



The essence of a leading tax function

20 November, 2008

TAX

Pressure for transparency

Over recent years, four factors have combined to force companies to be more transparent around tax decision making

Economic policy

- Strategic industries and taxpayers
- Tax as a competitive advantage
- Indirect vs. corporate profits tax

Investor/media interest such as:

- Investor interest in sustainability and competitiveness
- Citigroup reports 2005/2006 covering taxes impact on financial statements
- Credit Suisse report on FIN 48 highlighting tax as a 'black box' of risk

Pressure for Transparency

More collaboration between Tax Authorities on:

- Transfer pricing
- Challenge systems and processes
- Collaboration of tax authorities in Australia, Canada, UK and USA (JITSIC)
- OECD Forum on Tax
- ATO introduction of annual compliance arrangement process aimed at the top 50 companies

Regulatory Pressures including:

- Sarbanes Oxley 404
- FIN 48

Singapore tax survey – main findings

- Importance of governance
- Lack of tax strategy/policy
- Lack of resources
- Greater emphasis on Goods and Services Tax (GST)
- Growing complexity

Singapore tax survey – key issues

Importance of Governance

- Strong evidence of the growing importance of tax risk assessments and tax governance to most organisations:
 - Senior finance person ultimately responsible
 - Tax treated as a board level issue

Singapore tax survey – key issues

Lack of tax Strategy/Policy

- The majority of respondents do not have a documented tax strategy
- No marked improvement to the quality and quantity of tax information provided to the board

Singapore tax survey - key issues

Lack of resources

- Most groups have
 - a non tax person with day to day responsibility for tax
 - between 1-5 people looking after tax.
- Few organisations with sophisticated tax teams who think strategically
- Lack of any technology to support tax compliance

Singapore tax survey - key issues

Greater emphasis on goods and services tax

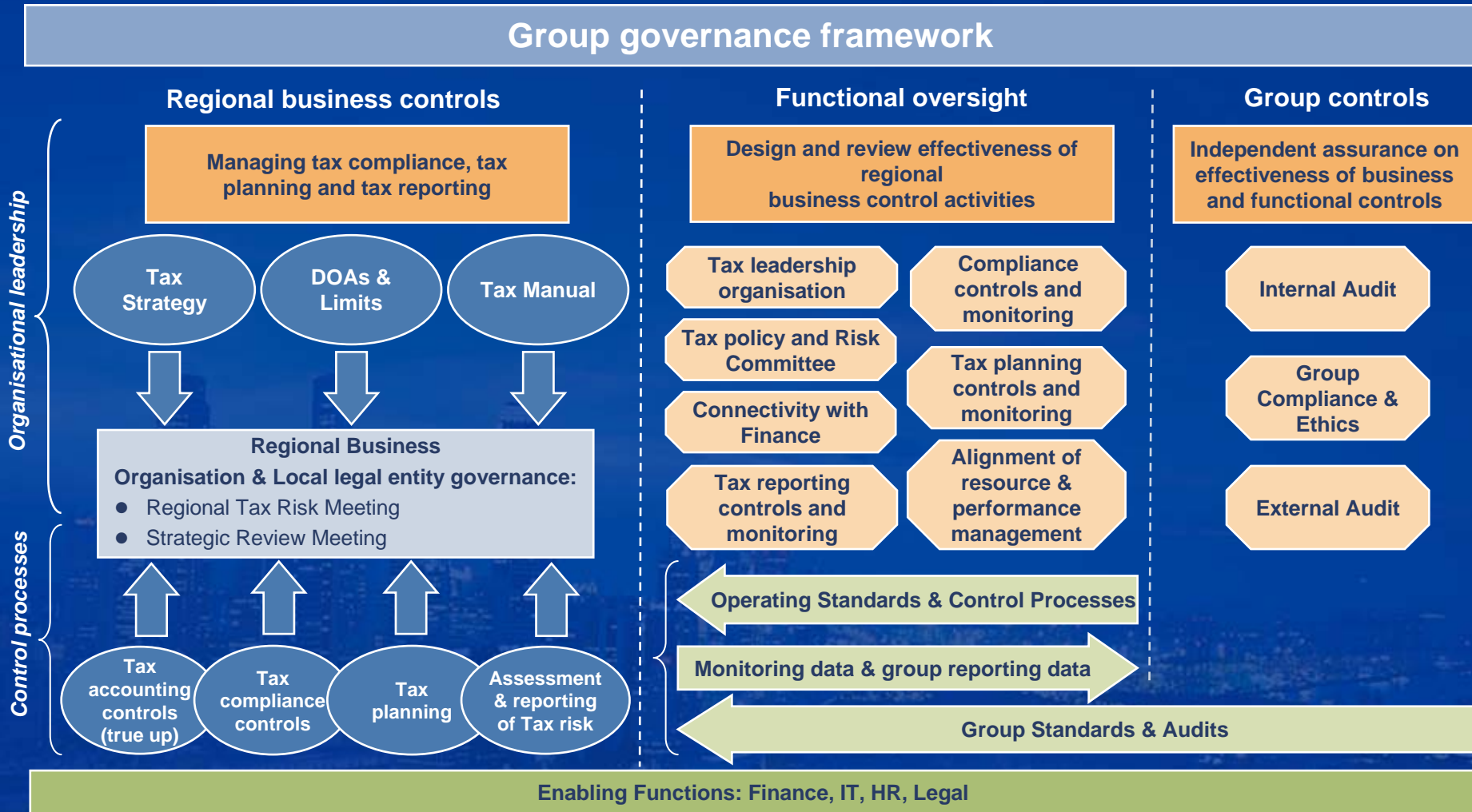
- Increased concern over complexity of GST legislation and the implications for the management of GST risk and compliance
- Anticipated that GST rates will increase in the future
- However, no increase in time or resource dedicated to GST compliance

Singapore tax survey - key issues

Growing complexity

- Belief that the tax environment has become more complicated and will get more complicated in the future
- The impact of globalization is bringing the same pressures felt in Europe/Americas
- Concerns raised that IRAS should be more commercially minded

Significant elements of a tax control architecture

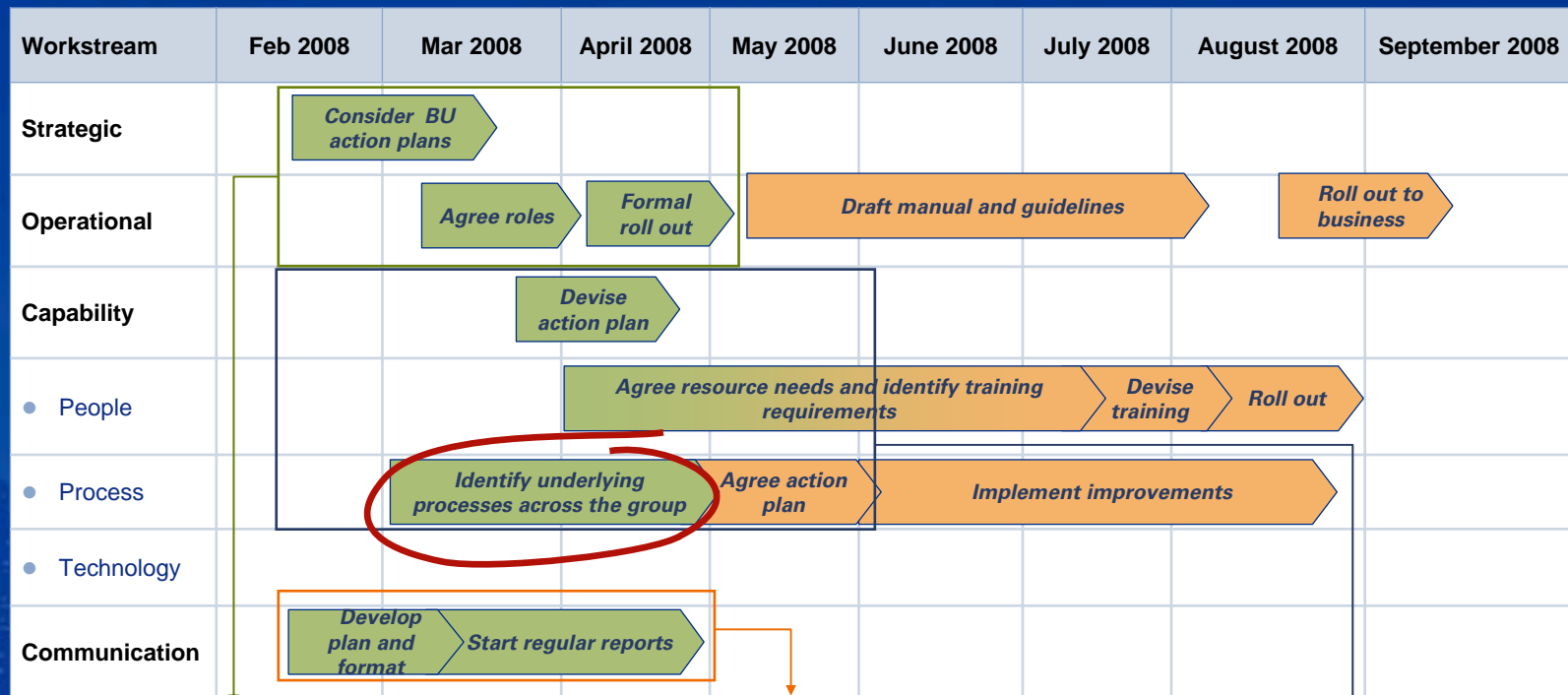


Governance framework



Action plan

At the end of the first phase, a foundation action plan for implementing the Strategic Tax Framework, "Framework" was prepared. Focusing on the development and implementation of the Tax Pack. This should be considered as part of both the Operational and Capability workstreams. This slide shows an extract of the overall action plan where the next phase actions are marked in green



Roles and accountabilities

- Fundamental operational roles and accountabilities should be agreed first. This will set down requirements and help all parties understand what is required of them and why.
- Procedures behind tax reporting at Group and local level will be formalised and buy in obtained from those necessary.
- Meetings with the relevant business units obtaining input on issues such as the Tax Pack should be held to finalise roles.

Communication

- Group Tax committed in the Framework to report on a semi-annual basis to the Group CFO.
- In addition to the Tax Pack, the Business Units will be asked to report to Group Tax on a periodic basis in a reporting pack. The content of this reporting pack will be determined according to specific KPIs and after Group Tax and the Business Units have met to agree an action plan to ensure responsibilities are fulfilled.
- A policy for external communication needs to be determined.

Capability

- After meetings have been held with the Business Units, gaps and weaknesses in human resources, processes and technology will become clear as barriers to the Business Units being able to fulfil their responsibilities.
- These weaknesses can then be documented and an action plan devised to make improvements and to monitor progress in achieving this.

Examples of tax sub processes

Indirect tax compliance	Payroll tax compliance	Group Issues
<ul style="list-style-type: none"> ● Master-data management ● Revenue streams and associated VAT treatment ● Purchase-to-pay including imported services ● Inter-company charges ● Indirect tax provisioning ● Filing of indirect tax returns ● Indirect tax payments and/or refunds 	<ul style="list-style-type: none"> ● Interaction with HR, Payroll, Finance and tax ● Payroll reporting (monthly / annual) ● Benefits reporting (annual) ● Share schemes (incentive planning e.g. Form 42) ● Internationally mobile employees 	<ul style="list-style-type: none"> ● Group relief ● Group payment arrangement ● Identification of companies requiring a tax return
Direct Tax Compliance	Tax planning	Balance Sheet Accounts
<ul style="list-style-type: none"> ● Statutory Accounts – current tax position ● Statutory Accounts – deferred tax position ● Quarterly and year-end reporting ● Year end tax computation process ● Submission of the tax return ● Tax payments ● Claims and elections ● Update direct tax exposure ● Reconciliation of current tax payments ● Settling tax disputes 	<ul style="list-style-type: none"> ● Identification ● Implementation ● Disclosure 	<ul style="list-style-type: none"> ● Reconciliation, verification and validation

Tax risks

Typical examples of risk issues, seen by KPMG firms

- Data inputs to tax model calculation
- Transfer pricing exposures
- Misstatement of current and deferred tax
- Capture of tax exposures
- Lack of segregation of duties
- Unclear delegations of authority
- Incorrect tax coding
- Unclear accountabilities
- Set up and maintenance of tax model
- Use of manual invoices
- Use of spreadsheets
- The lack of one version of the truth

Potential benefits of having a leading Tax Function

- **Tax and operational cost savings** through tighter risk management and the identification of areas where processes can be improved
- **Reduced compliance costs** from a well controlled tax environment and an improved ability to provide information when requested
- Time and resource **savings** e.g. using technology to speed up data collection
- **Improved financial management** due to earlier certainty on tax liabilities through a relationship of mutual trust with tax authorities
- Increased **confidence** that key tax risks are being identified and managed through adequate controls and robust processes
- **Improved staff effectiveness** by redressing the balance between higher value work and routine compliance in the tax reporting process
- **Greater understanding and management** of tax risks by understanding the underlying processes that generate tax data and create tax points
- An improved **risk profile** and enhanced relationship reducing the financial and resource costs of dealing with Tax Authorities
- A **closer relationship** with the rest of the business through embedding an agreed approach to tax that is clearly documented and understood across the organisation
- **Greater accountability** by establishing clear lines of communication, roles and responsibilities
- An **enhanced profile** for the regional tax team at Group

Presenter's contact details

Charles Kinsley

KPMG Hong Kong

+852 2826 8070

Charles.kinsley@kpmg.com.hk

www.kpmg.com.cn

Stephen Callahan

KPMG in the UK

+44 (0)20 7311 1934

Stephen.callahan@kpmg.co.uk

www.kpmg.co.uk

Graeme Reid

KPMG Singapore

+65 6212 3300

greid@kpmg.com.sg

www.kpmg.com.sg

© 2008 KPMG International. KPMG International is a Swiss cooperative. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm. All rights reserved. .

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.