

Analysis

Six global trends shaping the tax world

SPEED READ Trends shaping the tax world include the following: governments are increasingly turned toward indirect taxes as the preferred source of revenue, and environmental taxes are increasingly seen as a politically acceptable way of generating revenue; an increasingly globalised market is creating new demands on tax professionals to understand non-domestic international tax, VAT, withholding tax and transfer pricing rules; there is an increased sharing of tax data and information between nations and across borders; and, an increasingly regulated environment is putting further pressure on tax teams and is a driver to the creation and adoption of more sophisticated tax technology solutions.



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Across the tax profession, a concerted and urgent effort must be made to attract new talent into the tax world to avoid a damaging future shortage

As we begin 2012, a look back at the past four years supports the belief that the coming years will bring with them a range of issues that will cause stress for individuals, businesses and governments across the globe. The most worrying of the effects of this stress is how it impacts long-term planning, as this is often neglected in favour of more short-term and immediate concerns. The end result is a focus on the short-term that is ultimately harmful to long-term decision-making and the overall well-being of an individual, business or nation. The global economy's continued struggle with unemployment is an example of this in action. Individuals, who might normally be focused on long-term concerns like retirement, saving for higher education or growing investment portfolios, instead turn to immediate concerns like keeping a house, managing debt or putting food on the table. Companies dealing with this stress are no different. Many turn away from five and ten-year plans and instead take action to deal with short-term concerns like making payroll or creating new income from trade or consumer promotion and special offers.

Governments are not immune to this stress either, as the immediate need to raise revenue replaces more balanced long-term decisions. This current reality for governments of every size has led to unprecedented borrowing levels, and an associated climb in tax revenue requirements. While these short-term efforts are meant to combat the global recession, they also limit future positive progress. In truth, absent the economic stress of the past few years, it is unlikely that so many governments would have pursued current tax policies – a reminder of how the negative consequences of stress have affected the tax world.

While there have been some limited signs of improvement, the New Year still harbours a now

familiar economic stress. The result for tax is six key drivers that will shape the next five years and include everything from larger, macro-economic factors, to operational and technological changes.

Trend #1: Global economic environment

The first driver is also the most apparent for the tax world – the global economic environment. The global recession has had an immediate and lasting impact on tax and will continue to do so in years to come. Two key aspects shape this larger trend. First, governments still find themselves in need of revenue to fund benefits like social security and unemployment with the goal of preventing national economies from experiencing continued erosion. Additionally, the sovereign debt crisis only seemed to accelerate in 2011, something with which Europe is all too familiar as countries like Greece, Ireland and Portugal all faced austerity measures and the associated social fallout. At this time, there is no end in sight for this situation. Secondly, governments, have over many years, increasingly turned toward indirect taxes as the preferred source of revenue to help fund government programmes and benefits. It is widely accepted that world has become highly tax-competitive and domestic investment depends significantly on the tax environment.

In countries considered 'high tax' nations, increases in income tax rates serve to make them less competitive. As a result, indirect taxes such as VAT and GST will continue to their ascent as the preferred and dominant global tax types. As this continues, indirect taxes will overtake income taxes, which are in decline in response to the competitive global tax environment.

The result for in-house tax departments is a change in the need and demand for tax talent and skill sets in a relatively short time span.

Trend #2: Globalisation

While the second driver, globalisation, is not a new concept or one that has come about in the past few years alone, it has been accelerated because of the economic recession. An increasing number of distressed businesses that might have remained viable in better economic times are being acquired and integrated into larger international organisations. Relatively 'healthy' companies are not immune to this form of globalisation, as drops in share prices cause them to seek 'safety in numbers.'

For in-house tax professionals, this has created a new and complex environment as they must deal with an increasing number of taxing jurisdictions, rates and rules that arise through the M&A process. Global consolidation, in businesses and industry sectors, will create new demands on tax professionals to understand non-domestic international tax, VAT, withholding tax and transfer pricing and ensure they can effectively navigate them to the benefit of their organisations.

Trend #3: Tax talent

The third global trend that will impact the tax

world is the fading talent pool of qualified and knowledge professionals. Securing experienced tax professionals with relevant backgrounds has always been a challenge, particularly on an international level where VAT and GST knowledge and skills are essential. Tax departments now find the hiring environment even more daunting, as lower-level recruitment has suffered from a combined lack of proactive staffing and a perception among younger professionals that tax is a less attractive field of study and practice. The result is an aging population of tax professionals that are approaching retirement and not enough sufficiently qualified individuals to replace them. For the tax department, the impact of this trend could be significant. Across the tax profession, a concerted and urgent effort must be made to attract new talent into the tax world to avoid a damaging future shortage.

Trend #4: Environmental issues

Environmental or 'green' taxation is the fourth global trend shaping the tax world. As a trend this has already given birth to a new branch of tax consultancy that will continue to grow in the coming years for two reasons. First, governments' need for revenue and, second, the breadth and depth of taxes that can be categorised in this area seems unlimited.

Environmental taxes are proving to be palatable because they pass by taxpayers fairly easily, limiting their political risk. This seems to be the case regardless of whether or not the tax has a true positive impact on the environment. In the coming years, we should expect to see more taxes, duties and levies on products that are manufactured using heavy metals and non-biodegradable plastics and/or use excessive fossil fuels or water in the manufacturing process and on packaging that cannot be recycled.

Trend #5: Legislative environment

The global legislative environment has become 'hyper-regulatory.' Hyper-regulation describes an environment in which the rate and scope of change in tax legislation creates an unmanageable situation for global multinational corporations. This is an environment in which companies find that current tools, technology and processes are insufficient to manage their tax accurately and efficiently.

Recent examples of hyper-regulation on a global scale include:

- plans by China to abolish its Business Tax and extend its VAT system to cover more services;
- at some near point, all six Gulf Cooperation Council countries will be adopting GST, the first widespread implementation of a VAT-type tax in the Middle East;
- in 2010, all 27 European Union countries adopted the VAT Package, a range of legislative changes that amended place-of-supply rules and reporting requirements, with some specific items gradually implemented up until 2015.
- India is designing a complete overhaul of its indirect tax system with the abolition of some 12 tax types and the adoption of a two-level GST

system; and

- Malaysia will introduce GST to replace its Sales Tax system.

These include just a very small sample of the large and overarching changes with which in-house tax professionals are contending. Not listed are the 'smaller' changes in tax rules, rates and regulations. For example the US has seen an average of 700 sales and use tax rate changes across its over 7,000 taxing jurisdictions. Brazil has had hundreds of rate changes each year across more than 5,000 taxing jurisdictions. Add in income tax and other tax-related changes and the hyper-regulatory environment becomes even more apparent.

The big picture for global multinational tax departments is more than 220 countries across the world, taxing jurisdictions numbering in the tens of thousands and hundreds of tax types that rarely stay static in today's global economy. Combine this with the lack of proper resources to manage this environment and the question arises; how can in-house tax professionals effectively manage a massive, complex and ever-changing tax situation?

As the international tax treaty base expands, the sharing of tax data and information is increasing between nations and across borders. Against this backdrop, the Organisation for Economic Co-Operation and Development (OECD) and the World Trade Organisation (WTO) are pursuing tax synchronisation measures, which might provide some hope for short-term change.

Trend # 6: Technology

The first five trends have given rise to the sixth, and perhaps most hopeful, trend for global tax – the rise of technology. As throughout history, technology has offered the answer to our most complex and seemingly insurmountable challenges. The challenges and tasks facing the tax world are no different – with comprehensive and automated tax process solutions becoming a reality in the near future. The key challenge facing tax professionals is to move away from today's manual processes (which in large part include tax tasks carried out by ERP systems) and to move towards a higher level of automation. The solution comes in the form of third-party technological solutions that have already begun to take shape and are poised to deliver on the promise of transforming tax processes for the new global economy. These solutions include tax-sensitised business intelligence applications and tax engines that come pre-populated with data, logic and reporting capabilities for all tax types – across all taxing jurisdictions in the world.

Tax technology providers have recognised this need inherent in today's tax world and have begun to introduce and deliver end-to-end solutions that consolidate all tax types across all tax jurisdictions on a single operating platform. The result is enterprise-level tax technology that helps tax departments answer the challenges of today and tomorrow, and ensure their companies stay competitive in the years to come. ■

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