

Structuring the tax function

Tony Elgood sets out some of the structural options and comments upon their pros and cons

In our work with many tax functions around the world we have seen a number of different ways of structuring and organising the tax function. There are clearly numerous options. However, we do not believe that there is only one right answer that will suit all businesses.

Role of the tax function

There are three different groups of people who are involved in the running of the tax affairs of any business:

- in-house tax function;
- shadow tax function; and
- external advisers.

It is beyond the present scope to consider, for example, how the finance function or the human resources department organises their part of the shadow tax function. And we would not attempt to comment on how the external advisers might be organised. For now, it is best to focus purely on the first of these three, the in-house tax function. They are the people who are dedicated tax specialists and who probably have tax somewhere in their job titles.

The starting point for organising the structure of the in-house tax function is a decision as to which activities are carried out by the in-house team and which are

Table 1: Responsibilities in the tax function

Deliverables Types of tax	Ownership of tax deliverables				
	Strategic plan	Planning	Accounting & reporting	Compliance	Audit defence
Corporate income taxes					
Indirect/sales/taxes					
Employment taxes					
Customs duties					
Environmental taxes					
Withholding taxes					
Property taxes					

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dealt with by the other parties, the shadow tax function or the external advisers. The completion of the table on the previous page, showing who is responsible for what and in particular whether the tax function's role is high, medium or low for each tax deliverable, is therefore the starting point for discussions of how the tax function should be structured.

Key questions

Whatever the size of your tax function, in designing the structure of the function you should be looking to answer two key questions:

- how should the tax function be grouped into distinct organisational units and teams, enabling the people to:
 - focus sufficient attention and resources on the priority requirements that the tax function must meet (the key areas of focus and the five deliverables); and
 - obtain the best value from the company's overall tax resources; and
- how should the relationships between those teams be managed?

There are a number of different ways that you could structure your in-house tax function.

Head office v business unit model

Particularly for medium to large businesses, the first question to consider is whether you wish to operate the head-office model or the local business unit model. In the head-office model the tax function is highly centralised: in the business unit model, local businesses take more responsibility for their tax affairs and have in-house tax resource within that business.

In answering this question you should consider the company's overall organisational strategy with respect to the roles and functions of the corporate centre and its relationships with individual business units. Additionally, you will need to consider the environment in which the tax function must operate. For companies that have numerous disparate businesses, a more decentralised model may appeal, so that resources can be aligned closely with where and how key business decisions are made.

Some companies give prime importance to the benefits of scale and greater specialisation that are achievable within a centralised structure, while others place greater emphasis on the benefits of delegating accountability and control to the management team of individual business units. Should the tax function not be consistent with the rest of the business in this respect?

It has been interesting to note over the past few years that, even where businesses operate the local business model, there has been an increasing tendency for these local tax people to have their main reporting line into the global head of tax, with perhaps a dotted reporting line to the local business. This structure may be of value in embedding a consistent approach to tax while keeping the tax function close to its internal business stakeholders.

A comparison of the advantages and disadvantages of the two models is set out in the table below.

The organisational options

The options for both head office tax functions and local business unit teams include organising the people by:

- the main deliverables: tax planning, tax accounting, tax compliance and audit defence;
- different types of tax specialisations, such as corporate income taxes, indirect taxes and employment taxes;
- geography, by county or region, perhaps headed by an international tax manager;
- business unit – in line with the rest of the business;
- a project-based organisational structure, whereby people in the tax function are organised in team-based structures of limited duration – typically 12 months to 18 months – with specific responsibilities for the key areas of focus (the near-term priorities for tax); or
- the tax function enablers (people development, controls and risk management, process improvement, data management, technology and communication, for example), though this is not something we have seen implemented.

These basic options are often combined into matrix structures so as to obtain the benefits of focus in two (or possibly even more?) distinct areas. For example, a matrix structure might

Table 2: Head office model v Business unit model

	Advantages	Disadvantages
Head office model	<ul style="list-style-type: none"> • Strong focus on group tax charge • Easier to align with group strategy • Good co-ordination • Easier to restrict headcount • Provide a pool of expertise 	<ul style="list-style-type: none"> • Can be seen as remote from businesses • Will not have detailed territory specific skills for overseas entities • Can be perceived as a "head office overhead"
Business unit model	<ul style="list-style-type: none"> • Close to business • Likely to have local-territory specific tax skills • Can reduce reliance on local advisers 	<ul style="list-style-type: none"> • Less focused on group co-ordination or strategy • Can lead to inconsistent positions with different tax authorities • Transfer pricing can be difficult to co-ordinate • Harder to supervise activity and control group tax costs • Reporting and/or loyalties will often be to local management • Harder to ensure optimum resource levels • Tax staff in smaller locations can feel isolated

be created whereby the line management structure was defined according to the main deliverables but functional reporting lines were established to run across the geographies. However, matrix structures typically have one management dimension that predominates, which in practice can limit the scope for achieving a really sharp focus on more than one of the alternative options summarised above.

For those groups aligned with the deliverables, it is worth noting that we are increasingly seeing a tax controller role within tax functions, someone who is responsible for the tax figures within the financial statements and related reporting. The skills of this role are more around accounting than tax. Additionally, we are also seeing people with ownership of people development, controls and risk management, process improvement, data management, technology and communication (the enablers). However, it would be unusual for the enablers to be the predominant arm within a matrix structure. Our experience has shown that some level of alignment around deliverables is desired but, unless the right matrix is also implemented, these deliverables-based structures tend to result in silos that can result in dysfunctional organisational models.

Where the geography structure is combined with a tax specialisation structure, there is a tendency for the corporate tax people to be in the senior roles with sometimes undue emphasis on these taxes at the expense of the others. Technical competency is but one part of the overall skills of tax professionals, and to have this as one of the key drivers of the tax function's structure is perhaps an historical position that needs challenging.

One of the key drivers in selecting the best organisational structure is to carefully consider how the rest of the organisation (outside of tax) is structured and where and when key strategic decisions are made. Our experience has been that if the company as a whole is structured tightly around global business units, key strategic decisions tend to be made at that level. If tax is then structured by functional specialty and geography, it may be some time before tax is engaged in the process (usually after decisions are made and corporate geographies are asked to implement changes). If tax is to be a relevant business partner to other business units, it must structure itself to facilitate collaboration with key stakeholders. One highly diversified company assigned its senior tax planning resources to business units but retained a deliverable/geography matrix

Table 3: Different organisational structures

Organisational structure	Advantages	Disadvantages
By the deliverables	<ul style="list-style-type: none"> Facilitates development of particular expertise Facilitates efficient and consistent delivery 	<ul style="list-style-type: none"> Could limit the scope for focus of attention on key priorities / areas of focus
By different types of tax specialisation	<ul style="list-style-type: none"> Facilitates development of deep expertise in particular types of tax specialisation 	<ul style="list-style-type: none"> Could lead to business processes that are inconsistent across the organisation and costly to operate
By geography	<ul style="list-style-type: none"> Provides for focus on country-specific/regional issues Often aligns with the business 	<ul style="list-style-type: none"> Could involve focus at the country or regional or BU level at the expense of corporate issues
By business unit	<ul style="list-style-type: none"> Clearer alignment with overall corporate strategy Alignment with senior 	<ul style="list-style-type: none"> Possibly more resources needed to collaborate with business units and other tax
Adopt a project-based organisational form	<ul style="list-style-type: none"> Provides a sharp focus on key priorities Provides for flexible deployment of resources according to business requirements 	<ul style="list-style-type: none"> Could limit the scope for providing robust structures within which to develop deep expertise and structured career development of staff

for the rest of its organisation. The tax function's ability to interact with key stakeholders has since improved dramatically. In the right circumstances, this approach is clearly a best practice.

A comparison of the typical advantages and disadvantages of these different organisational structures is set out in the table above.

We do recognise that in the smaller tax functions there will undoubtedly be significant multi-hatting with the same people responsible for a number of different areas. However, in our opinion this does not do away with the underlying principle that the organisation of the tax function needs to be thought through and be appropriate to that business.

Finally, you need to consider how the tax function will be managed as a whole to obtain the best value from the company's overall tax resources and the benefits from collaborative working among people in the different teams. This might include a staff pool concept at lower levels, which overcomes the potential for narrow technical focus too early in a tax career. This can give you the deep expertise at the higher levels, and a situation where much of the routine work is attractive to younger staff since it is new and offers exposure to things they have not experienced before.

Reporting lines

Within the overall organisation design, consideration needs to be given to the following:

- The breadth of the spans of control of individual people

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and consequently the number of management levels in the organisation.

- Within a large tax function a balance is needed between providing an economical structure with no more levels of management than are really needed and one in which the number of people each person has to supervise is few enough to enable that person to give sufficient attention to each. It is particularly important for the head of tax not to have too many direct reports, so that they have time to deal with some of the bigger issues that should fall within their role.
- Clarity as to the areas of accountability of each position.
- The design of each individual job needs to set out a clear area of performance for which the jobholder is accountable. The job and organisation design should also, as far as possible, facilitate the jobholder's direct report in assessing whether or not the jobholder is performing the role to a sufficiently high standard.
- Mechanisms for facilitating collaborative working between different parts of the tax function where these are important for performance.
- A significant source of failure in organisation design is the establishment of structures in which it is assumed that particular organisational units and teams will work together collaboratively but in practice do not do so. Mechanisms for managing these interrelationships should be developed in sufficient detail to ensure that they will work effectively in actual practice. This will be particularly important for those tax functions designed around the tax specialisations or geographies.
- Adaptability to change.

The organisation design should take into account potential requirements for the tax function to adapt to organisational changes, such as changes in the company's tax strategy, mergers between business units within the company's portfolio or acquisitions.

At this point it is perhaps worth picking up a practical issue in relation to the decentralised model for a tax function. Where a member of the tax function is physically situated in a business line, and even more so where they are situated in a country other than the head office country, there will be a tendency for them to look to the local CFO as their direct report even if this officially is not the case. The question often comes down to who is responsible for their pay and benefits: if the local CFO is the person most closely involved, human nature dictates that the tax person will see this CFO as more important to them individually than the head of tax.

There is also the question of to whom the head of tax should report. In our opinion, the head of tax should have a direct report to the CFO (and should also have access to the board on a regular basis). We have seen a concerning trend in one or two places for the CFO to delegate tax down to financial controllers. We question whether this is appropriate. It is no surprise that while this approach remains in the minority, these companies

Biography



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seem to have a disproportionately high number of problems, especially controls weaknesses and resource issues, as compared to their peers. We are also aware of a number of cases where an organisation has a head of tax and treasury and in many cases this person's background experience is in treasury rather than tax. Again there can be a question as to whether tax is properly and fully represented at the senior levels of these organisation.

Flexibility

The tax function and the organisation of the tax function need to be flexible enough to cope with this change. We would therefore recommend, along with the overall tax strategy, that the organisation of the tax function is reviewed on a regular basis. Our recommendation is that the tax strategic plan should be reviewed and presented to the board at least once a year. We would suggest that the organisation of the tax function follows the same route to ensure that it is still appropriate.

There are a number of different roles within a tax function. Due to resource and budgetary constraints, there are usually rather less people within the tax function than there are specific roles to be carried out. This normally drives organisations to some sort of matrix structure whereby individual people have a number of different responsibilities.

We suggest that the matrix be based on one or more of the options we have set out above. One of the challenges for heads of tax is to consider whether the traditional structures that were based around the different taxes and different geographies are appropriate to today's best-in-class tax function.