Affecton Tax Journal Survey Report

Introduction

The Affecton Tax Journal Survey of Tax Directors 2013 is a comprehensive analysis of how tax directors of large quoted companies are approaching the very important and difficult task of managing tax affairs in an uncertain environment.

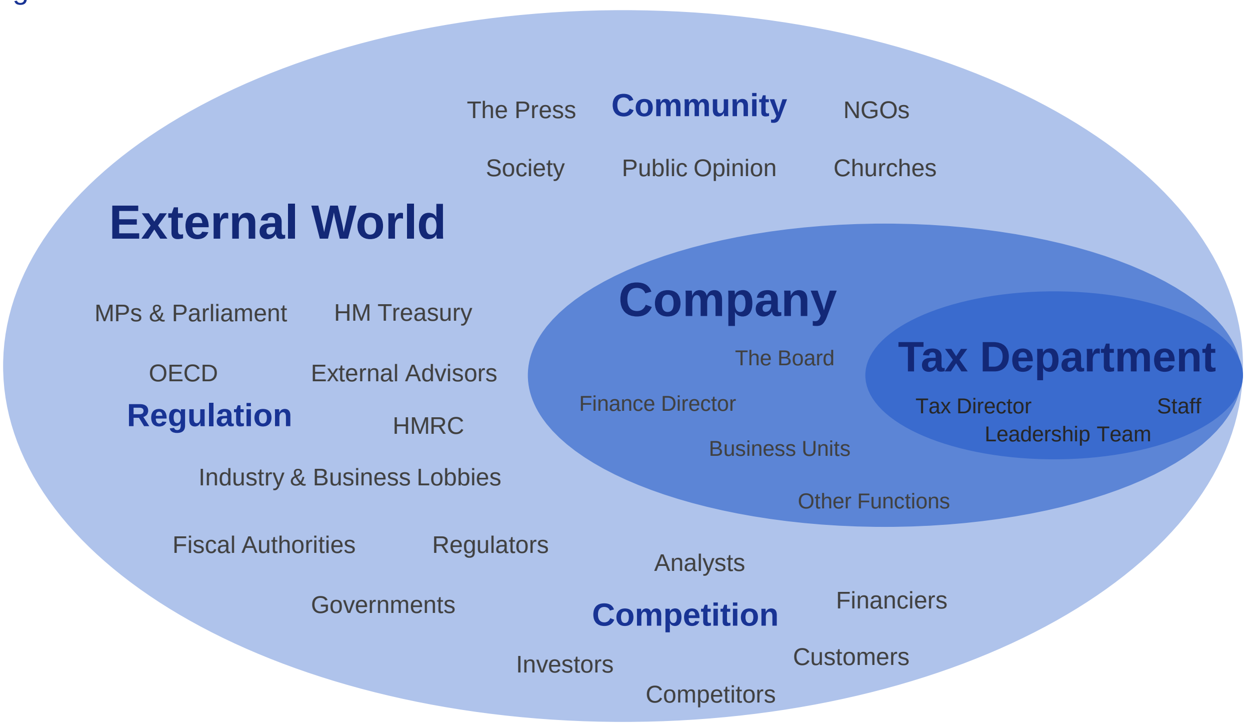
It builds on earlier research by Affecton on tax function effectiveness in 2002, 2006 and 2009. The current survey was undertaken by 35 companies with an average size of 48 tax professionals and we also conducted a number of follow up face to face discussions to get to the very heart of the tax strategy process.

With each survey, we have strived to build a common understanding of how tax directors view their challenges with the aim of helping tax departments build a better future for themselves and their company. Overall the surveys offer a form of benchmarking that goes beyond comparing simple performance data (which usually just results in having to explain the differences) but instead looks deeper into the essential drivers of the tax function, throws a light on what is shaping its direction, performance and reputation, and hence enables tax directors to see what may need changing.

An important new feature of the 2013 survey were the questions that addressed the controversies surrounding alleged tax avoidance by international companies that became a hot political issue in the early summer and which was addressed in the recent Organisation of Economic Cooperation and Development (OECD) report on Base Erosion and Profit Shifting and discussed at the G8 conference.

The questions on this topic were designed to bring out the forces influencing tax policy in the external world (community, competition and regulation) and ascertain whether tax directors believe that we have indeed entered a new era. This enabled us to craft questions which we believe uncover the most important issues in managing a tax department of a large FTSE 100 company and leading it towards that better future.

Figure 1: The three worlds of tax



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Affecton: a consultancy dedicated to working with companies to improve tax direction, performance and reputation.

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Executive Summary

The 2013 Affecton Tax Journal Survey shows that almost half of companies believe that their tax strategies could cause controversy amid a realisation that in this new era tax directors are being stretched in three directions by community (public opinion), competition and regulation. With some high profile global companies hitting the headlines over their tax affairs, it is clear that the new era means taking into account community and public opinion, and its impact on reputation and brand when framing tax strategies. Furthermore, tax savings are needed to enhance company competitiveness and meet investors' preference for a sustainable competitive tax rate. How best to respond to these pressures is not immediately obvious; nevertheless, a more proactive approach should be considered.

Tax directors are facing major challenges from outside in terms of community, competition and regulation, but the survey also shows that they are being stretched by an internal tripartite of direction, performance and reputation.

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

The main concern for tax directors in managing the tax department in this new era is having enough people with the right skills and flexibility to drive business forward and meet the demands of finance directors and boards. But these concerns need not be a barrier to action, as a new era gives tax directors the chance to take the lead and introduce changes to create a more efficient and forward looking tax department.

1. The External Challenge

In the light of recent tax controversies, tax directors are now being stretched in three directions by community, by competition and by regulation in a new era that is seeing tax departments re-evaluate their strategy to fit present day conditions.

The Affecton Tax Journal Survey of leading tax department heads in the UK and follow up face to face discussions have found that community and public opinion is now regarded as a stakeholder in companies' tax strategies (see Figure 2). Regulation is also being significantly strengthened and fiscal authorities are using public concerns to raise the stakes in their enquiries.

Figure 2: Are we really in a new era?

86% We appear to be entering a new era in which companies have to recognise public opinion as an interested stakeholder in the company's Tax Policies and Strategies.

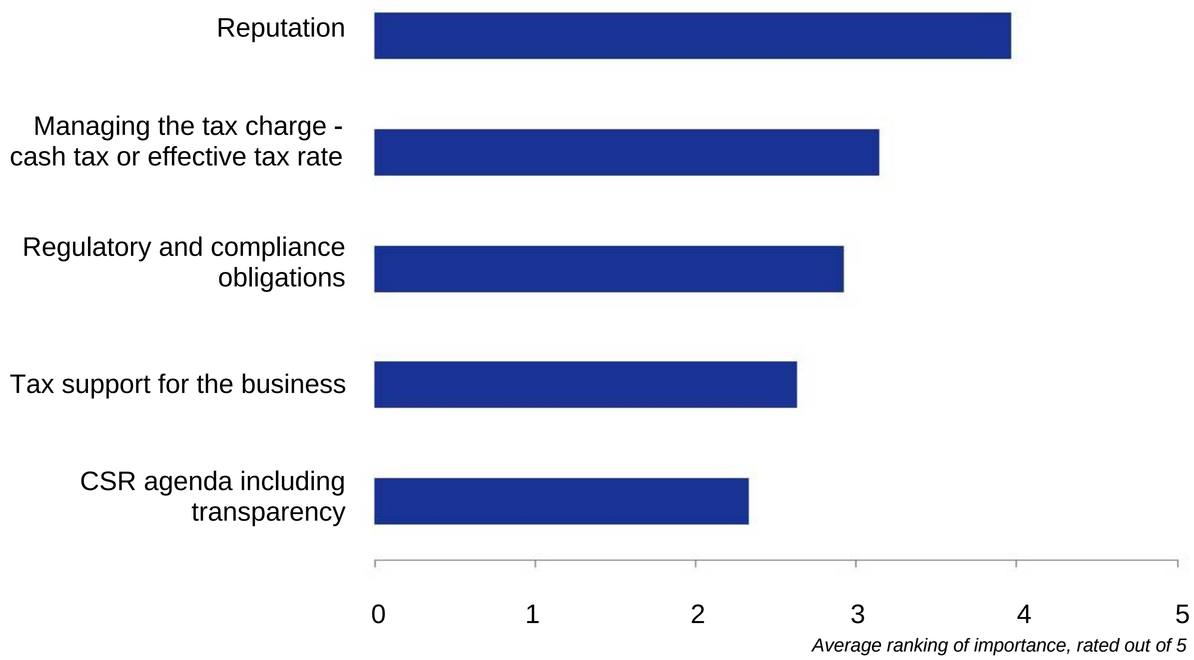
14% Public concerns stem primarily from concerns over public finances and will abate when growth returns and tax revenues rise.

At the same time, half of companies reported that they are not under so much pressure to deliver ever increasing tax savings to enhance company competitiveness. But recent controversies have caused all respondents to consult their finance director on these issues and 68% have also consulted their board.

What matters to the board?

Based on these consultations tax directors believe that their board's key concern in this new era is to ensure that their tax strategies do not cause damage to the company's reputation or brand (see Figure 3). This perceived reputational impact on brand was discussed in face to face meetings and a range of views emerged on the potential impact of tax controversy on reputation and consumer behaviour.

Figure 3: What matters most to the board



Indeed, one group had undertaken detailed consumer group testing which showed that tax controversy was not a major factor in buying decisions. However, most reported a high internal sensitivity to being on the front page of a daily newspaper, irrespective of the degree of impact this might have on brand and consumer spending patterns.

We have tested some of these ideas with brand experts who reminded us that the shift in recent years has been for companies to seek to connect their corporate brand with their product brand. Corporate behaviour can then affect the product brand, either positively or negatively. A further challenge is that the person with the biggest appetite for risk is usually not the person with the biggest understanding of the nature of the risk. When tax operates outside its own knowledge area it is likely to run excessive risks.

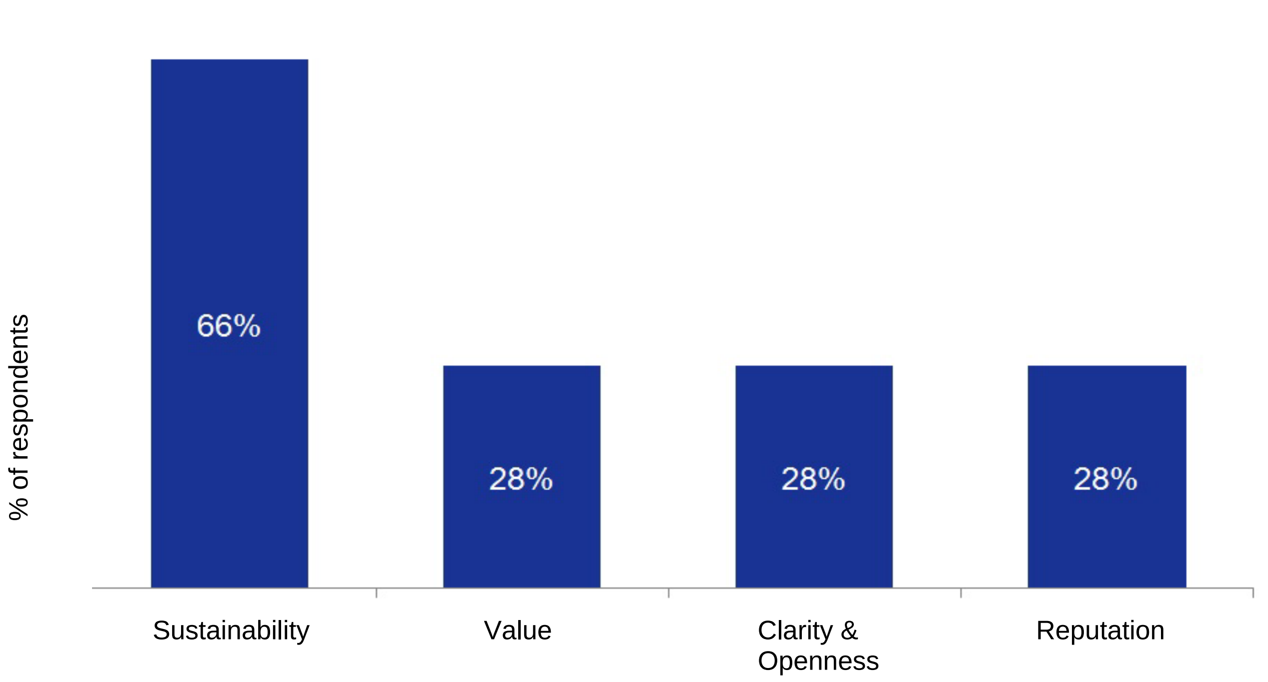
The survey found a similar sensitivity to what finance directors expect from their tax department towards ensuring no surprises and not risking the company's reputation. No tax surprises was clearly rated as the most important objective; perhaps reflecting the importance of predictability and sustainability in earnings that investors are looking for. Furthermore, sustainability, attention to risk management and preserving company reputation, which are high up on tax directors' agenda, are closely related to no tax surprises.

Investors

While tax directors are facing up to the challenge of meeting community expectations, delivering a sustainable competitive tax rate and satisfying regulation; they also believe that investors are, first and foremost, looking for sustainability, predictability and stability.

This set of qualities can perhaps be summarised in a single word as Sustainability. This is far ahead of the next most mentioned aspects, namely delivering value/tax efficiency, providing clarity and openness and preserving reputation. Taken together, they also represent the same tripartite challenge that tax directors see in their own objectives and what they believe their finance director and their board want (see Figure 4).

Figure 4: What investors are looking for in tax



Investors' perceived need for sustainability is derived from their practice of constructing valuations for shares based on a predicted stream of future earnings (DCF Models). On this account, tax directors believe that the actual tax rate will only be used in these projections if it is regarded as sustainable; otherwise, the investor may use the (higher) standard rate of corporate tax. Empirical research undertaken in this area by one major investment firm found that there is no correlation between tax rates and P/E ratios, indicating that the actual tax rates tend to be used in the marketplace. All other things being equal, a lower tax rate should give rise to a higher valuation.

Our in-depth discussions with some of the world's largest investors (on both the buy-side and the sell-side) confirmed the view that investors are generally interested in a stable predictable rate. However, when valuing a specific company, an investor's analysis is more refined and takes account of differences. Investors will focus on how a company's tax rate compares to its peer group, and where there are differences, investors will try to understand the causes.

If a company is able to demonstrate to investors' satisfaction that it has a lower long-term tax rate, it should gain from a higher valuation. Conversely, if a company is unable to show that its tax rate is sustainable, or has a higher tax rate than its peer group, it is likely to suffer a lower valuation.

In light of this, a company would benefit if it is able to engage directly with investors to persuade them that their group's lower tax rate is indeed sustainable. Remarkably, few tax directors have met directly with investors to find out what investors really want first hand. This has been left to the investor relations department, because they felt investors do not understand tax well, and it may be confusing and overwhelming to be faced with a tax person who does not speak their language. In our view, direct engagement would go some way to counteract the situation that tax is a subject not well understood by investors and one which may often be overlooked.

This may be one of the factors that lie behind the rise in the proportion of companies that publish their tax policy. Whereas in 2009, only one half of companies had a policy and only a few published it, the latest survey shows that almost all companies now have a policy and over one-half now publish it. However, the tax policy disclosure may be ignored or, at worst, add to investor confusion of tax as it does not provide meaningful information to investors on the financial impact of tax in the business and therefore the sustainability of the tax rate in the long term. Accordingly, there appears to be an opportunity to make tax more understandable to investors and for companies to realise a higher valuation where a lower tax rate is sustainable.

Transparency

Most companies are looking closely at the whole area of transparency. However, there are issues with greater general transparency, including the extra work and commercial sensitivities involved. Many companies indicated they are attempting to disclose much more tax related information and an internally consistent approach to transparency will thereby underpin the company's overall tax reputation.

Most, some 72%, are against country by country reporting. In follow up discussions it was deemed to be unhelpful and could lead to the unnecessary use of resources in providing the information. Many expressed a concern that country by country reporting would give a distorted picture with reams of information rendered meaningless without a proper narrative which could lead to more confusion. Also, the current focus is only on corporate tax, whereas taxes paid are much broader.

Many think it is better to provide commentary rather than just the amount of tax by country, while some respondents believe country by country reporting could lead some countries to push for a greater share of tax when they jealously look at what tax share other countries are getting.

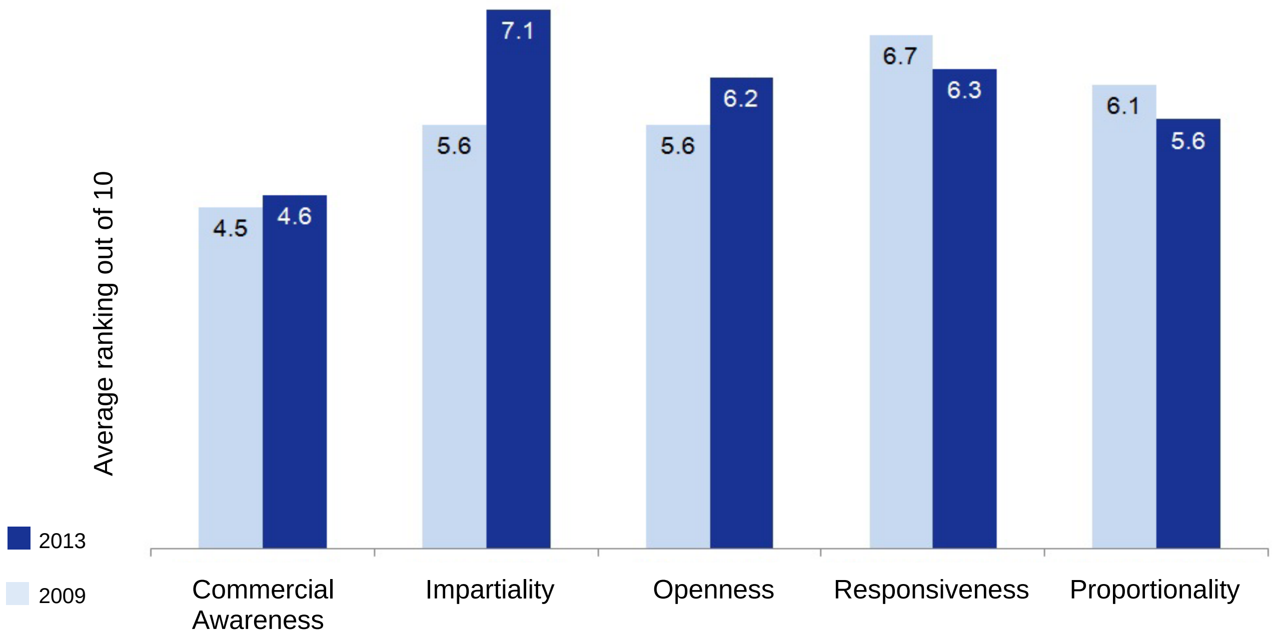
Those in favour of country by country reporting think greater transparency will allay some suspicions about corporate behaviour, but are still concerned about the lack of a materiality test in respect of information to be provided. They are fearful of the compliance burden this may entail. Country by country reporting was thought more acceptable if it relates to disclosure of payments to governments by country but less acceptable if full financial statements by country would be required, particularly as accounting rules throw up anomalies. In any event, a globally consistent standard was generally preferred.

HMRC standards of behaviour and CBI principles

In the survey we asked tax directors to give their views on how well HMRC is doing in meeting the standards set out in the study carried out for the OECD Forum on Tax Administration held in 2008. The study was led by HMRC and concluded that fiscal authorities could create more efficient and effective relationships with taxpayers and tax intermediaries by using a framework based on behaviours of commercial awareness, impartiality, openness, responsiveness and proportionality.

The main strengths remain in the same areas as in 2009, namely impartiality, openness and responsiveness. The main area of weakness is again commercial awareness. Compared with 2009, the scores have improved in impartiality and openness but declined marginally in responsiveness and proportionality (see Figure 5).

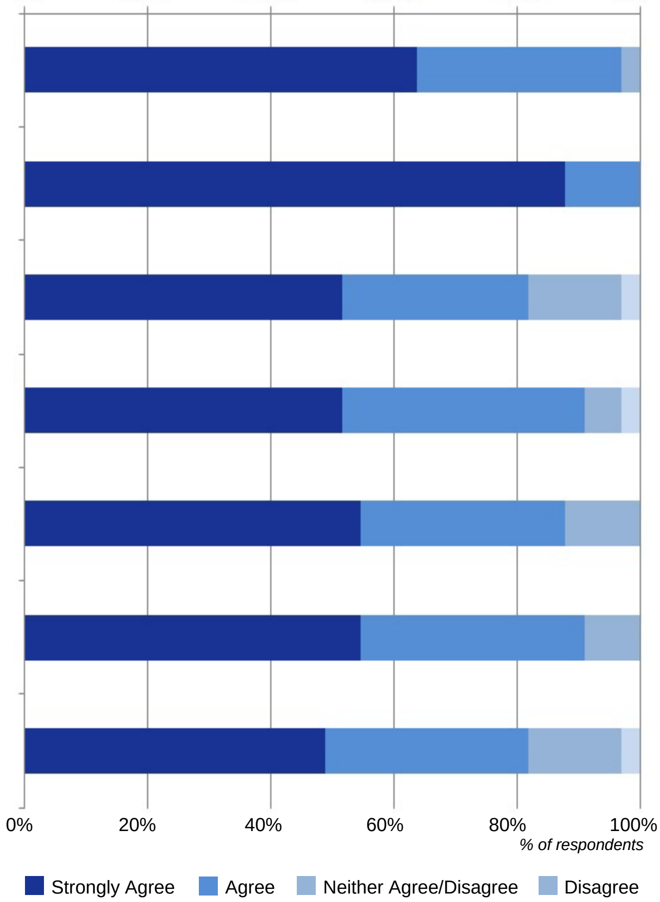
Figure 5: HMRC standards of behaviour



In May 2013, the CBI put forward seven principles on tax that it is encouraging all UK businesses and companies operating in the UK to follow. Tax directors gave general support to these principles (see Figure 6).

Figure 6: CBI principles

1. UK businesses should only engage in reasonable tax planning that is aligned with commercial and economic activity and does not lead to an abusive result.
2. UK businesses may respond to tax incentives and exemptions.
3. UK businesses should interpret the relevant tax laws in a reasonable way consistent with a relationship of "co-operative compliance" with HMRC.
4. In international matters, UK businesses should follow the terms of the UK's Double Taxation Treaties and relevant OECD guidelines in dealing with such issues as transfer pricing and establishing taxable presence, and should engage constructively in international dialogue on the review of global tax rules and the need for any changes.
5. UK businesses should be open and transparent with HMRC about their tax affairs and provide all relevant information that is necessary for HMRC to review possible tax risks.
6. UK businesses should work collaboratively with HMRC to achieve early agreement on disputed issues and certainty on a real-time basis, wherever possible.
7. UK businesses should seek to increase public understanding in the tax system in order to build public trust in that system, and, to that end: They should consider how best to explain more fully to the public their economic contribution and taxes paid in the UK. - This could include an explanation of their policy for tax management, and the governance process which applies to tax decisions, together with some details of the amount and type of taxes paid.



Tax directors did however express the reservation that UK companies should seek to increase public understanding in the UK tax system in order to build public trust. Some respondents felt that the Government itself should take a lead in the public debate on tax and defend its recent business friendly changes on CFCs, patent box and lowering the rate of corporation tax. This would provide more balance in what is currently a hostile media environment.

How are tax directors responding?

It is clear that trying to deliver a sustainable tax rate, with no tax surprises and reputation intact, means that tax directors are being stretched in three directions by the forces of community, competition and regulation. While tax directors believe competition is now relatively weaker than the other two forces, delivering tax savings is still a key objective. It is one of the main supports for maintaining tax department resources and budgets. So, how are tax directors responding to this trilemma?

Because the public opinion risk via the force of community is by its nature based on sentiment and emotion, there can never be clear rules to guide tax directors on what tax planning, if any, would be acceptable to this audience.

Indeed the Affecton Tax Journal Survey shows that 48% of companies believe that their tax strategies could cause controversy but only a small minority is willing to change their plans even if almost all of them recognise that the community has a stake in what they do (see Figure 7).

Figure 7: Tax practice controversy

52% Our tax practices would not cause controversy.

17% Our tax practices could cause controversy and we have or are planning to modify our tax strategy.

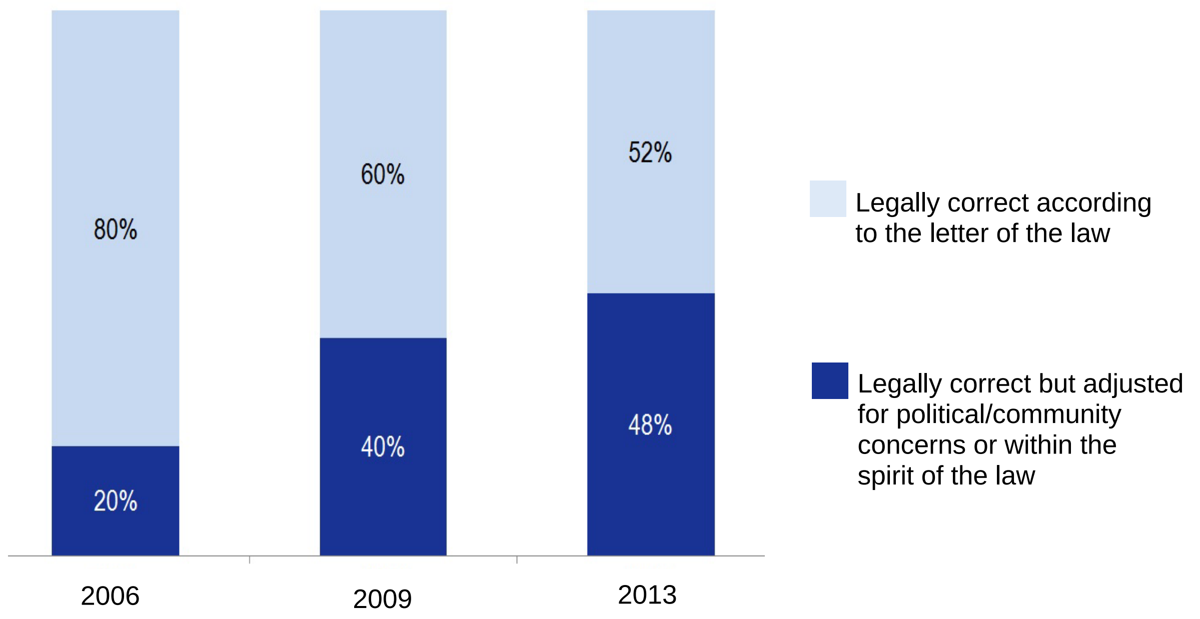
31% Our tax practices could cause controversy but we are not planning to modify our tax strategy.

It is clear in the current climate that companies need to think about what they should do to manage the risk that their name may be on the front pages of newspapers on account of their tax planning as has happened recently with some well known multinationals. There is an awareness that this kind of scenario is something their board wants to see avoided.

The survey results also show that there seems to have been a shift in views in a number of areas. The majority of the respondents to the survey indicated that their Group now places much greater emphasis on the 'spirit of the law' in organising their tax affairs.

There has been a trend away from a strict letter of the law approach to take account of political and community concerns compared with earlier Affecton Tax Function surveys in 2006 and 2009 (see Figure 8).

Figure 8: Right amount of tax



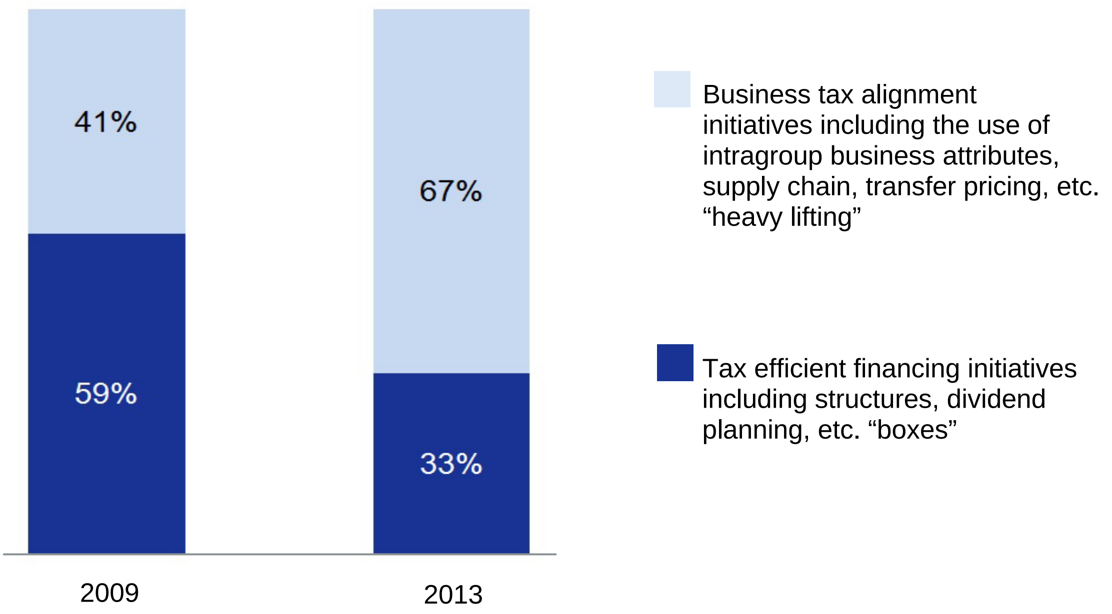
Relying on the letter of the law is now seen by more companies as insufficient if it produces what may be seen as an absurd result, i.e. one contrary to the intended result or the purpose of the legislation. It is however often impossible to discern or discover the precise overall purpose of thousands of individual pieces of legislation interacting with one another.

The GAAR and planning

The UK GAAR is seen by most respondents as having little or no impact on tax planning; although it is seen by some as defining what is and is not acceptable tax planning. But since most recent controversies would not have been affected by a GAAR, this is perhaps of limited use as a guide for what is acceptable to public opinion.

There is however a clear shift away from more 'artificial' tax planning based on creating tax efficient financing structures 'boxes' to 'business tax alignment' initiatives. In 2009 most companies surveyed by Affecton relied primarily on 'boxes', while in 2013 much more emphasis is on 'business tax alignment' (see Figure 9). Such business based tax savings ought more readily to be accepted by investors as sustainable than the structured finance and other schemes that have been determinedly attacked by HMRC and other fiscal authorities.

Figure 9: Tax planning



It is also the case that structured finance schemes tend to have a short to medium term life of say three to seven years and when they do come to an end, the company is faced with an increase in its tax rate and a potential hit to shareholder value, unless of course it enters into further such schemes. There is a risk that a company can thereby become 'addicted' to such schemes, since they appear to provide a ready made solution to the problem. With such arrangements under increasing attack and with an apparent fall-off in their supply, this may no longer be viable option. In these circumstances, leading tax departments are actively reviewing their strategies to ensure that they are equipped to deal with the tripartite challenge.

One company did in fact tell us that recent controversies have led them to scale back on all their tax planning. This tax director also saw little future for tax departments as separate units and would envisage them being rolled back into controllers in due course in recognition of the remaining role of compliance. This seems to be a minority view but it is at least internally consistent, although most of our contacts believe that tax departments are needed to deal with the traps created by the complexities of the legislation and to help avoid risks such as double taxation.

Framing tax strategies in a new era

Consistency and credibility carry a great deal of weight in external affairs and reputation. If a company can explain what its beliefs and values are and can show that it is acting honestly and consistently in line with them, it at least has a defence for its actions. Some leading tax departments are therefore re-evaluating the whole of their strategy to fit this new era.

Recognising that companies do need to show that they make a contribution to society and that they are a part of the community seeking to judge their behaviours, these tax directors have decided to be clear, both internally and externally, about the tax policies and the company's values and beliefs that underpin them.

Holding to a consistent line between values, policies and behaviours (tax strategies) increases trust and credibility and allows the company to point to the total tax contribution made. Such an approach will also ensure that the board, the finance director, the business and tax department staff have all been involved in developing the policy, understand the trade-offs and risks and ensure that tax strategies are internally consistent. They will then be in a better position to justify and support tax positions when challenged.

Furthermore, the involvement of staff in creating a tax strategy that embraces community expectations can be a very powerful motivational force. This is particularly important in countering the challenge to personal beliefs, the sense of meaning and purpose that a tax professional holds onto, which may have been unsettled in the wake of recent controversies.

This should not be underestimated as some recent tax controversies have been triggered by whistle blowing. Clear guidance is needed and can also ensure that plans are escalated to the right decision making level when they show any unusual features. The tax planning strategies will vary from company to company, reflecting each one's own set of values, priorities and policies. Such a realignment to reflect the changing community and regulatory environment requires a significant commitment of time, energy and money. However, without embracing change the tax department risks being all at sea and unprepared for the storms ahead.

A proactive approach

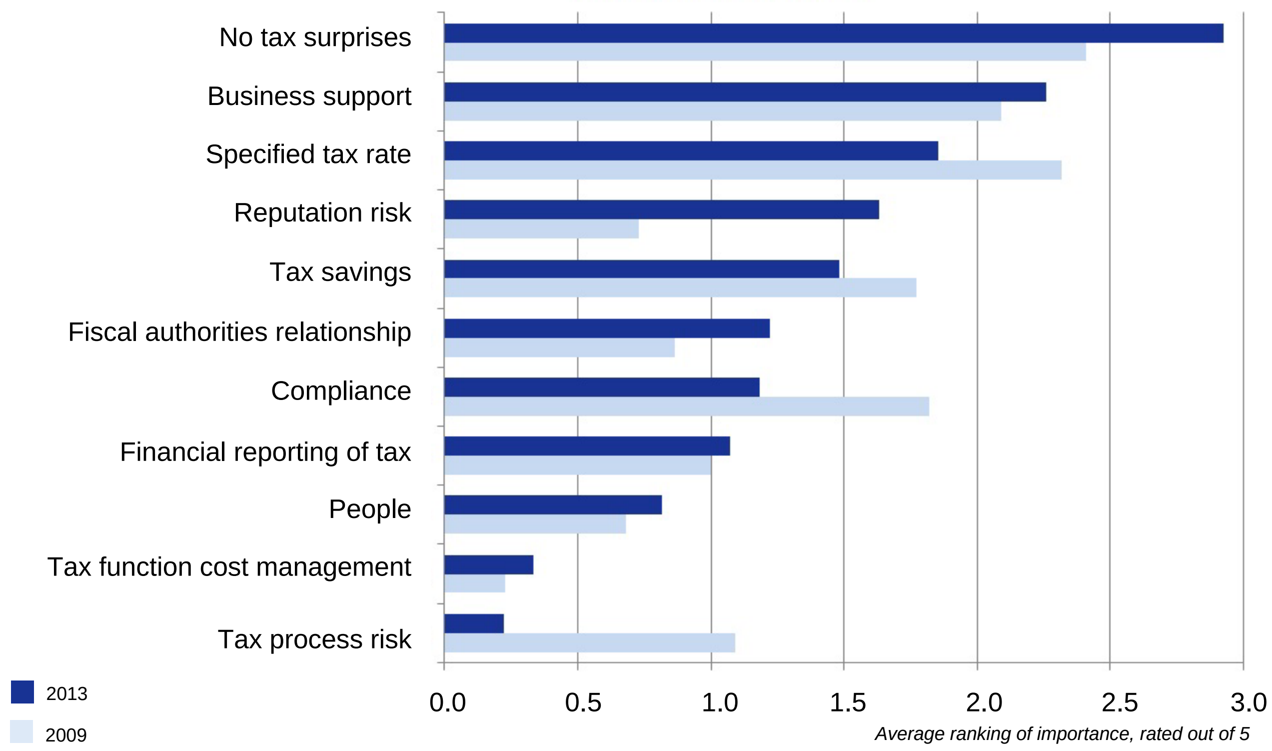
In conclusion, it is clear that we have entered a new era. The proactive approach can go yet further, by seeking to influence the debate. Perhaps the most useful approach we've heard about is for 'off the record' briefings on the complexities of international taxation for business editors of the major newspapers, non-governmental organisation directors and MPs. These approaches could help to change the climate to one based on a little less condemnation and a bit more understanding.

2. Internal Company Challenges

When it comes to surprises, no tax department wants to be responsible for springing the unknown on finance directors and boards and this has emerged as the top objective for tax directors in the survey of how leading tax departments are dealing with internal challenges. In second place is business support, followed by achieving a specified tax rate.

These top objectives have changed little since the last survey was carried out by Affecton in 2009, but it is further down the list of objectives that interesting changes have happened. There has been a significant demotion in relative importance of compliance, tax process risk and tax savings despite the fact that these are usually seen as the prime roles of the tax department (see Figure 10).

Figure 10: Tax function objectives



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

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

As discussed earlier, tax directors were asked to rank given topics according to what is perceived by them to be most important to their board, and what particular strategic tax issues their finance director is currently focusing on, in order to compare these with the tax department's own objectives. The survey found that tax directors believe that reputation is the most important issue for the board, followed by managing the tax rate, compliance obligations and then business support. When it comes to finance directors, tax directors believe that having no surprises is the top issue for them, followed by risk management, reputation and managing the tax rate.

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

The tripartite challenge

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

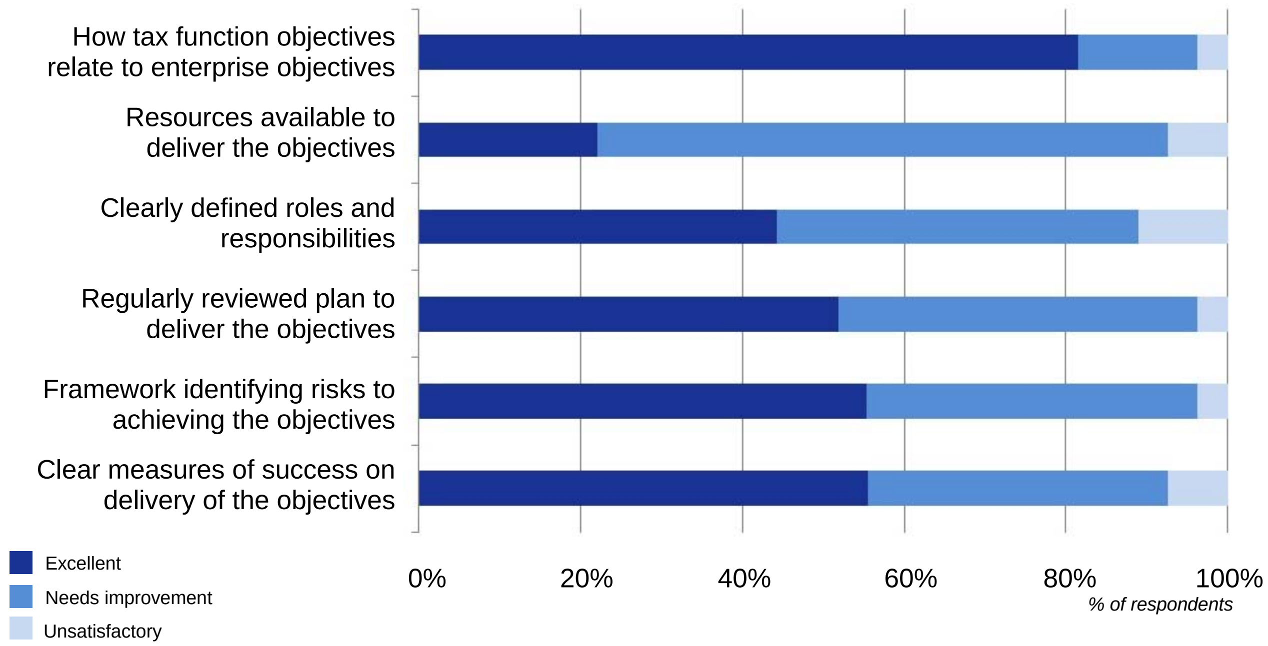
The survey results also show that tax directors consult very widely within the company on their tax strategy. All tax directors consulted their finance director and their key tax staff, while more than two thirds consulted their board, CEO and audit committee, and 47% key business personnel. Also, 35%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

A majority of companies have just reviewed their tax strategy, or will be undertaking a review this year, but a third of companies do not currently see the need to undertake a review. But there is more openness as more than 50% of companies now publish their tax policies.

Difficulties faced by tax directors

The difficulties tax directors face is underlined by their responses on how well their tax function performs in delivering their tax strategy (see Figure 11).

Figure 11: Tax strategy elements

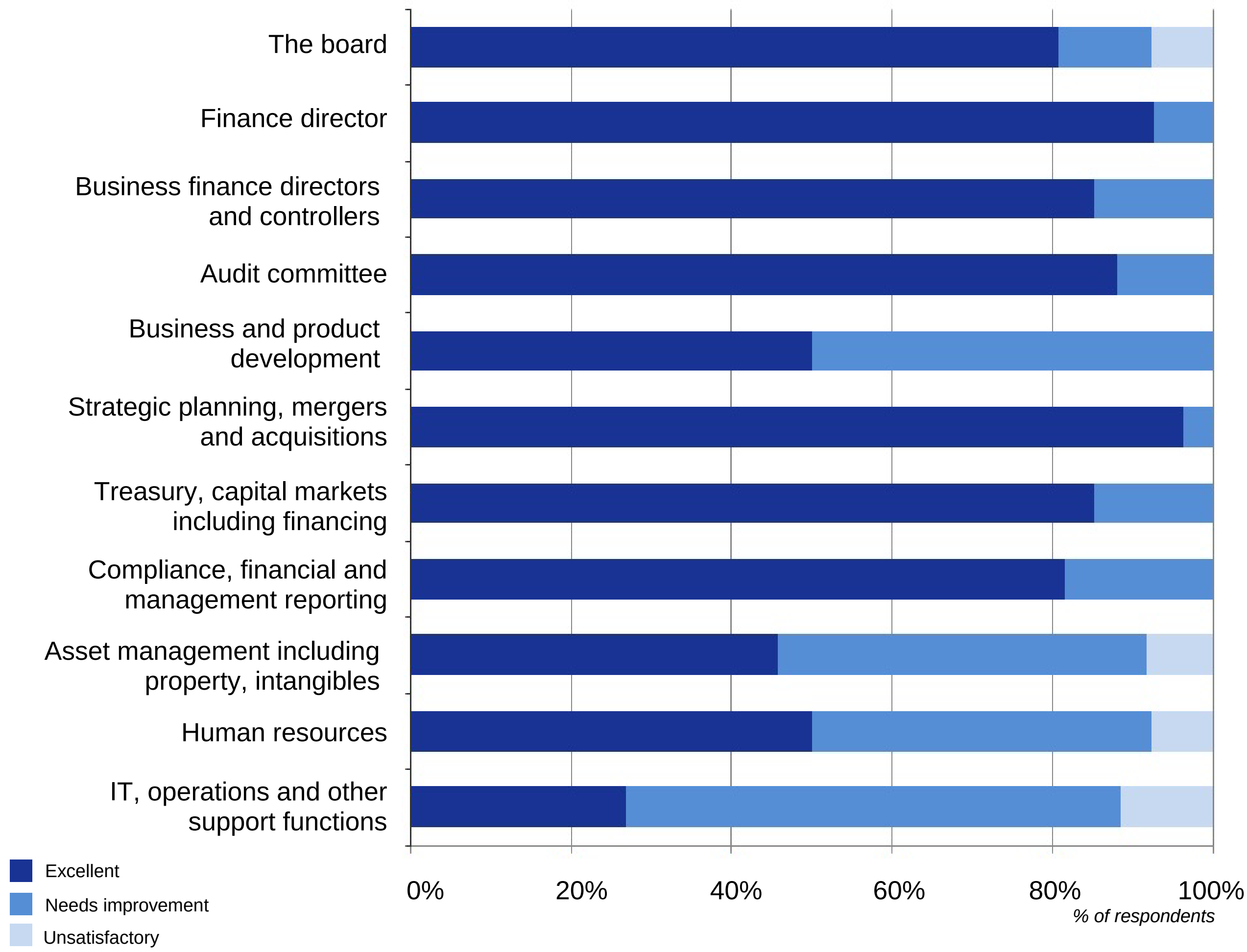


Key areas of difficulty which emerged in the survey included sufficiency of resources, descriptions of roles and responsibilities, ability to keep plans under regular review, risk framework and having clear measures of success.

The survey asked tax directors to share their top three challenges. Resources was the most mentioned challenge followed by delivering on value, fiscal authorities and managing corporate reputation.

Tax directors were also asked to rate internal relationships. Whilst most relationships were rated as excellent, the areas of business and product development; asset management and intangibles; and IT and other functions were mostly rated unsatisfactory. Two companies even mentioned having poor relationships with the board (see Figure 12).

Figure 12: Tax function relationships



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

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

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

The value of good communication is shown by what tax directors thought about what skills and qualities will be needed for future tax leaders in 10 years' time. The two most often mentioned were influencing relationships and having a commercial and business sense.

Working in uncertain times

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

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

3. Managing the Tax Department in a New Era

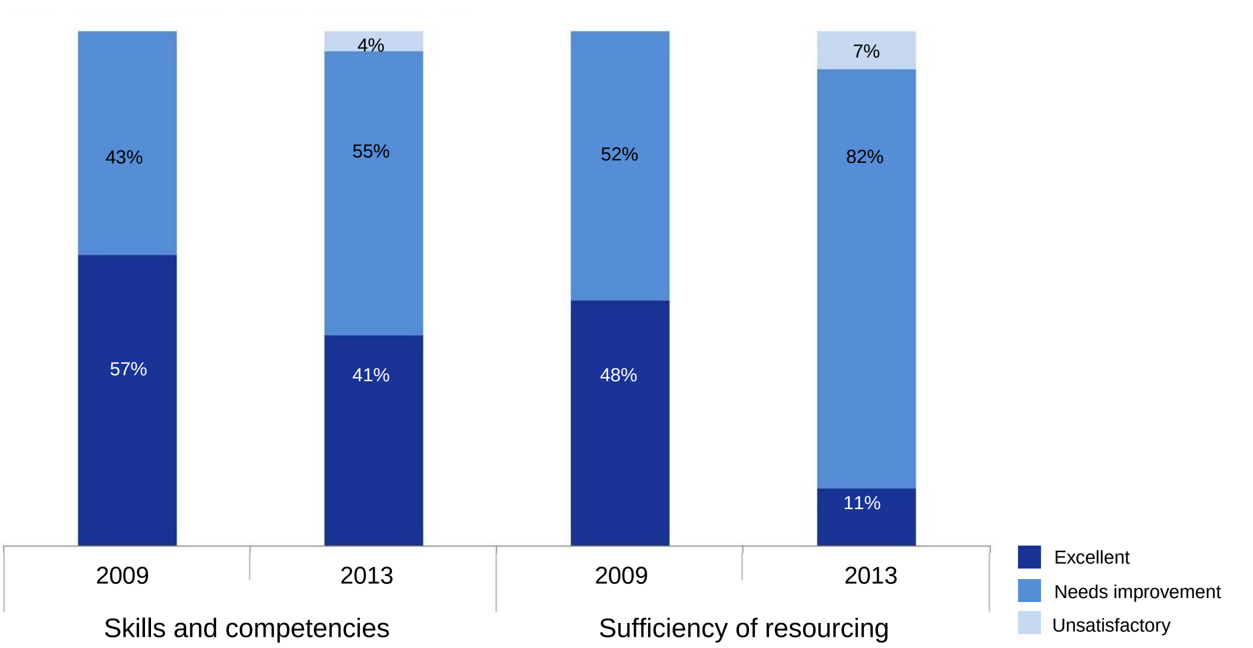
The main management concern for tax directors in the new era is having enough people with the right skills and flexibility to drive business forward and meet the demands of finance directors and boards. But these concerns need not be a barrier to action, as a new era gives tax directors the chance to take the lead and introduce changes to create a more efficient and forward looking tax department. Tax departments need to have efficient processes operated by sufficiently qualified people with the right skills who are all housed within a suitable structure of accountabilities so they can deliver their objectives.

Almost all tax directors are concerned about their resource levels as they seek to ensure that their processes, people and structures are fit for purpose to meet the challenges of a new era of community accountability, regulation and competitive pressure. While some tax departments are comfortably resourced, most are not. Some even appear to be in a Catch 22 situation that prevents them from seeking additional resources.

Tax departments will only expect to be given new resources if they can show they can manage them effectively. Tax directors therefore seem to believe that asking for more may be seen as an admission that they cannot manage what they have already. Yet this belief is almost certainly based on false assumptions and could prevent tax directors from seizing the initiative at a time when a new era presents them with a unique opportunity to refresh and move forward.

In the 2013 survey, only an astonishing 11% of tax directors said that they were fully resourced, some 82% under resourced and 7% severely under resourced. This is in stark contrast to the last survey in 2009 when 48% were fully resourced, 52% were under resourced and not a single tax director felt severely under resourced (see Figure 13).

Figure 13: Tax function skills and resourcing



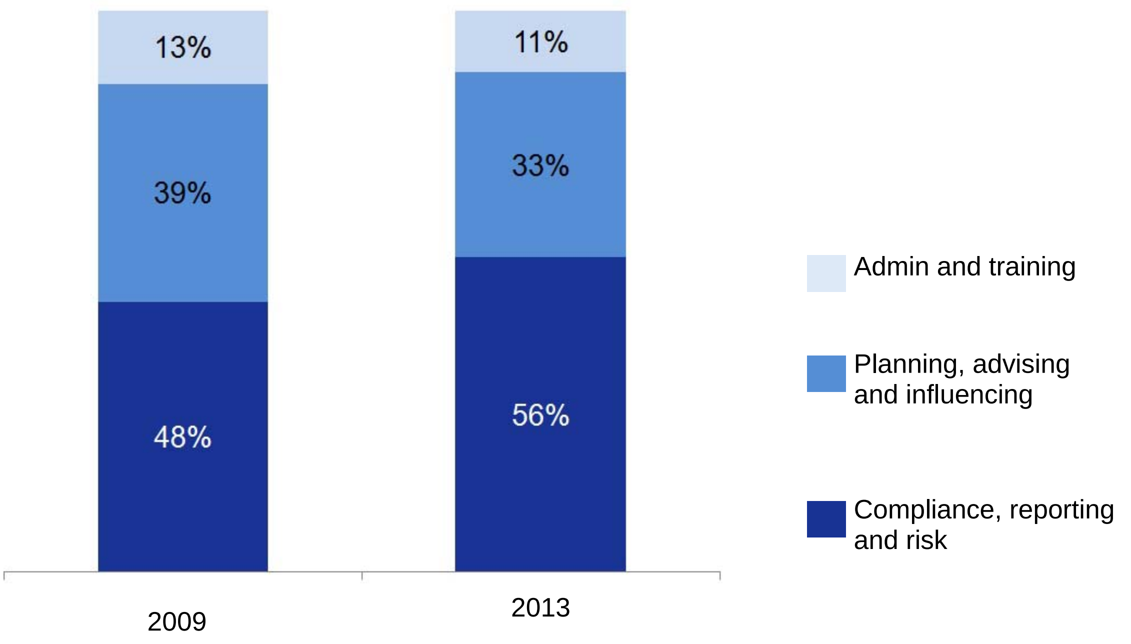
Whereas the resourcing difficulties in 2009 were put down by tax directors to strong business growth and a shortage of suitable candidates, the very different picture in 2013 appears to be driven by cost reductions. Tax directors are reporting that they are being urged by boards and finance directors to have a sustainable and competitive tax department but with no new resources. They are being asked to do more with less.

There has also been a change in terms of the skills and competencies within tax departments for getting the job done. In 2009 some 57% of tax directors said they had the skills and qualifications needed in their tax department but now in 2013 that has dropped considerably to 41%.

Managing resources

In looking at what tax departments are doing, the survey found that 56% of time and resources is spent on compliance, reporting, risk management and audits and 33% on tax planning, advice and lobbying as shown in Figure 14.

Figure 14: Allocation of resources



The time spent on compliance has gone up since 2009 from 48% to 56% even though in 2009 the ideal proportion was said by tax directors to be 43% for compliance and 44% for advice and planning. There is therefore a gap of 13% of resources potentially being spent on the wrong things.

This points to a need for tax directors to look and see if resources are being managed appropriately. Tax directors have for a long time been looking for and achieving efficiency and quality through better integration of tax compliance with financial reporting, particularly after re-locating these operations to accounting service centres, some of which are in cheaper offshore locations. So, one would have expected the proportion spent on compliance to come down towards the ideal level rather than increase.

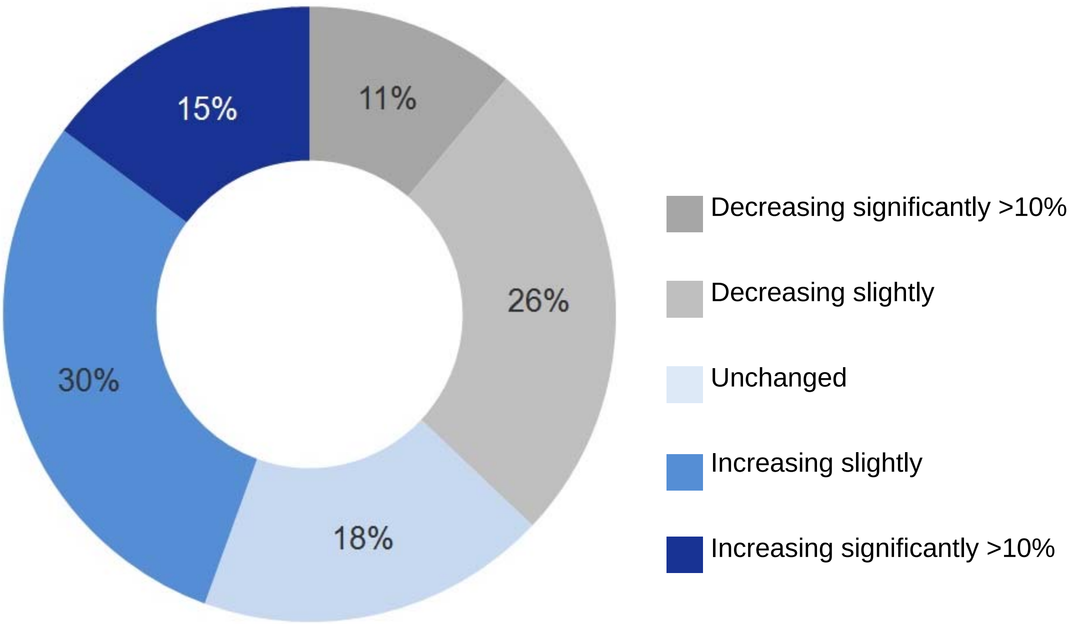
There could be a number of possible explanations for these changes. Assuming that resources have been reduced in many departments, particularly the use of external consultants, it would seem that they may have been cut predominantly from planning and business support. This is, perhaps, not surprising as while compliance is obligatory, advice and planning is discretionary. Also, the elimination of pre-packaged tax planning solutions as a result of HMRC's anti-avoidance initiatives has restricted the options available to develop tax planning. Many tax departments are not geared up to undertake complex research and development of tax planning alternatives and have been reliant on external advisors for this kind of work.

Whatever the explanation, and it is likely that each company's circumstances will be different, the overall result is that most tax directors feel that they are under resourced, with the consequent risks and pressures that this brings.

Stress and risk

Many tax directors currently believe that they will have fewer resources in five years time and this should not be ignored (see Figure 15).

Figure 15: Tax function budget



Chronic under resourcing leads to tax directors and their staff working longer hours; experiencing more stress than they would otherwise do. Efficiency and quality can decrease as a result. Good staff leave and are difficult to replace. Tax support to the business suffers, as does the reputation of the tax department. New risks arise in these situations and existing risks become more difficult to manage. The probability of a nasty surprise also grows with stress and pressure.

This is where the Catch 22 situation comes in. Tax directors will perhaps find it difficult to make a case for more resources on the basis of what might be going wrong. They may see this as an admission of weakness or failure; even though, on the basis of the responses to the survey, one would expect the tax department's own basic risk management assessments already to be highlighting these issues.

The survey shows that 78% of companies have reviewed their risk management framework in the past year and the rest within the last two years. So the issues identified in this survey should have been picked up in these reviews as significant risk areas for a substantial number of companies.

Further, as discussed earlier, many tax directors reported difficulties in implementing their tax strategy. The survey found that just 22% felt they had the resources to implement their tax strategies, only 52% regularly reviewed plans to deliver their objectives and 56% did not have clearly defined roles and responsibilities. These difficulties therefore extend beyond resource constraints and point to operational matters within the control of the tax function leadership.

Leadership

One common thread identified in the survey is that tax directors are being challenged to take the initiative to overcome difficulties and break down barriers. Having a clear vision of what is required is essential, plus the ability to implement it. The board will be looking for a sense of integrity and the tax director facing up to the responsibilities that the role entails. The tax director will also be looking for these qualities in his or her own senior staff and throughout the team.

In our follow up discussions with the heads of leading tax departments, most of whom have themselves had to implement budget reductions, we were struck by the way in which they look to get the most of their resources by ensuring their staff are highly engaged. Tax directors want, and need, people who are willing to change and be flexible; but staff also need to understand the benefit that their work brings to the company. This entails tax directors looking for more than just technical excellence from their staff as there can be an assumption that their value to the company is purely about their technical skills. Staff need technical skill but they also need to be more general contributors in terms of willingness to adapt to new situations and bringing forward ideas.

In the survey tax directors were asked to list the qualities needed for tax leaders in 10 years' time. The top attributes were an ability to influence people and shape future outcomes; an ability to build relationships internally and externally; and being able to take a strategic long term view of the most important business issues.

The key question going forward is how tax directors break out of the lack of resources cycle. If more resources were simply made available, perhaps this would solve the problem. However, this is an illusion as it is unlikely to occur in the current environment with the relentless focus on reducing costs. And anyway, it doesn't address the underlying issue of cultivating the right skills and focussing these effectively on the main issues.

A Time to Refocus

Perhaps there needs to be a refocusing of the tax strategy and the resources needed to deliver that strategy. There is unlikely to be a quick fix as change needs to be part of a long term journey to align tax to changing business priorities; and changing regulation, investor and community expectations; and career aspirations of tax staff.

In conclusion, most tax directors have concerns about resources and operational matters. Meanwhile the arrival of a new era of greater community accountability, tougher regulation and continuing pressure to maintain competitiveness means change, and that can be intimidating. But change can also be liberating; and some tax directors see this as a golden moment to demonstrate their leadership by going to their finance directors, boards and audit committees and setting out their strategies and plans for the future. The message is to seize the initiative, to see change as an opportunity to build a better future.

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