

Taking the Complexity out of Tax Efficient Accounting

How to meet your obligations efficiently and transparently across international borders



People matter, results count.





All companies have responsibilities – to their customers of course, and to their staff and their shareholders. They also have responsibilities towards themselves: with an eye on their own future, they each have a duty to run themselves as efficiently and profitably as possible.

But they have a further responsibility, and it's a significant one. Enterprises each have a place in and obligations towards the communities of which they are part. They are all, in short, corporate citizens. The demands this makes of them may sometimes run counter to their responsibilities to other stakeholders, but those demands can't be denied or downplayed.

It's not just about being a corporate citizen either – it's also about being seen as one. Corporate responsibility and sustainability initiatives are a case in point, but organisations also need to be seen to meet their obligations in other respects.

Chief among these is tax compliance. Companies need to honour their tax commitments in a way that satisfies all their stakeholders as much as possible, and in a very transparent way too. Getting it wrong doesn't just have legal and financial ramifications – it can also cause real and lasting reputation damage.

But getting it right isn't easy, particularly in a changing political and economic climate, and particularly if you operate across international borders. How can it be done?

The challenge to meet

If you're a beachcomber and you make a living carving figurines out of driftwood and selling them to tourists in the local town square you have a pretty simple business model. Your raw materials are free, your labor and assets (the tools you use) are all in one place, and so is the market into which you sell your finished goods – all of which means your tax position is straightforward and your liability is low. You don't even employ anyone other than yourself.

But life for many organizations, particularly in manufacturing, is a great deal more complicated than this. Raw materials tend to be sourced from a variety of other countries; sub-assemblies might be built on different continents, before final assembly takes place somewhere else altogether; and finished goods are then sold in international markets, maybe directly but also via subsidiaries and distributors and agents and other intermediaries.

All these variables in all these geographies have tax implications, and if we're responsible organizations, we have a duty not just in terms of our own business but in terms of each international jurisdiction to ensure that the tax we pay is fair and at the right level.

According to the 2014 'Tax risk and controversy' survey conducted by EY among 830 tax and finance executives, these issues are likely to become a major focus for organizations, and in particular for large international enterprises with tax-efficient structures (so called 'tax hubs') established within their supply chain functions. Such companies are undergoing constant tax audits, and as US, EU and other countries take increasing interest in the legitimacy – real and perceived – of tax compliance, these audits are going to grow both in frequency and intensity.

The opportunity to consider

With international tax regulations growing in complexity and coming under ever-increasing scrutiny it's more important than ever that organizations can maintain an approach that is both tax-efficient and tax-compliant. To achieve this, all documents related to product costing and transfer pricing need to be in perfect order.

It's also very important to have processes and people that can support the work with government agencies and lessen the burden on the tax management office. According to the EY survey, "75% of the largest companies said having insufficient resources to cover tax function activities is a potential cause of tax risk."

If you face a resourcing issue like this, one solution is of course to increase investment in administrative frameworks and to hire more people, but this approach necessitates substantial capital expenditure and significant and continuing operational expenses, including those involved in staying abreast of national and international regulatory demands.

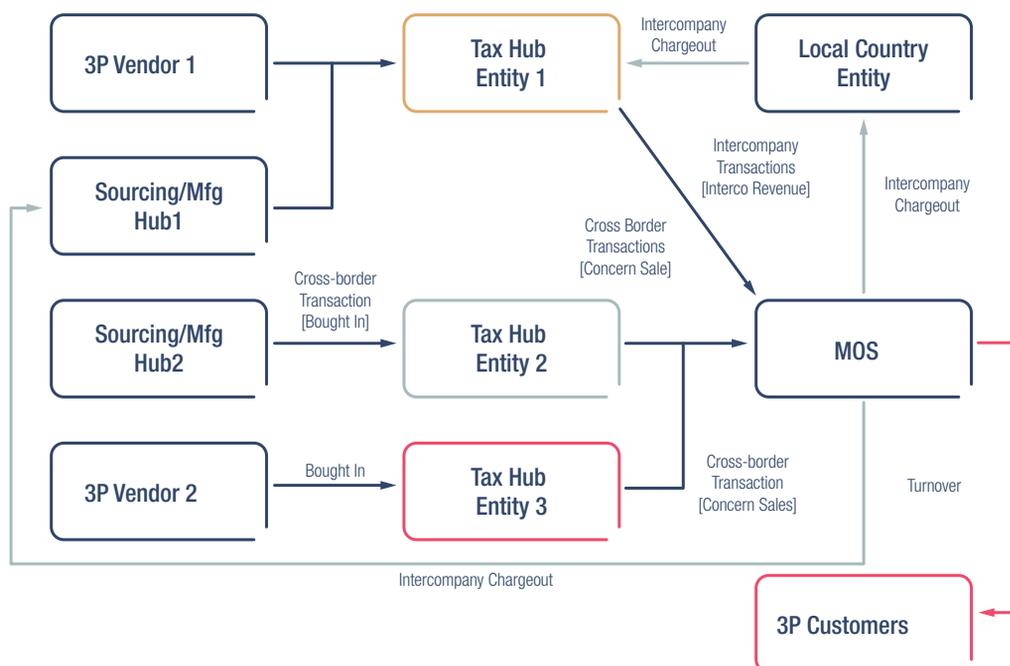
There is, however, an alternative. The managed service model allows enterprises to take advantage of the infrastructure and expertise a service provider has established on behalf of itself and of other clients, specifically in tax efficient accounting but also more broadly in finance and accounting in general.

The approach to take

For enterprises in general – enterprises like yours, perhaps – the success of the managed service approach will lie in the track record of the service provider, the robustness of its business model and the knowledge of its people. It will of course also depend on the geographical spread it can offer and the extent to which this reach can meet an organization's international needs.

If you're a manufacturer, though, a successful approach to your supply chain operations will also need:

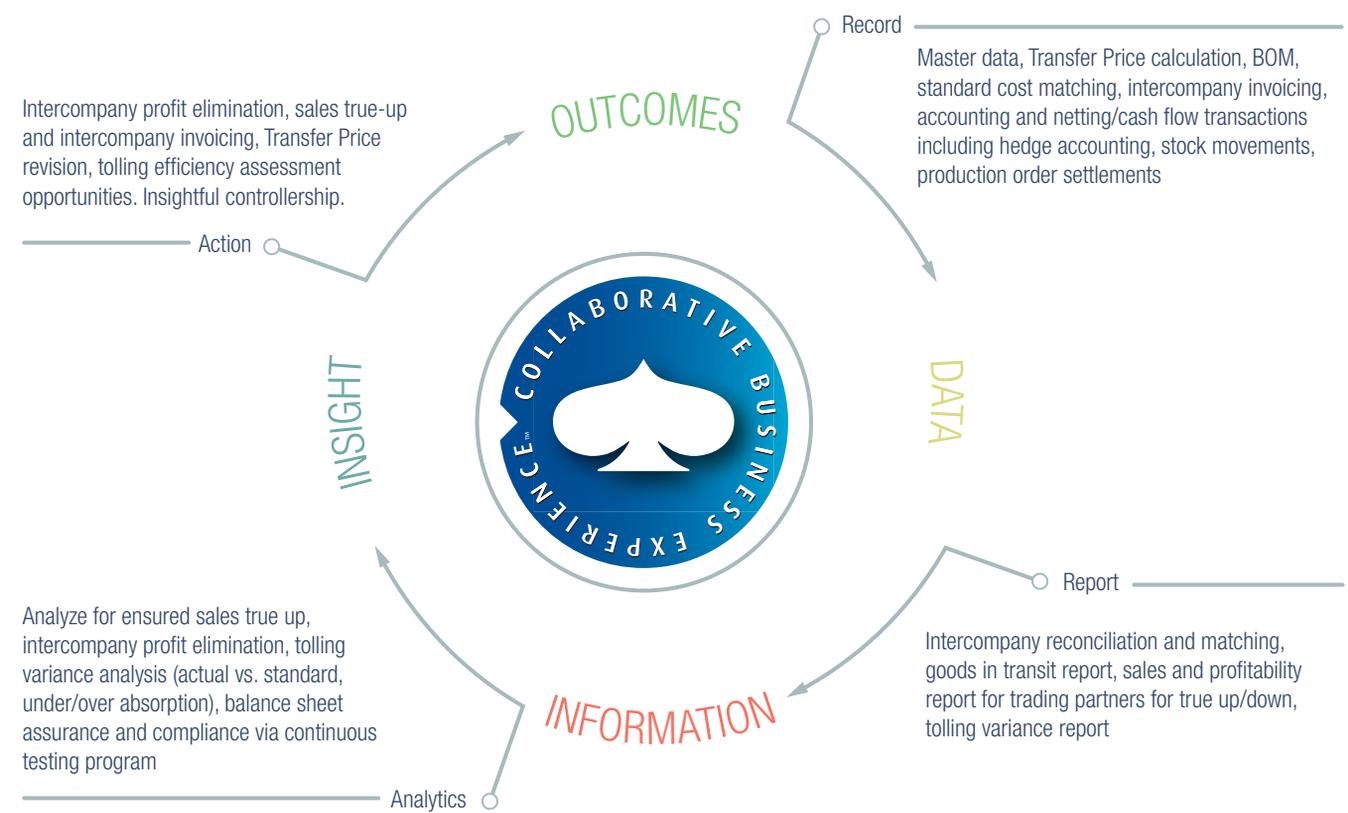
- Transparency in transfer pricing calculations and an understanding of the full value chain calculation
- The ability to compare units costs and gauge effectiveness for accounting and analysis of cross-border transactions
- Support of performance management functions for operating companies though accurate accounting and value chain mapping of processes
- The ability to achieve standard monthly costing and calculate variance analysis between standard and actual with reasons for variation, if any
- Efficient and effective compliance gate-keeping



When choosing a partner to provide tax efficient accounting services, it's important to ensure the services are underpinned by a comprehensive operating model, such as Capgemini's Global Enterprise Model© (GEM), that aligns resources and capabilities to activities while assuring compliance and efficiency. This approach will lower the cost of service and make reporting both accurate and timely. By making the details of the balance sheet more visible it reduces risk and delivers better and more effective governance.

Additionally, your services partner should ensure control with an end-to-end approach covering Record, Report, Analyze and Action to deliver:

- Enhanced quality of service
- A stable and controlled environment
- Transaction compliance to domestic and global regulations
- Timely and accurate reconciliations



The model applied

A Pan-Asian subsidiary of blue-chip global manufacturing was facing a series of challenges including:

- Higher volume of activity at month end creating a “close crunch”
- Scarce resources and know-how dispersed across global operations
- Limited skills available within the organization
- Increased reputation risk for the whole enterprise in addition to the multiplication of regulatory and fiscal risk

In partnership with Capgemini, the company established an Asian hub to manage supply chain finance and transfer pricing operations, providing:

- Robust costing and transfer price compliance
- Standardized accounting, allocation of costs and reporting
- ‘First time right’ approach
- Appropriate resource mix and process compliance configured using Capgemini's Global Enterprise Model®

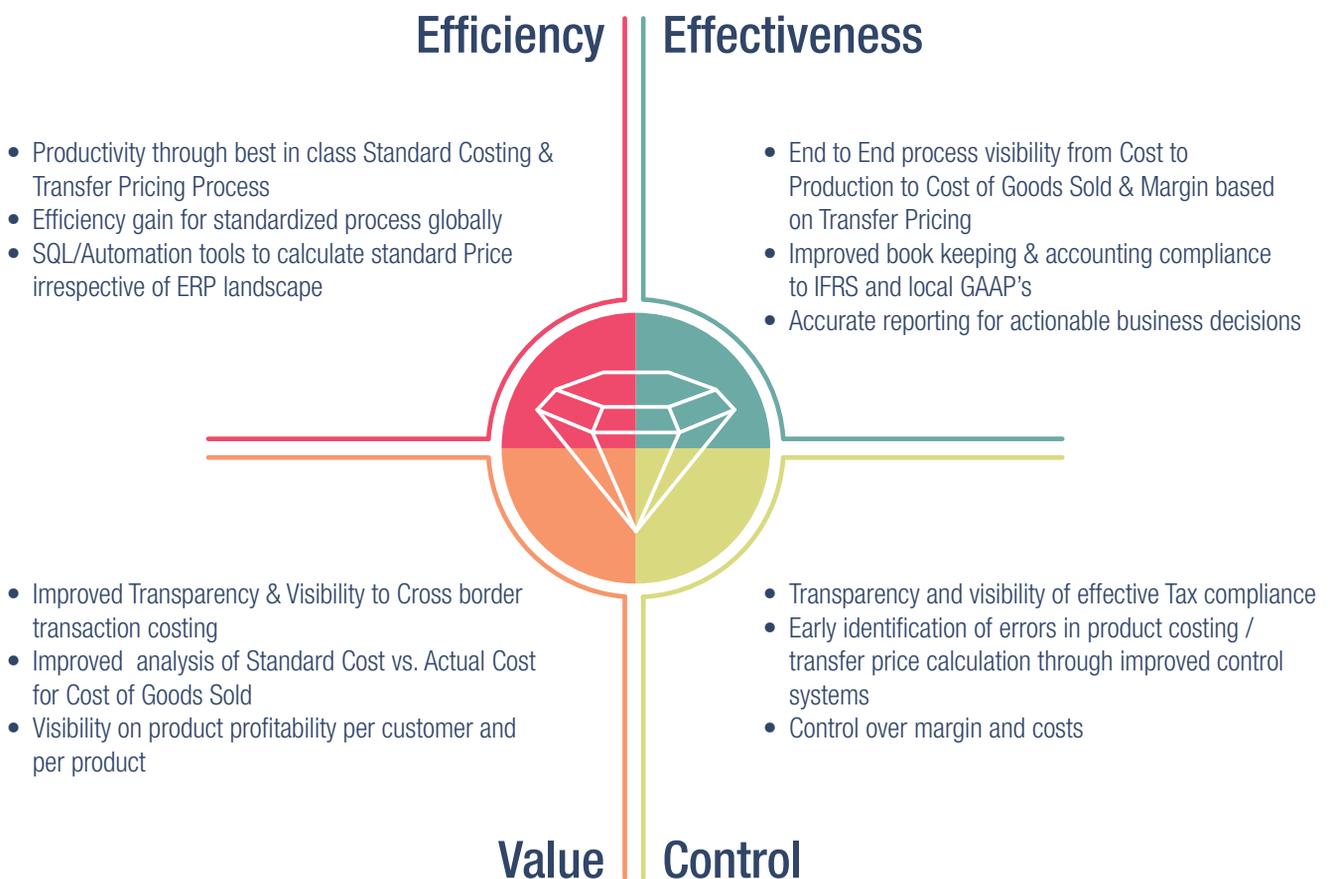
The outcome

- Control of 20k stock-keeping units with more than €1 billion turnover: 100% compliance
- Automated controls through SQL build: more than 3 million transaction items
- 48k man-hours activity time reduced to 25k man-hours for costing and transfer pricing
- Delivery times reduced by 50% via process standardization and automation
- Tax accuracy and transparency resulted in clean tax audit opinions

The benefits to achieve

Significant business outcomes can be achieved with a robust approach to tax-efficient accounting. Your tax risks are managed and any reputation damage arising from unfavourable tax audit findings is virtually eliminated. Exposure to the possibility of fines is also kept to a minimum.

But of course, one of the greatest benefits is peace of mind – the reassurance that accrues from the knowledge that your organization is being run efficiently and compliantly.





The conclusion to reach

Business is driven by many motivations. They include aspiration, pragmatism, creativity and a natural desire to do good and serve customers well. Another factor, not as often mentioned, is the straightforward human will to win – it's the rush that comes when you take on a challenge and see it through.

Success lies in maintaining a balance between these imperatives. In tax terms, it means meeting your organization's obligations – and being seen to meet them – while at the same time serving the interests of your business and its many stakeholders.

Under growing scrutiny and with national and international laws changing in an increasingly global market, achieving this balance is a challenge in itself.

With the right managed services partner with the expertise, the structures, the resources and the knowledge you need it can be attained, fulfilling your responsibilities, assuring your tax compliance, maintaining your corporate reputation, giving you peace of mind – and giving you the natural human rush that comes from a job well done.



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About Capgemini

With 180,000 people in over 40 countries, Capgemini is one of the world's foremost providers of consulting, technology and outsourcing services. The Group reported 2014 global revenues of EUR 10.573 billion.

Together with its clients, Capgemini creates and delivers business, technology and digital solutions that fit their needs, enabling them to achieve innovation and competitiveness.

A deeply multicultural organization, Capgemini has developed its own way of working, the Collaborative Business Experience™, and draws on Rightshore®, its worldwide delivery model.

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