The future is now

General Features | Large Corporate



01 September 2017

Lee Holloway provides insight on forming a successful in-house tax team

Key Points

What is the issue?

Creating and maintaining an in-house tax team to face present and future business challenges is the aim for most in-house Heads of Tax.

What does it mean to me?

Heads of tax need to decide whether they have the right mix of capabilities in their tax team while considering the current challenges being brought to bear on internal tax functions.

What can I take away?

This article provides an overview of the key skills needed in an in-house tax team to navigate the current tax climate.

Tax team of the here and now!

It’s a terrific feeling when you’ve built a tax team that you’re truly proud of, and what a good tax team looks like in 2017 will be very different to the ideal tax team ten or twenty years ago. Now more than ever, an in-house tax team needs to be ready for changes in the tax landscape. Being technically strong is no longer enough. People talk about ‘tax teams of the future’. The term is incorrect. It should be ‘tax team of the present’ because the skills required to survive and thrive are needed right now. All of the influencing factors discussed below have happened or are happening.

In this article I will cover two main areas. Firstly, the external pressures and changes that have led to the need to adapt. Secondly I will cover the mix of skills needed to steer through these changes.

External factors that should reshape a tax team

Four major external forces (some intertwined) have exerted the most pressure on changing the behaviours and the related skills needed of in-house tax teams to meet the challenges:

The shift in perception of tax externally

Clearly the outside perception of tax has changed dramatically over the last few years and this has had a knock-on impact on the way accounting and law firms work due to a Board level shift in how tax risk is assessed in-house. Put simply Boards do

not want their groups to have a negative media perception due to aggressive tax planning or anything that could be linked to paying too little tax. Tax has moved up the boardroom agenda and a great degree of interest on tax rate differentials has been the end result.

It has become legally harder to implement and defend structures that have a perceived tax advantage. At the least, where a tax advantage plays out, more questions need to be asked and a more careful approach taken to ensure that the motivation for a certain transaction is fully grounded in a justifiable commercial purposes. An old school focus on ‘ETR reduction’ may have changed to a focus on ‘ETR forecasting’ to ensure a level of understanding and certainty rather than a cash advantage for example and a focus on ‘tax planning’ may have changed to a focus on ‘tax compliance’.

The new generation of tax leaders and their teams need to be media savvy, understanding risk and being able to defend legitimate tax impacts and by that I mean tax work that is commercially driven or is making the most of, say, incentives such as R&D tax credits.

A successful tax team also needs to ensure that they are at the forefront of understanding business decisions and reflecting on the tax effects early on in a process, including an assessment of external and internal perception.

The tax team therefore needs to be an effective business partnering unit and ready to use its knowledge to protect the business from any challenges.

Globalisation

Globalisation has continued at a pace, meaning that many businesses are now truly globally integrated and revenue authorities are starting to communicate within a framework that is being assisted by the OECD. BEPS with its master file/local file requirements and Country by Country Reporting requirements mean that tax teams have no choice but to look at their global picture in a more joined up way.

Non-material entities, for example, cannot be ignored and different tax policies existing within global groups will be more easily visible as they are likely to stand out in the Masterfile. I stated recently at a tax conference I was speaking at that the revenue authorities will have a better understanding of businesses than ever before but likewise so will their in-house tax teams.

The number of International tax people has increased and the education, with the introduction of the ADIT by the Chartered Institute of Tax, has improved in line with demand. As the quality and number of international tax individuals and education increases so will the overall modernisation of data flow between business units as these key individuals shape internal policy in accordance with international legislation and guidance.

Global businesses need to harness global talent and ensure a joined up approach between finance teams that have tax responsibilities. More now than ever before will a global tax team have to understand the impact of local/jurisdictional decisions and what the decisions may mean to other tax authorities outside of their local jurisdiction.

A great tax team needs to assess risk globally. Rarely are businesses sheltered from international pressures.

Governance push down

Three main legal changes put tax in the boardroom like never before:

a. Senior Accounting officer laws
b. Tax policy
c. Criminal Tax Evasion laws

All of these laws put the onus on the business to self-certify/identify that it has taken some positive action, whether this is to agree a Board's Tax Policy or whether it's to assess the risk of tax evasion in its supply chain for example.

These laws have one thing in common. They take tax out of a bubble and put in a wider chain of events. For example, the SAO can't sign a certificate properly if the tax function aren't comfortable on how data flows into the tax returns. The impact is that the tax function has a place now to steer some non tax decisions. Linking with a certain supplier may breach the tax evasion laws or implementing some new software may make SAO law harder to adhere to. These are broadly governance rather than technical issues and it places the tax function alongside counter parts in internal audit functions.

The message from the top is clear. Businesses have to first and foremost police themselves and these tax rules sit neatly alongside other similar provisions like

treasury sanctions rules and bribery act rules.

To summarise, a decent in-house tax team needs to have excellent governance skills and understand risk inside out. New rules in the governance arena are coming thick and fast and push an extra onus on businesses that fall to specialist departments within a finance function to manage.

Digital environment

Linking in with Senior Accounting Officer legislation there is a need for tax teams to verify the data quality that is used to fill out tax returns. Improved ERP systems and tax technology should provide clear audit trails but the ideal tax team has team members on board who understand information systems.

I do not see technology as a risk to any tax function. I see it as a useful tool that needs to be understood and managed properly, freeing up valuable time to engage with the business. I often tell my team that technology is here to free up time for more brain work. Tax technology can’t tell you how best to structure a transaction or decide on who to go into a joint venture with. Forget about it though or fail to embrace technological change and you may end up with spreadsheet errors, impossible handovers and layers upon layers of hard-coded data. Many of you would have been there. I know I have.

Tax technology isn’t just about filling in returns more efficiently. The current online resources available for training and technical material is brilliant and well worth investing in. Tools that are in development for year-end procedures that link to ERP systems will make year-end processes smoother and allow tax teams to fully understand ETR changes rather than getting swamped in plugging in numbers that they may not have thought about fully.

‘Making Tax Digital’ provides the push for in-house teams to adapt. I believe the benefits of working in a more ‘real-time’ tax environment will be felt by all parties and it is hoped that for most large businesses the transition should not be too onerous but this remains to be seen. A major advantage of the changes should be that in-house groups will focus in on efficient tax reporting and I think it is now an ideal time to automate tax reporting processes and strip out all of the unnecessary spreadsheets in readiness for change.

Simply put, a successful in-house tax team must have a few savvy technologists on board.

Building a successful team

With the external factors discussed above its key to think about what you need as a Head of Tax to steer through the changes.

Variety is key

I've read recent articles on tax and legal in-house teams that shows that there is a shift in perception of what a successful in-house team now looks like.

There is a growing recognition of diversity, both personal diversity and what I'd deem professional diversity.

I strongly believe that a successful in-house tax team in today's climate needs to have a better and wider mix of experience and skills including the following:

1. It's essential to have people on the team that understand ERP and finance systems and how the rest of the finance function really operates. It would be hard to see how Senior Accounting Officer requirements could accurately have been met without understanding how data flows around the business.
2. Ex-HMRC experience is really valuable. Such experience helps a tax team understand their equivalent number in the revenue authorities.
3. Technical skills are a given but these need to be thought of in a wider context than tax and accounting skills. Team members with legal, project management and corporate finance experience and/or qualifications add real value.
4. Strategists – reactive tax work is no longer viable. Teams will fall foul of all the governance requirements if they're not in the room from the offset. Plus, it will frustrate team members to be constantly 'fire-fighting'.

In summary, the present (let alone the future) tax team needs to have the following core skills:

Technologically savvy and able to understand the tools used by the finance function (not just the tax functions tools)

Media savvy – understand who you are talking to and in what context and ensure that the group is protected from risk by being compliant with tax laws and having the ability to say why you are compliant succinctly.

Business partnering – this isn't just about partnering with finance teams. Understanding your supply chains and where money is being spent will assist in advising the business of the tax costs of certain projects whilst maximising legitimate reliefs.

I'd advise spending more time with certain functions and organising some presentations in particular to some key departments such as HR, systems, internal audit, property and legal.

Ability to train, educate and influence – to ensure governance you need to be able to educate others. The new criminal tax evasion rules make this clear and a tax team should see itself as educators on tax and not backroom form fillers. Influencing is different to blocking – it goes without saying that nobody wants to hear that something can't be done unless this is really the case. It's more likely that a current plan may be in need of an amendment to be compliant with tax legislation. Trust is soon lost or a tax team is soon left out in the cold if they are perceived as the team that blocks money generating ideas unnecessarily or without sufficient clarity as to why.

Mix of people – as explained above a wider mix of skills and background training makes the tax team more effective. It also makes it more fun!

Conclusion

My final words on this subject are that in-house tax teams are changing rapidly to cope with the changing tax environment. As in-house tax professionals we should be at the forefront of change in our profession as we are closer to the businesses that see the impact of those macro changes and we have the opportunity to influence internally like never before. This a great time to work in-house – a time of empowerment but also a time of reflection about the profession as a whole. It's a good time to be an adviser too and to help clients through the changes and support in-house tax teams through the myriad of changes. Care is needed at the moment in building balanced in-house tax teams that have a mix of experience and tech savvy individuals and those that will succeed both in-house and in practice will show one crucial skill above all others – the ability to influence.