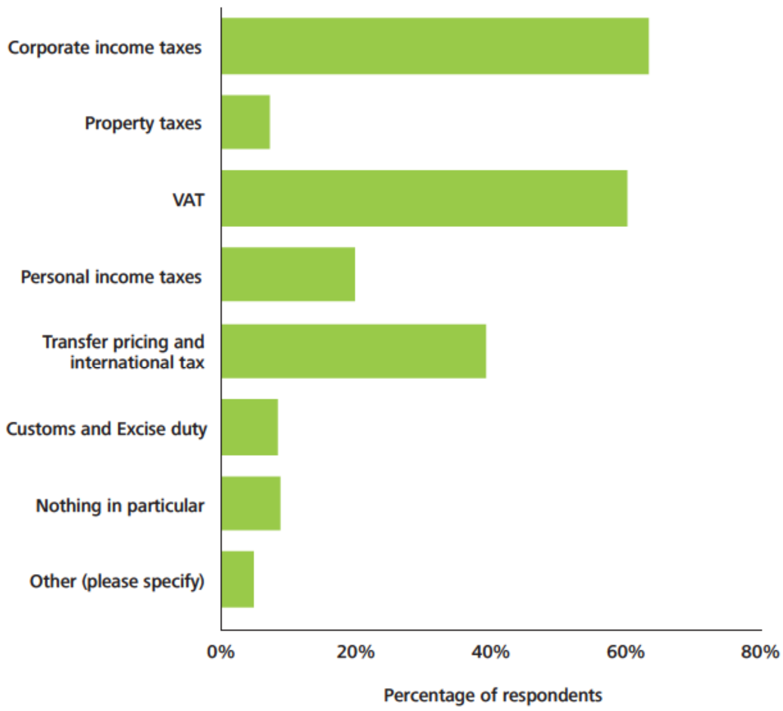
Generally, relationships with the tax authorities were relatively stable. 84% of respondents viewed it as the same as it was last year.

Tax audits and litigation

75% of respondents had had a tax audit in the past three years.

Corporate income taxes and indirect taxes had received the most attention from tax authorities; the complexities of the international tax system, and in particular transfer pricing, continued to challenge both tax authorities and multinationals.

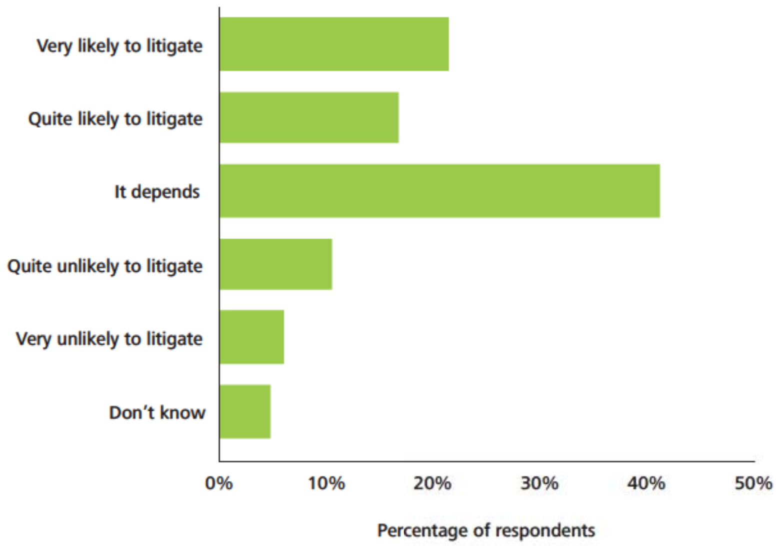
Figure 10. Which area is your tax authority focusing on most?



Respondents were asked how likely they would be to litigate if they felt that the outcome of a tax audit was unsatisfactory, in order to seek a more satisfactory resolution.

Willingness to litigate at an unsatisfactory outcome of an audit was relatively high. 38% of respondents would be quite likely or very likely to litigate, and 41% said it would depend.

Figure 11. If your company was subject to a tax audit and the outcome was not satisfactory in your opinion, how likely do you think your company would be to litigate through the Courts to seek a more satisfactory resolution?



Tax in the spotlight

Companies may be subject to new and sometimes conflicting pressures when it comes to tax. In some countries, action groups and media campaigns had awoken public interest in both how much tax companies pay and where they pay it.

However, this is far from a universal experience. There was a dramatic difference between countries as to whether or not tax had become a platform for public debate and scrutiny. The divide appeared to be between Western Europe, where pressure was high and Eastern Europe, where it was not on the agenda. This may reflect the lower average tax rates in Eastern Europe, or show that there were other, more pressing, issues with the tax systems there.

Over half of respondents had seen greater discussion and scrutiny of businesses tax affairs. 81% of UK respondents thought there was increased scrutiny, 75% in Luxembourg, and 86% in Switzerland. These were the three countries where respondents cited 'tax in the spotlight' as a major and growing issue. The Western European country which bucked the trend was the Netherlands, where only 32% of respondents reported increased scrutiny from external sources, although the Dutch government had announced new measures to deal with criticism of some aspects of Dutch taxation.

Conversely, only 14% of the Czech Republic respondents believed scrutiny and discussion to be increasing in any way; 29% in Hungary; and 31% in Turkey.

Under the spotlight: who is asking?

More than two thirds (67%) of respondents had not been asked by external stakeholders to justify their tax strategy and over half (51%) had not even been asked internally.

Figure 12. Over the past 12 months, have you been asked to justify your organisation's tax strategy by any of the following external stakeholders?

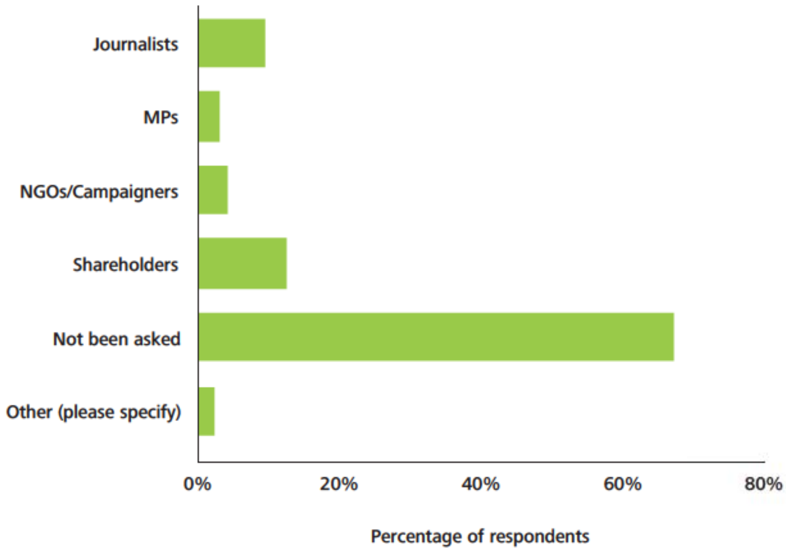
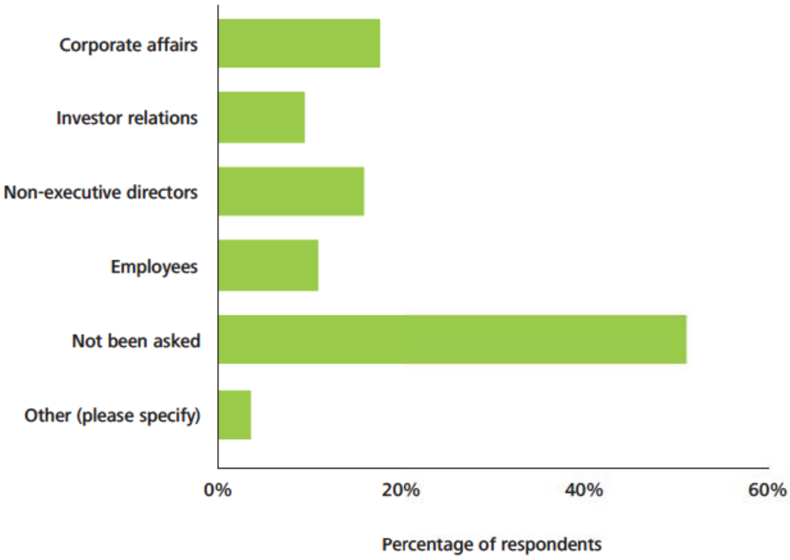
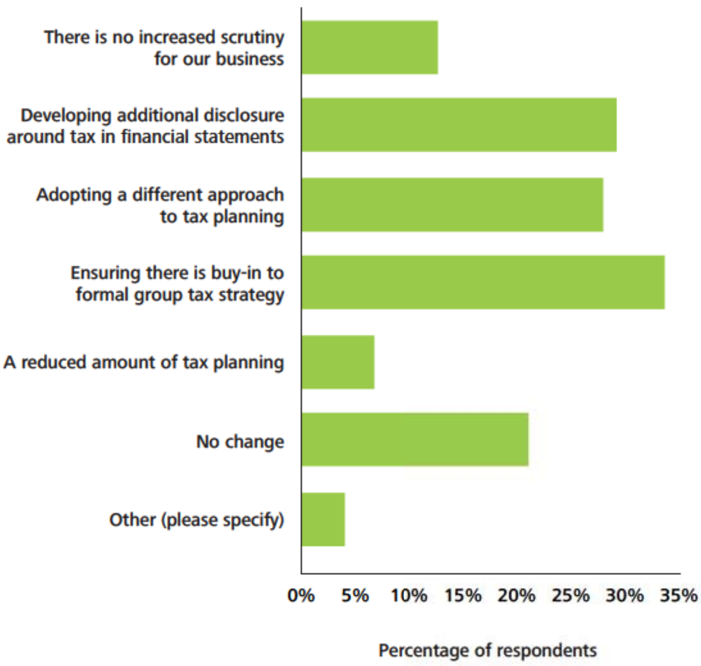


Figure 13. Over the past 12 months, have you been asked to justify your organisation's tax strategy by any of the following internal stakeholders?



The most common responses to increased scrutiny were split between developing additional disclosure around tax in the financial statements, adopting a different approach to tax planning and ensuring there is buy-in to the tax strategy.

Figure 14. Response to increased scrutiny



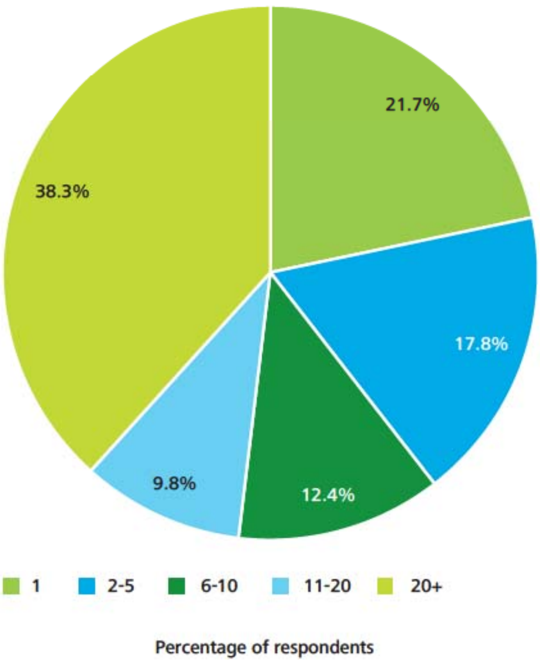
The role of the head of tax

The role of the head of tax has changed dramatically over the past decade, mainly as a result of changes in the ways of doing business. Just ten years ago, the Internet scarcely existed. Now hundreds of millions of people use the Internet for a wide range of commercial activities: everything from banking, ordering goods, buying digitally-delivered services to booking services. This has led to a global expansion that was unforeseen by most, and a rate of change that has not previously existed.

How has this affected the roles in tax? Have cost pressures reduced team sizes? Is this really still a technical role or is it developing a business management focus?

The heads of tax surveyed were typically working for large organisations, often global and with complex structures. 38% of respondents were working for businesses with operations in more than 20 countries. The complexity and scope of any tax role is therefore broad due to this fact alone. Dealing with more than 20 countries, 20 different tax jurisdictions, 20 different rule sets, makes for a challenging time. Only 22% of respondents were the head of tax for businesses located within a single country.

Figure 1. Number of countries your business has operations in

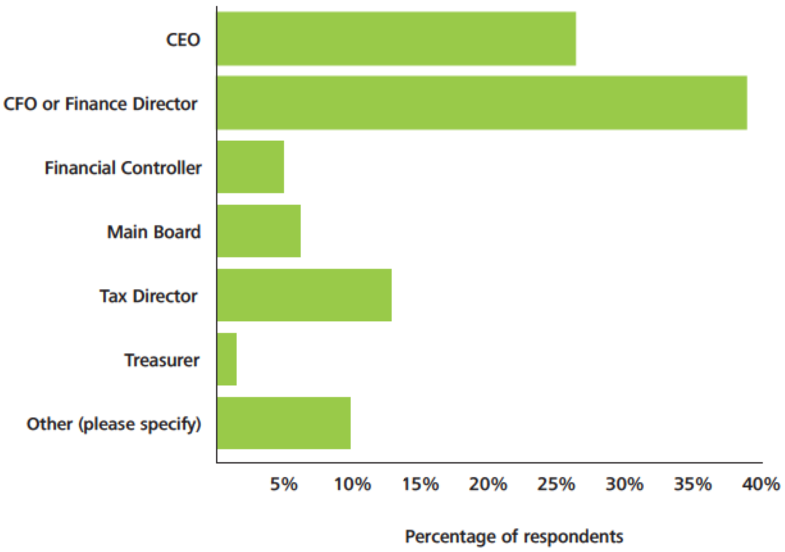


The role of the head of tax has changed dramatically over the past decade, mainly as a result of changes in the ways of doing business.

Over half of respondents (55%) were responsible for tax across a region or globally.

Most reported to the CFO (39%) or the CEO (26%). Only 6% reported directly to the main board.

Figure 16. To whom do the respondents report?



The majority (67% of respondents) worked in a small team of up to three people. Given the scope of these roles and responsibilities, there would seem to be a large workload for such a small team. Only 6.5% of respondents had a team of more than 20 people. It did not naturally follow that the larger roles have the larger teams. Teams tended to be located largely at corporate headquarters, with over two thirds (68%) stating this as the main location. 15% had some people located at headquarters and some in the business.

Board endorsement

There appears to be a correlation between the degree of perceived tax scrutiny in each country and the degree of board time given to tax.

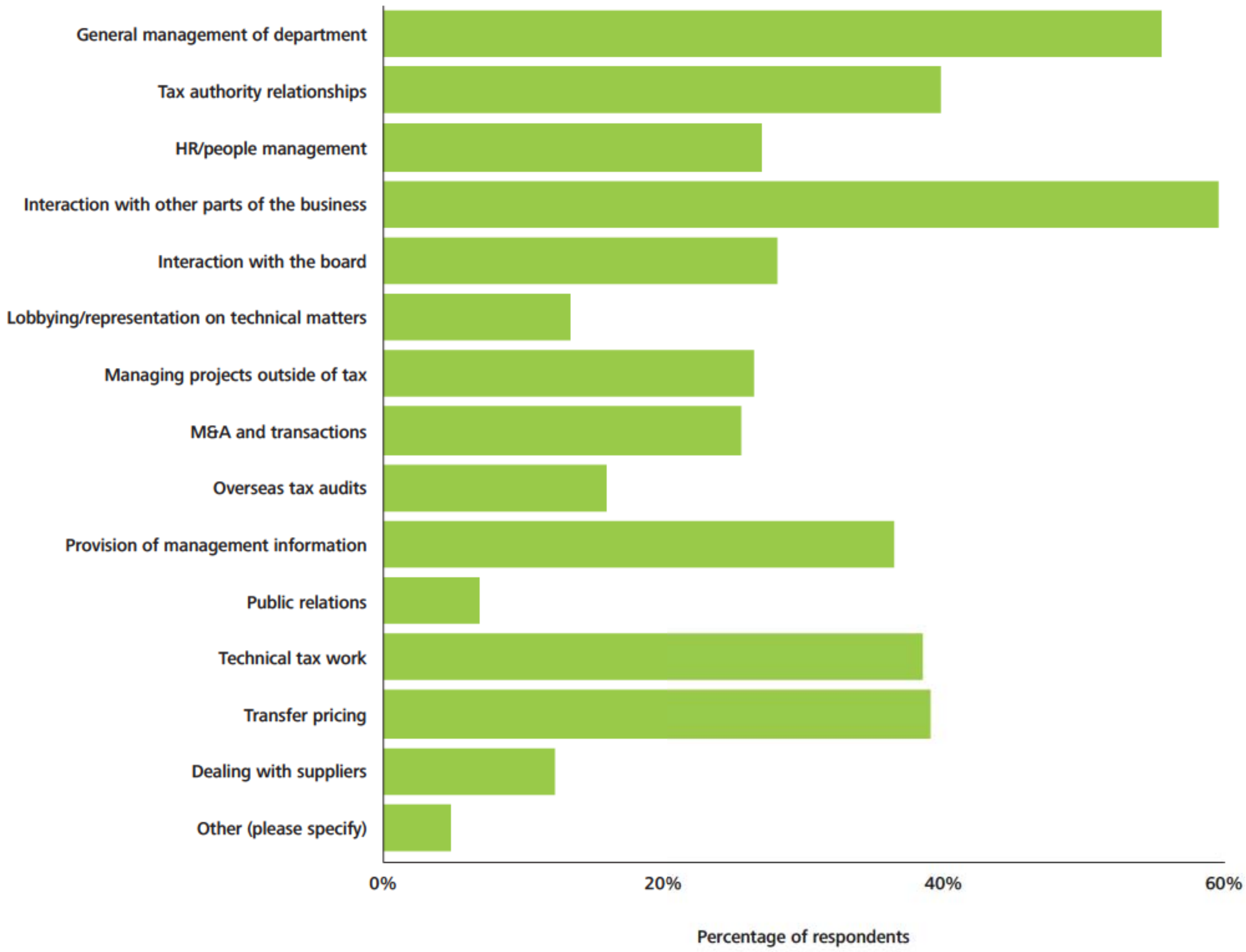
58% of respondents had their tax strategy signed off by the board. 63% of Italian respondents, and the same number of Polish respondents, did not have their tax strategy signed off by the board, compared to 25% of British respondents and 36% of Swiss respondents.

How heads of tax spend their time

Heads of tax spent most of their time interacting with other parts of the business (60% of respondents). General management of the department was a close second (56%).

This demonstrates a move away from the tax technical role that formed the basis of tax jobs in the past. Senior level tax staff were spending their time more in general management and dealing with the business. This means a different kind of requirement in terms of skills and focus.

Figure 17. How heads of tax spend their time



Generally, heads of tax based in smaller economies (such as Croatia, Cyprus and Hungary,) spent more time on compliance and filing returns, whereas those based in larger economies (for example, the UK) spent more time on interacting with the business.

What does success look like?

The key to success for almost all was the timely filing of tax returns and other compliance related work. This defined success above all other measures.

A low effective tax rate (ETR), once the pinnacle of success, has fallen in importance in an attempt to deliver certainty around tax liabilities. A low ETR did not rank in any country as the most important measure of success. This is linked with a move to become more closely integrated with the business and its strategy, perhaps hoping that closer ties will help minimise surprises from within the business.

Figure 18. Rating for each activity as a contributor to success

	Low	Medium	High
Low Effective Tax Rate	12.9%	43.3%	43.8%
Tax return and compliance filed on time	4.2%	24.5%	71.3%
Good relationship with the tax authority	5.7%	43.6%	50.7%
Close integration with the business and its strategy	5.3%	32.7%	62%
Certainty around tax liabilities	2.8%	29.2%	68%
Other	27.7%	25.4%	46.9%

There has been some media focus on perceived tax avoidance undertaken by large companies. However, on this evidence it seemed that organisations were less focused on attempting to pay less tax; their priority was getting it right.

Pressure is put on heads of tax to deliver certainty around tax liabilities in the statutory accounts. Integration with the business is a part of this, and is changing the way that tax departments work. In fact, close integration with the business has already become a key measure of success.

In an interesting reflection of the increasing tax scrutiny in certain countries, some cited 'corporate reputation' as one of the 'other' measures of success. The impact of journalistic and pressure group exposure for some companies had changed the focus.

There has been some media focus on perceived tax avoidance undertaken by large companies. However, on this evidence it seemed that organisations were less focused on attempting to pay less tax; their priority was getting it right.

What are the pressure points for heads of tax?

As pressure mounts on heads of tax, the scope of their roles is also growing. Technical expertise must now be matched with a deep understanding of the business and an ability to integrate with it and keep abreast of its changes and plans.

While filing tax returns and timely tax compliance may be key to success, these are not the issues that are putting pressure on tax executives. These items were rated lowest on a list of key stressors.

Figure 19. Rating of each activity as a key stressor

	Low	Medium	High
Compliance – such as getting tax returns filed on time and accurately	24.9%	46.9%	28.2%
Increased tax authority scrutiny – such as outstanding cases with your tax authority or Tax Audits	15%	45.7%	39.3%
Governance – such as ensuring that tax activities are aligned with wider corporate objectives and getting buy-in from the Board...	15.4%	52.7%	31.8%
Tax resources – such as key tax staff leaving or staff shortages	33.6%	46.7%	19.6%
Technology and systems – such as data quality issues or inadequate finance systems	27.6%	47.2%	25.2%
Change of tax regulation – for example, the introduction of new tax laws, keeping up with rapidly changing legislation...	7.6%	39.7%	52.6%
Other	28.6%	14.3%	57.1%

Pressure is generated by changing tax regulation, such as the introduction of new tax laws. The time and effort needed to keep up with rapidly changing legislation and the concern at getting caught out by changes that have recently occurred keeps tax executives awake at night.

This is clearly an important topic as it also ranks as the number one change respondents would make to their own country's tax regime in order to improve its competitiveness. The request was not for lower rates or greater incentives. Simplicity was desirable, according to the majority, and increased certainty may be an outcome of increased simplicity, but certainty was the main concern.

In the words of one head of tax the key worry is the "consequences of tax legislation instability as a result of the economic crisis and a certain end of certainty in legislation."

Some were concerned about areas of the business operating outside the guidelines the tax department had set them. One respondent cited 'one-off issues and unpleasant surprises as a consequence of unforeseen events' as the most stressful aspect.

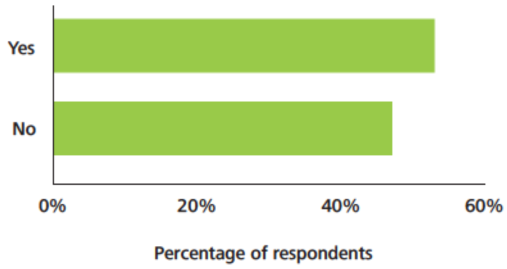
In the 'other' category, corporate reputation was mentioned a number of times. This has featured both as a measure of success and a cause of stress. Also on the stress list was conflicting advice from different tax advisers about the same event. The lack of clarity around some legislation and the ability to treat transactions in a number of different ways made it hard to be certain that the appropriate approach has been adopted – both in terms of the business and its outcomes, and the tax authorities and its processes.

Shared services

Many CFOs are looking at changing business models in a continuing effort to reduce cost and increase efficiency, for example, through regional processing centres in lower cost locations and the use of shared service centres. How many have made this move? And are they using such centres for tax?

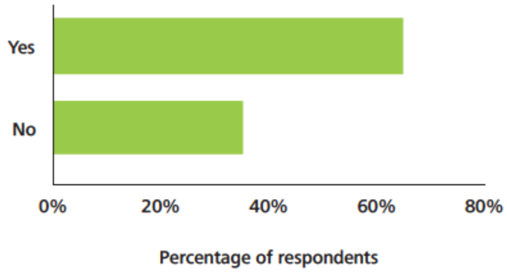
More than half of the companies which responded had a shared service centre that looks after finance.

Figure 20. Do you have a shared service centre that looks after finance?



Of those that had such a centre, two thirds (65%) were using it for some or all of their tax compliance work.

Figure 21. Are you using the shared service centre for some or all of your tax compliance work?



However, of those in a global or regional role, 43% had a shared service centre for finance activities and only 25% were able to use this for tax compliance work, limiting the benefits for the tax team.

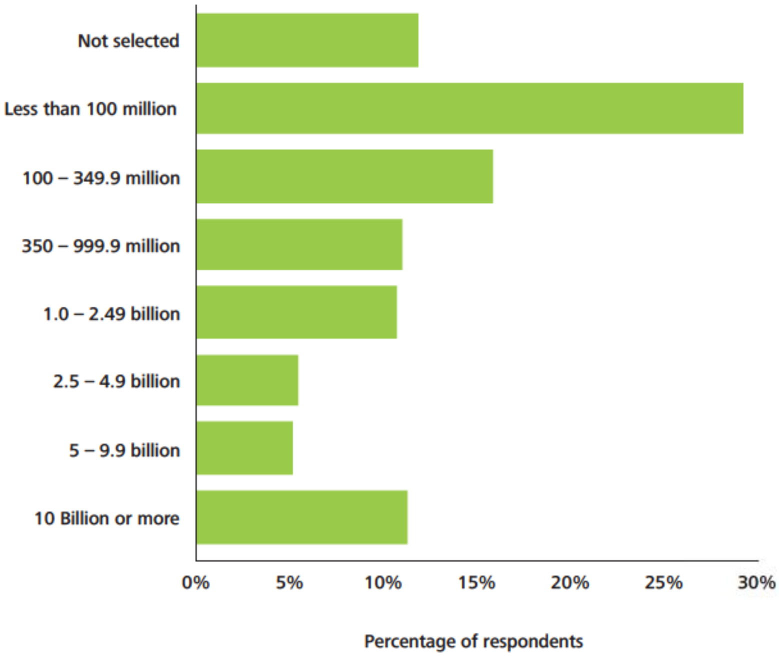
More than half of the companies which responded have a shared service centre that looks after finance.

Appendix A – The respondents

940 organisations completed the questionnaire in full. Partially completed questionnaires were not used.

Just over a quarter of companies had revenues of less than €100m, and 13% were larger than €10billion. A range of companies were therefore covered, but all were large and substantial, particularly within their own economy (the smaller economies were represented, generally, by the smaller companies). Public sector and government organisations were not included.

Figure 21. Company size, revenue in Euros



Industry sectors from across the spectrum were represented.

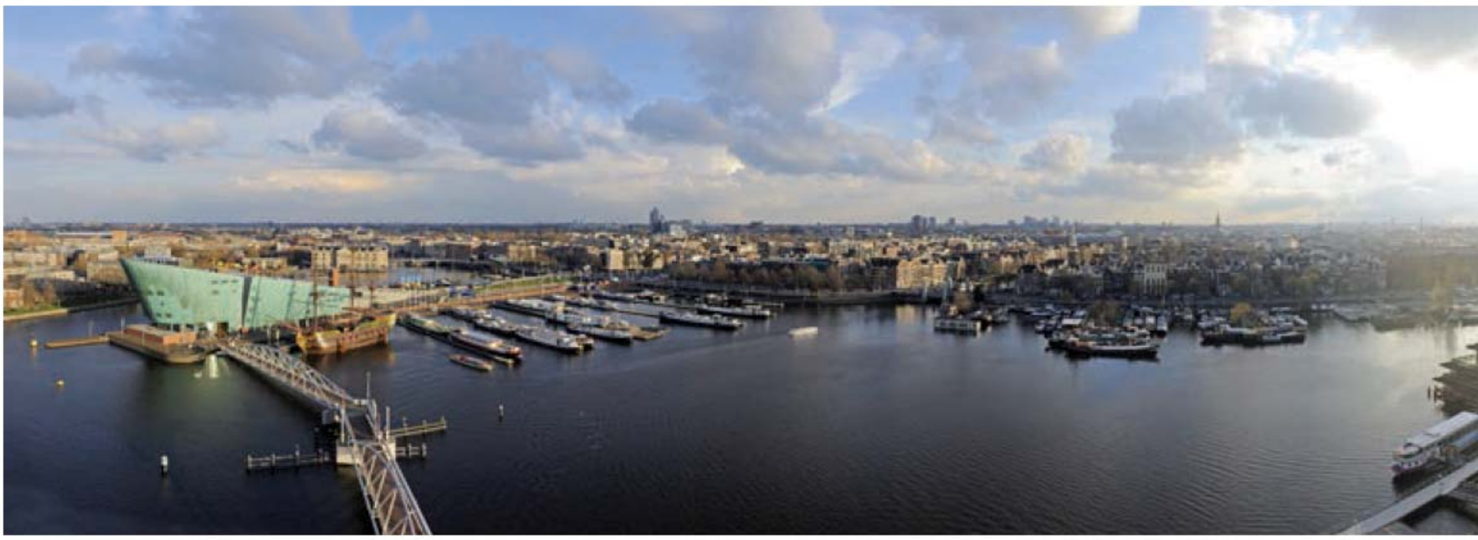
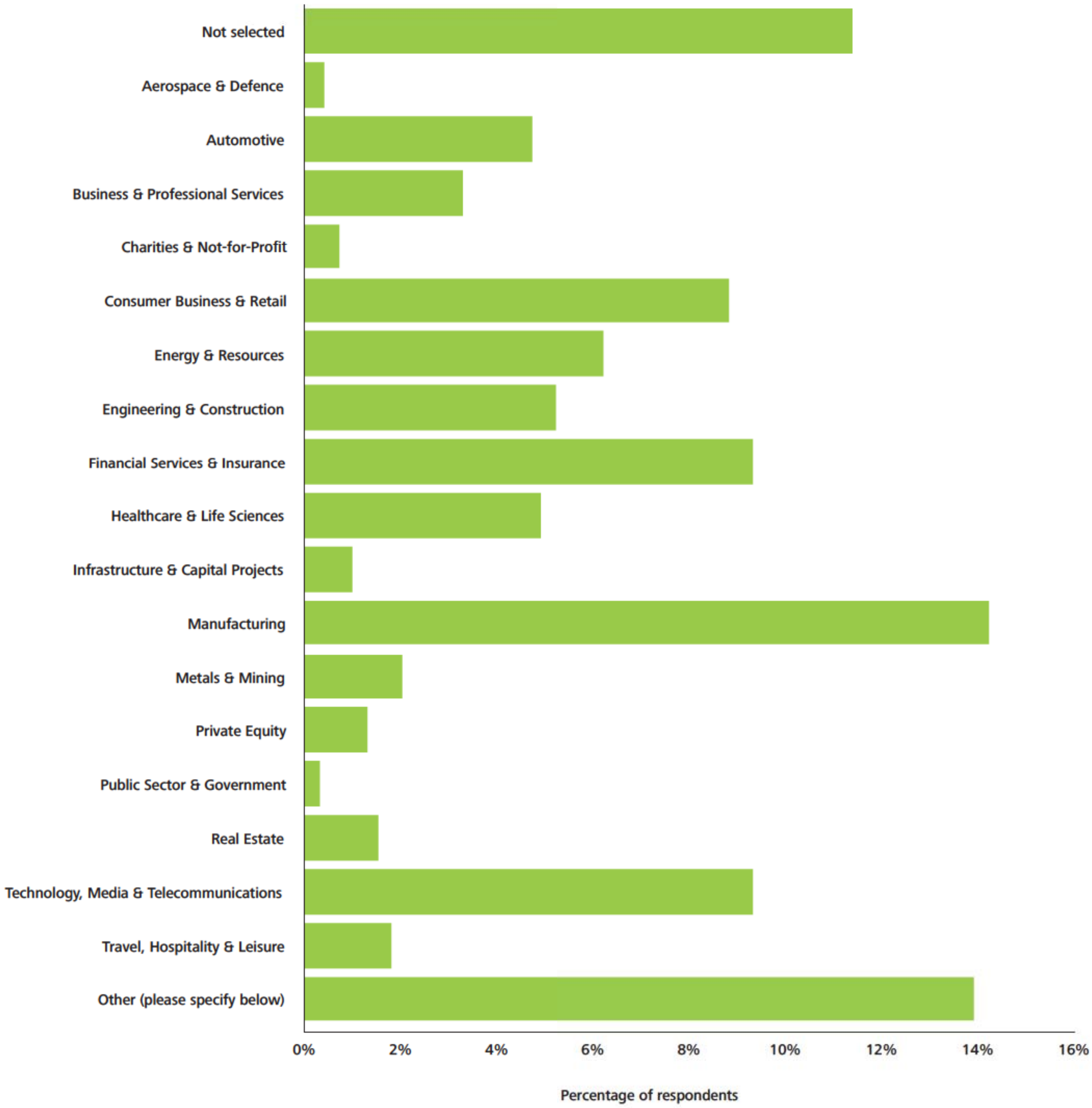


Figure 22. Respondents' industry sector



Respondents were drawn from 28 jurisdictions.

Notes

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