TAX MATTERS

With reputations and profitability at stake, tax has been elevated to a board-level issue, and finance chiefs need to look at building a stronger partnership with the tax function

According to the 2014 global survey from global tax adviser Taxand, 70% of CFOs say tax is an item on boardroom agendas. Unsurprisingly, this heightened focus on tax is driven by its growing complexity, both domestic and international.

Michael McGivern, partner at RSM Ireland, says: 'It derives from the ever increasing legislative burden, from the increased focus on taxation matters by revenue authorities globally, and from a heightened scrutiny of corporate tax by the media, politicians and the general public.'

Public scrutiny aligns tax risk with reputational risk, and public 'tax-shaming' is not going to affect just the likes of Google, Starbucks and Amazon. In fact, 76% of CFOs surveyed by Taxand believe such exposure and scrutiny could damage any company's reputation. Moreover, 31% admit the media spotlight has made them change their own approach to tax planning. 'The press coverage surrounding tax-avoidance schemes has forced the change in culture towards correct and ethical planning,' says Chris Thomas, director at SME Finance Partners.

Compliance confusion

Most CFOs also report a rise in the frequency of tax audits as governments continue to scramble to capture tax revenues, and a rise in compliance costs. The survey shows decision-makers are finding tax increasingly puzzling too, blaming confusing messages from regulators and governments around the introduction of new cross-border measures such as the financial transaction tax and the Organisation for Economic Co-operation and Development's (OECD) Base Erosion and Profit Shifting (BEPS) project.

Amid all this, in organisations where boards are keen to align their commercial and fiscal strategies, the tax function has emerged from the back office to occupy a much more prominent role, not just within finance but within the wider business. Cagla Bekbolet, head of the financial officers practice at Egon Zehnder, says: 'Generally, there is more impetus on tax directors to be closer to the business and inform debate a lot earlier than they used to.'

Yet some finance chiefs still hold tax at arm's length. 'From a CFO behavioural perspective, taxation is, sadly, frequently viewed as a "below the line" item and not of central importance to the company's finance function,' says Steve Priddy FCCA, head of research at the London School of Business and Finance (LSBF). Those who take such a view are potentially increasing the overall finance risk. 'They shouldn't take for granted that tax risk is being dealt with by someone else, or that it may be sorted out by external advisers,' Priddy adds. They are also diluting the value the tax function can bring to their organisations. It is therefore important for CFOs and FDs to gain a better understanding of the operations of their tax departments and enhance their own tax literacy.

It goes without saying that the CFO/FD should first take the time to understand fully the precise functions, roles and responsibilities of each member of the tax team and assess whether the team is adequately staffed, says McGivern. 'This should also serve to educate him or her on what taxes are relevant to the corporation and how they impact the business from cashflow to tax costs.'

Historically, tax and finance tended to work in silos, so identifying critical interdependencies between the

'FROM A CFO BEHAVIOURAL PERSPECTIVE, TAXATION IS, SADLY, OFTEN VIEWED AS A "BELOW THE LINE" ITEM, NOT OF CENTRAL IMPORTANCE' two functions and creating or streamlining systems for transparent and consistent sharing of key information/resources is another important step in gaining a more holistic view. 'Much of the same data is required by both finance and tax functions,' says Thomas. 'Businesses need to realise the true value of sharing this data to maximise their potential.'

He also points out that technological advances such as secure cloud-based systems allow FDs to encourage data transparency and the sharing of key information between the two functions. 'Such technology can also reduce hours lost in meetings and endless email exchanges,' he adds. 'It's far easier and quicker to become a lean operation with information that is both accurate and accessible.'

Beyond the minimum

Above all else, communication between the two functions must not be limited to what is required by regulation. 'When other vital information isn't communicated, issues arise that can seriously harm the synergy within the business long before it affects the P&L,' Thomas says.

Inadequate communication means that CFOs and FDs may not be able to make sound investment and strategic business decisions. Also, given that they are unlikely to be taxation specialists, there are some challenging areas of corporate tax where they may be left seriously under-informed. For example, 20% of the CFOs surveyed by Taxand find transfer pricing the most challenging aspect of global taxation. 'Other areas may include relevant legislative changes, changing revenue audit activities and focus, global initiatives such as the BEPS project or recent court decisions,' says McGivern.

But communication must be two-way. McGivern says: 'Liaising closely and frequently with tax personnel and, if necessary, with the external tax advisers enables the CFO to appreciate fully both immediate and longer-term issues of relevance to the tax team and the business, but they must also share all future commercial plans at an early stage, so all possible tax issues can be considered well ahead of time.'

While gaining a detailed technical understanding of tax is unrealistic, finance chiefs can improve their tax knowledge by taking relevant professional courses. 'ACCA and other professional institutions provide a range of courses, as do the main business schools such as LSBF,' says Priddy.

Once heads of finance understand their tax departments and tax issues better, they can look to tax for additional capabilities. Priddy says: 'It's important to be aware of tax not only as a compliance issue, but also as a value-added activity. For example, in the UK, even a decade after its introduction, it's widely accepted that the generous R&D tax-credit regime is utilised in a very uneven way across the corporate sector and that this is partly due to ineffective knowledge transfer between key stakeholders.'

To gain more value from their tax departments, finance heads need to find initiatives that benefit both the finance and the tax function. 'If all initiatives are undertaken for a common cause, there's far greater chance of improving synergies and cohesion across the business than if separate ventures are pursued for diacritic gains,' says Thomas.

They must support their tax directors in their professional development too. Bekbolet says: 'To be able to influence the business, tax directors must have a greater commercial understanding as well as interpersonal skills. In the past most tax directors came out of Big Four accountancy training and went onto a corporate track where they progressed up the technical ladder. They were experts on governance and reporting, but the planning and the business-partnering side is becoming more important now. The next generation of tax directors are therefore developing a broader skillset than just the technical expertise and that's the biggest mindset change we've seen in the last five years.' ■

Iwona Tokc-Wilde, journalist