

A stylized globe in shades of blue, showing the continents. Several small, dark blue stars are scattered across the globe, primarily in the Northern Hemisphere.

2018 GLOBAL TAX MARKET ASSESSMENT

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2018 KEY TAKEAWAYS

PREDICTIONS FOR THE U.S. TAX MARKET

DEMOGRAPHICS

Each demographic group, be it Baby Boomers, Gen X'ers or Millennials, will face their own challenges and opportunities in 2018. The Baby Boomers will have more career opportunities than the other generations had at the same age, the Gen X'ers will benefit the most from the Boomers' retirements, and the Millennials will face increased pressure to learn the new technologies along with the new tax regulations.

TAX REFORM

The new tax legislation is not as simple as it was promoted to be. The U.S.-based companies will likely become targets for both the non-U.S. companies and the other U.S.-based companies due to the favorable tax rate. The long-term effect of tax reform is unknown at this point as we are yet to navigate the changes.

NEW TECHNOLOGIES

The hype around new technologies has grown dramatically since this past year, but what does that mean for tax professionals in the year ahead? Unfortunately, it gives us more questions than answers right now. There are three major questions you should be asking in 2018, and we have the answers to them.

PREDICTIONS FOR THE NON U.S. TAX MARKET

EUROPE

With so many forces at play from globalization to the arrival of BEPS, the tax function will continue to evolve into a more automated business function led by a new generation of tech-savvy professionals. Hopefully, 2018 will bring more clarity to U.S. tax reform and Brexit, but we don't expect the uncertainty to go away any time soon.

MIDDLE EAST AND AFRICA

Recruitment levels are forecasted to increase, but competition for high-caliber tax candidates will remain fierce. Attracting high-volume interest in your vacancy will not be an issue. However, finding candidates with the necessary technical background, emotional intelligence, and cultural fit is a challenge and its successful execution is how we can really make a difference.

ASIA-PACIFIC

In China, the focus will be on B2V, big data collection by the tax authorities (Golden III tax system), and the U.S. tax reform. In India, the U.S. reform will have serious ramifications for the U.S. corporations with Indian subsidiaries. 2018 will be devoted to managing the sweeping changes in U.S. tax law. We will see a continuing trend of countries shifting their tax revenue base from direct tax to indirect tax.

LATIN AMERICA

Tax departments in 2018 must play a very important role in commercial business strategies. Tax leaders in 2018 will need, more than ever, to integrate themselves as part of the leadership groups, be involved in the most important business decisions, and help contribute to the progress of their organizations.

U.S. TAX MARKET



2017 REVIEW

THE PERFECT STORM

Based on last year's tax market trends, we predicted that the "perfect storm" would hit the tax profession in 2017.

The elements of this "perfect storm" were tax reform, new rules and regulations from Non-Governmental Organizations (NGOs), and the demographic shift. Tax reform did not sync with the other two elements, causing a delay in the "perfect storm" that we had predicted.

NEW OUTSOURCING MODEL

In 2017, we posed the question whether the PwC/GE outsourcing arrangement would be a one-off situation or a transformational trend. While PwC has gained new middle-market clients and clients that do not have built-out tax departments, there is still no definitive proof of major outsourcing initiatives similar to the GE model. We have heard rumblings of potential dissatisfaction with this new arrangement, so it will be interesting to see if clients, such as GE, feel that this was the best alternative in the mid- and long-term.

CANDIDATE-DRIVEN MARKET

Our prediction that 2017 would be a candidate-driven market, even more so than 2016, came to fruition. As a recruiting firm, it became very difficult for us to recruit quality candidates in 2017. As we had forecasted last year, we did start to see an increase in retirements and also started to feel pressure in the compensation areas when recruiting.

NON-TECHNICAL SKILLSETS

As we had predicted last year, in 2017, we saw a huge increase in demand for tax professionals with non-technical skillsets. Across all levels, not just at the senior levels, the employers expected candidates to have the ability to communicate effectively with tax professionals, cross-functional groups, business units, and outside advisors.

DEMAND FOR TRANSFER PRICING CANDIDATES

In 2017, we expected that the new rules and regulations from OECD/BEPS and the non-U.S. tax audit pressure would cause an uptick in demand for transfer pricing professionals. Last year, we had the largest number of transfer pricing roles than we've ever had in our professional experience of 30+ years.

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2018 U.S. TAX MARKET PREDICTIONS



DEMOGRAPHICS

Currently, there are three primary demographic groups (Baby Boomers, Gen X'ers, and Millennials) working in tax and a new demographic group (Gen Z) that is just now entering the workforce.

This section will cover the challenges and opportunities that we expect each demographic group to encounter in 2018.

BABY BOOMERS

Overall, we expect the tax industry to see an accelerated rate of Baby Boomers retiring. In addition to age, the following two primary drivers will lead to the Boomers exiting the profession:

1. The Strong Economy: Retirement portfolios have been recovered from the Great Recession, giving Boomers the confidence to finally call it quits.
2. The recent tax reform legislation combined with the complex regulatory environment and NGOs' influence will lead to increased work pressures. Most of the new rules and regulations from the NGOs had been passed in 2017, but we are feeling the impact only now. Most Boomers who are in a position to retire no longer want to put in the time or effort needed to relearn the tax system.

Opportunities:

Boomers that decide to stay in the profession will find they have more options than any other generation had this late in their careers such as the following:

1. Permanent Opportunities: Companies that are unprepared for the exodus of retirements and have limited succession planning in place will need experienced professionals to take over the responsibilities of the exiting persons.

While in these permanent roles, Boomers will be in an ideal position to bridge the gap between the Gen X'ers who are stepping into leadership roles

and the Millennials. Gen X'ers, as they are fewer in number, will be unable to fill all of the open roles left by Boomers, which means Millennials will be forced to assume management roles quicker than the previous generations.

2. Independent Contracting: In 2017, we saw an increase in tax departments using independent contractors. Boomers can take advantage of the industry overall becoming more accepting of contractors as a legitimate alternative to traditional consulting firms.

Challenges:

1. Prior to retirement, Boomers will be challenged to build succession planning strategies for both themselves and the people they manage.
2. The Boomers who decide to stay in the profession will need to embrace and understand the new technologies.

Boomers that decide to stay in the profession will find they have more options than any other generation had at their age.

GEN X

Opportunities:

1. Gen X'ers as a group are approximately half the size of Baby Boomers in tax, giving them plenty of opportunities to step into the roles Boomers are leaving.
2. This generation is in the midst of the new tax reform and have a deep knowledge of the "old system." As the current or future leaders of tax, this will give them the ability to bridge the gap between the two systems.
3. Because tax, in general, has a higher profile now more than ever, the opportunities will be plentiful for the Gen X'ers to demonstrate their capabilities in front of senior leadership.

GEN X (continued)

Challenges:

1. To effectively lead, the Gen X'ers will need to develop and demonstrate their soft skills in addition to their technical skills in a manner that will encourage the people in the senior leadership ranks to place their confidence in the capabilities of the Gen X'ers.
2. While many people think Boomers' retirements occur mostly at the senior levels, there are many Boomers in "middle management" positions in teams that are led by Gen X'ers. Consequently, Gen X'ers, like Boomers, will need to create a succession planning strategy.
3. This group will also face the greatest pressure to understand and implement new technologies. In the short term, robotics will be the primary focus, whereas artificial intelligence will still be considered a longer term implementation.

MILLENNIALS

Opportunities:

1. While most are not yet working in senior-level positions, Millennials are in an ideal place to take advantage of the new tax legislation and show their ability to interact with senior leadership.
2. As we mentioned earlier, Baby Boomers will be an indispensable resource for Millennials as they become tax leaders. Having a Baby Boomer as a mentor could be the difference between success and failure for many Millennials.

Challenges:

1. The visibility of tax is higher now than ever before. Therefore, Millennials will face increased pressure to be both highly technical and develop soft skills (with emphasis on communicating with the key stakeholders). The ability to manage up will be essential.
2. Tax has evolved into an extremely complex environment. Millennials have to manage both the influence of NGOs on tax regulation and the recently passed tax reform laws. Boomers did not

have to deal with these combined situations early in their career.

3. Millennials will have to develop their professional skills quicker than the previous generations as they are pulled into the leadership roles that the Gen X'ers cannot fill. It can be assumed that all Millennials are tech-savvy because they grew up surrounded by technology. This group will be put to the test during their time of leadership and have to prove that they can blend tax technical skills with the new technologies entering the tax profession.

Millennials are in an ideal place to take advantage of the new tax legislation and show their ability to interact with businesses and senior leadership.

GENERATION Z

Generation Z is the newest generation to enter the work force. The oldest members of this generation graduated college in 2017. While it is easy to group this generation with the Millennials, there are some subtle differences between the two as follows:

- This generation is entering the tax profession during the technological age. Like the Millennials, they will face the same pressures to balance their tax technical knowledge with development of soft skills.
- One area that Gen Z must learn to navigate is understanding how technical development will occur if robotics and A.I. strip away a portion of lower level work that would otherwise be handled by the entry-level staff. While this will likely not be an issue for the Gen Zs entering the workforce in 2017 or 2018, it is something to keep an eye out for in the future.

It is too early in their careers for them to clearly define what their opportunities and challenges will be. By next year, we should have a better understanding of what these are, and we will outline them in the 2019 Global Tax Market Assessment.

TAX REFORM

HISTORY OF TAX REFORM

Throughout history, major and minor changes have been implemented in the U.S. Tax Code. However, the Tax Cuts and Jobs Act of 2017 (TCJA) is the most significant change since the Tax Reform Act of 1986 during President Reagan's second term.

As complicated as the '86 act seemed, believe it or not, the Tax Reform of 1954 was an even more monumental change, with 3,000 changes made to the then existing tax code.

IMPACT OF TAX REFORM

As we unravel the complicated new rules of the current tax reform, it may be years before we fully understand the implications—just as it had happened with the '86 Act. The new legislation is not as simple as it was initially hoped, and there are many more layers to the new rules and areas of uncertainty than was expected, not to mention corrections that may or may not be made in the future. We will see different impacts for U.S.-based companies and foreign companies.

Because of the 2017 tax reform, we directionally expect both U.S. domestic-only and U.S. multinational companies (MNCs) to increase their domestic assets through mergers and acquisitions and divestitures. These companies may also become targets for acquisition from both non-U.S. and other U.S.-based companies (e.g., Keurig purchasing Dr. Pepper Snapple).

U.S. Domestic-Only Companies:

- Overall, we think U.S. domestic-only companies will face less difficulty working through the new rules of the TCJA than the MNCs. The tax rules for U.S. domestic-only companies are generally more straightforward, and the overall reduced corporate rate will make it more attractive for these companies to increase their domestic assets through M&A and divestitures.

U.S. Multinational Companies (MNCs):

- The rules that apply to these companies are more complex and, in some cases, unclear, making them difficult to be applied vis-à-vis the relatively simple territorial taxation model that was initially envisaged by many. Numerous areas have already been identified as requiring clarification and/or technical correction, including provisions that deal with GILTI (Global Intangible Low-Taxed Income), FDII (Foreign-derived Intangible Income), and BEAT (Base Erosion and Anti-Abuse Tax).
- GILTI could equally be called a hybrid territorial system with base erosion protections or, primarily, a worldwide repeal of deferral system with a preference rate for foreign intangible income. If you see it as a simple territorial system, you are likely focusing on its financial impact today. However, if you see it as a hybrid territorial system, you will likely realize that most of the foreign income in Form 1120 is subject to a 50% exclusion, which can be easily dialed up by a future Congress. It is too early to know its long-term impact, and it will likely be several years before we know it. In the interim, the new changes are creating more work, not less.

As we unravel the complicated new rules of the current tax reform, it may be years before we fully understand the implications, just like the '86 Act.

Foreign Companies:

- It will take some time for the full impact of the TCJA on foreign companies to become apparent. However, directionally, given the significantly lower U.S. corporate tax rate, we think it possible these companies will be incentivized to grow their U.S. business post-reform, particularly through mergers and acquisitions (e.g., Sanofi purchasing Bioverativ).
- Note: It is possible that the Foreign companies' desirability to acquire U.S. assets will be complicated by the BEAT rules and the competitive bidding by U.S. companies.*

STAFFING NEEDS DUE TO TAX REFORM

As companies switch from the old tax code to the new one created by the TCJA, they will go through two phases. We have the first Phase which is the Transition Tax issues which will potentially cause short-term staffing needs, and then the second Phase is the ongoing tax changes to affect companies long-term. As it is right now, the tax reform package is very unstable for three reasons:

1. It is not a bi-partisan bill.
2. There are real WTO (World Trade Organization) vulnerabilities on the taxation of foreign-derived income and BEAT.
3. The individual rate cuts expire in 2025, and the ability to avoid a middle-class tax hike implies increases in corporate tax or an alternative revenue stream (border adjusted VAT/GST or carbon tax).

These vulnerabilities imply that the management will need to generate strategic tax resources to navigate the uncertainties.

Transition Tax Issues

For fiscal year-end companies that have already filed their taxes, the short-term staffing needs may not be as critical. We believe the likelihood of any significant corrections to the new tax legislation in this year are slim as it is an election year. Consequently, your staffing needs will likely evolve over the next few years. However, the second phase long-term tax reform issues will cause ongoing staffing needs in both the permanent and the contract areas.

As we have just started unraveling the complicated new rules of the current tax reform, it may be years before we fully understand its implications. It is unlikely that domestic-only companies will be able to count on a short-term reduction in headcount. Based on what happens after this year, you may be able to combine some positions or not need to hire new employees.

For U.S. MNCs, we predict there will be a need for permanent and contract staffing immediately and in the long-term. However, as we have said, the long-term needs will not be known for a few more years until we are able to navigate the new rules and how they will affect each company's business. Lastly, we see the need for permanent staff to be hired

in foreign companies as they would also work through the new rules and possibly move to acquire more U.S.-based companies.

Preparation

One of the most important steps you can take now is to have clear and constant communication with your C-level team (CFO, Finance, Controllershship) on what the current and ongoing impacts will be for your company now and along the way as corrections are made. Ensure that the C-level team understands there is nothing simple about this new plan and that it may take years to figure out. Being proactive with your needs will help you get what you want.

NEW TECHNOLOGIES

Answers to the Three Major Questions You Will be Asking in 2018

The hype around new technologies has grown dramatically this past year, but what does that mean for tax professionals and the year ahead? Unfortunately, it gives us more questions than it does answers right now.

The following two major areas will affect tax departments in the short- and long-term:

- **Robotic Process Automation (RPA):** A form of technology that allows you to automate processes. It replicates the actions of a human interacting with a computer system. Unlike A.I., it must always be provided with instructions.
- **Artificial Intelligence (A.I.):** This is the simulation of human intelligence processes by machines. It allows computers to imitate a human cognition—making deductions and feeding back information. This includes learning, reasoning, and even self-correcting. Example: IBM's Watson.
- **A component of A.I. is machine learning.** This is a science that allows computers to learn based on programming algorithms. As a result, computers can improve their learning over time and become increasingly better at identifying and predicting information. Think of your computer cache, Amazon Echo, or Siri.

As we enter the technological era, the best thing you can do is learn and understand these new technologies so that you can make better decisions for your tax department.

Here is what you should be asking yourself this year and the answers:

1. What should I focus on over the next 12-24 months?

- RPA will be a major focus in tax departments in 2018. Once a robot is implemented, it can automate sales and use tax returns, spreadsheet populations, and data manipulation, validate workpapers, and reverse auditing and heat mapping. While it can automate human actions, we do not expect RPA to reduce headcount. As processes and procedures get improved and automated, this will give tax professionals more time to focus on planning opportunities.
- In partnership with EY and A.C.T., we hosted a webinar covering case studies of tax departments using RPA – [you can watch the full webinar here](#).

As processes and procedures get improved and automated, this will give tax professionals more time to focus on planning opportunities.

2. Should you outsource or build these functions in-house?

- In-House: If you decide to implement your RPA in-house, you will need to hire tax technologists or re-train the existing staff to build this new skillset from both a tax and IT perspective. You must also think through how you will maintain your robot. Right now, tax is in the early stages of robotics, so although you might not want to be the first department to implement an RPA, you also don't want to be the last.
- Outsource: If you decide to outsource this function, you will need to decide if you will use the Big 4 or, perhaps, an IT consulting group. You may even look toward boutique firms to hire a specialist. TaxForce has already seen a demand in companies looking for talented consultants to help them with implementing an RPA.

3. Will this reduce the headcount or simply allocate this type of skillset to different people?

- As we had mentioned previously, we do not predict that the headcount will decrease as a result of robotics, especially if your company is currently building its tax function. With the introduction of the new technologies and the new tax legislation, there are too many unknowns. In the past, if a new technology was introduced, did you lose headcount? The answer is likely to be "No."

Examples:

- In the early 1990's, Deloitte introduced CorpTax. For the most part, headcount did not decrease—the tax professionals were just expected to learn the new technology.
- Many years ago, the only cost for a recruiting company was purchasing a telephone and phone book. Now, there are many new technology platforms, whether it's an internal database, a CRM platform such as Salesforce, or something like LinkedIn. With all the money you will be spending on new technologies, you must ensure that it increases the productivity per person. If not, you need to ask yourself if it is worth it and what you do need to spend it on instead right now.

[For more information on AI and Robotics, watch our webinar series, "How AI and Robotics Change the Game for Corporate Tax Departments" here.](#)

EUROPEAN TAX MARKET



2017 REVIEW

We can all agree that the perception of tax is changing. Now, there are more stakeholders than ever before, and they are asking more detailed questions. Traditionally, it was just the shareholders, the investors, and the businesses.

Now, many stakeholders are interested in understanding efficiency, technology, reputational risks, and how we operate in various jurisdictions. Customers and suppliers are interested in learning how you manage tax.

In turn, you are interested in knowing how customers and suppliers manage their tax. Governments are major stakeholders. Tax has become all-important to them as an election issue. NGOs are raising a social debate and asking questions about how much tax we pay and whether it is a fair amount, which often takes place in the court of public opinion—the media. Tax is now a key reputational issue, so the days of ETR and cash tax being all-important are over. BEPS, instead of creating certainty, has created uncertainty with increased possibilities of cross-border disputes, and the tax department will be in the middle of this. The CFOs also want more from the Head of Tax and the tax department.

Tax has become an election issue. NGOs are raising the social debate and asking questions about how much tax we pay.

Withholding tax has increasingly been used as a tool to collect tax, e.g., Italy recently introduced a 6% levy on digital revenues paid by Italian companies to the companies based outside Italy. These are defined to fall outside of the Double Tax Treaties in which you would get treaty rates, which are often nil, or may not be subject to withholding of tax in the first place as

traditionally these flows would be within the Business Profits' article.

Publicity on tax arrangements, for example, the Paradise Papers, has highlighted the tax arrangements that are deemed offensive and, therefore, produce increased pressure on Tax Directors to defend their tax policies and structures. The challenge is to present these in a way that is a) understandable and b) does not allow grounds for attack.

TECHNICAL UNCERTAINTY

The U.S. tax reform, State Aid enquiries, high-profile tax audits, Brexit, and the discussion paper for Digital contribute to an uncertain landscape in which to manage tax priorities, including long-term sustainable effective tax rates. It is difficult for businesses to plan and execute commercial strategies in this environment, and we are seeing a lot of “least worst” options being adopted and “no regret” planning, i.e., executing a change as defense against a rumored change that ultimately may or may not happen.

The introduction of the Multi-Lateral Instrument and its widespread adoption points to a wider endorsement of the OECD's objectives. Country-by-Country Reporting (CbCR) has consumed an awful lot of resource, as has the objective of upskilling the tax function to deal with the challenges of making tax digital and its equivalents across the globe. Companies have also spent a very large amount of time dealing with the significant tax disputes.

SIGNIFICANTLY INCREASED CONTROVERSY

Many clients have never seen so many new and aggressive tax audits across Europe and beyond (Australia and New Zealand, in particular). Tax authorities are trying to grow their TP audit teams rapidly, resulting in multinational enterprises (MNEs) encountering some very unskilled auditors, even in the Western European countries. This can be hugely time-consuming and costly in terms of external advisors and, ultimately, frustrating for the tax authority in

question when the case is (inevitably) referred up to higher levels. In addition, there is a very weak base in terms of technical argument and processes for them to build upon.

Auditors are dismissing the concept of “limited risk distributor” and are routinely rejecting the MNEs’ comparable sets, often with little technical justification or with a skewed interpretation of the OECD guidelines.

Many MNEs are required to perform hugely complicated calculations and provide huge amounts of data just to prove that there are no issues. The idea of proportionality seems to have been completely lost in the desire to make headlines and look decisive on the political front.

BEPS, TECHNOLOGY AND TRANSPARENCY

Last year, we had predicted further challenges in the implementation of BEPS, especially with respect to Country-by-Country Reporting. Therefore, this has been at the top of the agenda in 2017.

It was hoped that 2017 would bring increased certainty concerning what the implementation of BEPS in each country will look like. However, each MNE has to work out for itself how to implement CbCR, which has greatly increased the workload of tax departments. It has spurred on the increase in tax audits of both large and small companies large and small.

As the OECD BEPS initiatives get rolled out by more individual countries, in more widely differing ways, the scope for controversy and double taxation will be ever-increasing. There is a growing trend of MAP and APAs – in circumstances where companies probably would not have considered using them even three years ago, such as for limited risk distributors and “one-sided” APAs. MAP procedures are already creaking under the strain in many countries, notably Italy, although the UK is struggling to make progress as well.

Many clients share the concern that tax authorities will lack the resources to effectively manage this controversy and many groups will end up having to accept double taxation either temporarily or permanently. All these procedures are extremely time-consuming for a tax department.

We had predicted that automation, robotics, and data analytics would start having a greater impact on the tax department. With the introduction of SAF-T (Standard Audit File for Tax) reporting in some countries, increasing numbers of MNEs are experiencing a more transparent relationship with tax authorities, whether they like it or not. The pressure on maximizing tax yield has caused some tax administrations to back away from co-operative compliance. This topic is here to stay as governments decide to invest in technology to interact more efficiently and effectively with taxpayers regarding data requirements, timing, and volume.

The international tax environment will become more transparent for tax administrations because of CbCR and the Automatic Exchange of Information. It remains to be seen whether all tax authorities around the world will be successful in utilizing the vast amount of available data. However, with the advent of data crunching A.I. on the scene, it seems likely that they will start utilizing this data in 2018. As predicted, the tax departments have continued to focus on compliance, processes and internal controls, and more conservative tax planning.

POLITICS

U.S. Tax Reform and Brexit were both highlighted as potential game changers in 2017, and they are going to be of greater significance in 2018. We will talk about U.S. Tax Reform in our predictions for Europe in the next section.

The effect of Brexit on the tax job market is still muted, although the uncertainty is slowing the investment decisions of MNEs. The EU has agreed to allow the talks with the UK to move on to ‘Trade’ in 2018. This is where the real negotiations start, and by the end of 2018, we will have a better idea of what is on the table.

In December 2017, we started to see evidence of the ripple effects of the UK’s decision to leave the EU on Ireland and Switzerland. Ireland has most to lose from a bad (no-deal) Brexit, so it is considering holding off tax cuts to its already heated economy while it waits to see what type of trade deal is agreed on. Switzerland’s President accused Brussels of practicing “unacceptable” discrimination, intending to undermine the country’s role as a financial center, in a dispute that has implications for Britain’s relationship

with the bloc after Brexit. The EU is taking a tough stance toward Switzerland as Brexit negotiations continue.

2018 PREDICTIONS

There are some general recruitment trends that apply to most sectors of the employment industry. Contracting or the 'gig economy,' where companies rent rather than hire talent even at the director level and above, has increased. Tax functions will need to adapt to emerging gig workforce trends and optimize recruitment processes to train, manage, and nurture a workforce with a new set of employee expectations, such as flexibility. Companies will need to understand these new motivations and the new risks presented by short-term employees in an increasingly contingent talent pool.

There has been an increase in hiring back "boomerang" employees and having less of a stigma against job-hopping. Of course, some companies will continue to be rigid in their hiring requirements and will miss out on the best people because of it.

TAX TECHNOLOGY

Tax technology will become increasingly important going forward, with new technologies, such as Blockchain, entering the tax world and changing the way of reporting, filing, and archiving for VAT purposes. Tax technology, in general, provides better and quicker visibility of the numbers required to defend tax strategy during tax audits but also allows for better awareness when developing tax planning strategies.

The traditional role of the tax accountant, which focuses on tax reporting, will have to evolve and be enhanced to include IT skills and valuation skills. The tax accountant should be someone who is able to work on the numbers and segment them as needed to back-up tax audit defenses and tax planning activities. This person could also be responsible for tax reporting, but it could be a separate and distinct role. Very often, the tax function relies on the finance dept. for this type of info and skills, but I think this type of role will have to be an integral part of the Tax team, going forward.

Tax leaders need to align the tax strategy with the overall business strategy of the group. Internally, this is needed for a buy-in from the other functions when they have to support the tax strategy, and externally this helps defend the "tax" reputation of the company. This clearly requires a definition for a clear tax strategy and support from the CFO, the board, and the senior management, in general. This means that the very clever tax professionals, who are "book smart and people dumb," will probably not be as successful in future tax leadership positions.

The traditional role of the tax accountant focused on tax reporting will have to evolve and be enhanced to include IT skills and valuation skills.

THE TAX PROFESSIONAL OF THE FUTURE

Until recently, the primary skill of a senior tax executive was to have extensive knowledge of how complex rules should be applied. These days, disruptive forces such as digitalization point out that the skills necessary to be a successful tax professional are undergoing a remarkable evolution. In these times of accelerated change, how do you ensure that future tax professionals are equipped to deal with the challenges posed by real-time tax reporting advancements and new transparency requirements?

The competition for tax talent has never been fiercer. While a strong technical knowledge will remain important, the tax professional of the future will need to have a more rounded skill set, including the following competencies:

UNDERSTANDING HOW TO APPLY A.I., AUTOMATION AND ROBOTICS

Digitalization is here, and we all need to embrace it. Whether it is tax authority digitalization, in-house digitalization, or taxation of ecommerce, we all need to be in tune with it. Convincing our finance teams to release budget for tax digitalization is a constant challenge, but we need to note that robotics and A.I. analytics have also arrived. The success of A.I.

in automating resource-heavy, repetitive tax work is limited only by the ability of the human being operating it who has to ask the right questions of the data being analyzed.

Companies that invest in artificial intelligence, process automation, and robotics will be able to automate much resource-heavy, repetitive tax work. This will allow companies to quickly dispense with the more mundane tasks that are carried out thousands of times a day. The outcome frees up the team to focus on more challenging, value-added work.

Disruptive forces such as digitalization point out that the skills necessary to be a successful tax professional are undergoing a remarkable evolution.

REAL-TIME DATA ANALYSIS

As the world has become more digital and tax collection is automated, with the introduction of real-time assessment, companies are investing in technology to digitize their reporting processes. These changes create real-time data, which businesses need to extract, analyze, and validate to ensure that appropriate tax rules are applied to the information it generates.

The emergence of the “tax technologist,” who understands data analytics as well as the tax rules, can support the development of real-time tax dashboards and visualization techniques to offer game-changing opportunities for tax professionals to add value in new ways. This is driving a wholesale shift in the competencies required by tax functions. Ultimately, it will reshape the concept of talent across the whole profession.

INFLUENCING SENIOR MANAGEMENT

Tax directors are increasingly becoming key players at the front-end of business strategy. In an era of change in the international tax arena, the tax department is being further drawn into a broader strategic business role. Senior tax executives are developing closer relationships beyond finance, partnering more closely with operating business units, CEOs, and CFOs to

work through complex business decisions and risk management decisions. Tax professionals need to be strategic communicators and leaders who are able to motivate a diverse team in order to meet their organization’s wider business goals.

Tax and Public Policy teams need to continue working closely together. This is not always the case. Tax teams need to be able to communicate effectively to help public policy and corporate communications respond to media and government pressure on the tax affairs of the business.

Tax Directors need to evolve to be good at PR and have a better overall awareness of the environment in which they operate—it is no longer just a technical job, it is a political job.

OTHER KEY ISSUES FOR 2018

The UK Government’s consultations on digital and OECD BEPS Action 1 report (on digital economy) are expected in March 2018. A report on the same subject from the EU Commission and on the impact of Brexit on businesses, which is especially important for those in the financial services industry and those businesses involved in the transfers of goods cross-border with the EU, where a “hard Brexit” will have the most impact.

Facebook announced that they are changing their business model to have local sales in the country rather than from a central company (Ireland) via branch structures in the face of aggressive tax audits and heightened publicity. *We expect more of this in 2018.*

U.S. TAX REFORM

For many clients, especially those with significant U.S. investments, 2018 will focus more on responding to U.S. tax reform, including possible restructuring of in-bound investments. If U.S. tax reform proceeds as currently drafted, the U.S. will re-enter international M&A, with better ability to compete on deals that have previously eluded U.S. headquartered companies. That will drive M&A volumes over the next 18–24 months.

There will be pressure on the UK as an international holding jurisdiction. There should be more expenditure on building the capability to comply with the international fiscal requirements and less

expenditure on conventional advice as budgets are squeezed. Moreover, there should be an increase in the integration of tax returns in Finance processes.

Digital Tax

In 2018, it will be more important than ever that Tax Directors of multinationals be up-to-date and closely connected with international tax developments, including U.S. tax reform, EU, UN, and OECD initiatives on the digital economy, as well as country level initiatives, such as the new UK withholding tax, and similar ideas in France and other countries for new digital taxes.

The future is still one of increased audits, co-operation between authorities and competition between authorities & digitalisation.

Tax Directors must not only talk to their trusted advisers but also be active in regional industry groups, attend information meetings with Tax authorities and international bodies, network effectively, and keep themselves informed. It will be hard to balance this investment of time against their other priorities, but it is the only way to maintain accurate insights as to where the great jumble of international tax developments is heading.

EU versus BEPS versus U.S. Reform

Although the whole point of BEPS was to harmonize tax regimes to some degree and remove aggressive avoidance, one school of thought is that it has failed. Various countries are bringing in their own versions of Google tax¹, the EU is trying to tax digital transactions in their own way. The future is still one of increased audits, co-operation between authorities, and competition between authorities and digitalization.

There will be an increasing role for individuals who are good at both systems and tax/accounting. These people are valuable because, on something like automation of the VAT compliance, you need to

understand the systems to derive relevant reports, the VAT returns, the rules on allowable/non-allowable and appropriate VAT rates/legal requirements around VAT invoices. Additionally, with the increasing trend to levy “withholding” tax (albeit outside the scope of any treaty) on revenues such as from Italy and India, the system must be able to obtain the relevant data to work out the liability.

CONCLUSION

With so many forces at play from globalization to the arrival of BEPS, the Tax function will continue to evolve into a more automated business function led by a new generation of tech-savvy professionals.

2018 will hopefully bring more clarity on U.S. tax reform and Brexit, but we don’t expect the uncertainty to go away anytime soon. The fallout from the first CbC report filings will start to be seen but will probably take some time to be felt completely. Tax departments are going to have to continue to shift resources away from routine compliance filings and low value-add processes to be able to focus on audits and controversy. Robotics and technology solutions are obviously hot topics here—however, currently, many providers are trying to sell a “to be” solution rather than something they actually have operational at the moment. Finance teams are looking at more automation and use of robotics for the underlying accounting data and to some extent, that would go a long way to solve the issues faced by many tax departments.

Many of the talent strategies that had worked yesterday will no longer work tomorrow, and the demand for a more flexible approach to talent management is far greater than before.

As a new breed of tax professional emerges in this digital world, the Tax function will continue to evolve, while its strategic decision-making position will remain as important as ever to an organization’s success.

How do we find these new profiles for them? In 2017, BPA bought the leading UK based Tax Technology recruitment business to add to our expanding network in this area. In addition, we will seek to headhunt individuals from less traditional tax career paths. An increasing number of the next generation of tax professionals will come from science, technology, engineering, and mathematics.

¹ “Google tax” is a popular term in the UK to refer to anti-avoidance provisions that have been passed in several countries to deal with profits that have been diverted to other jurisdictions with lower tax rates.

MIDDLE EAST & AFRICA TAX MARKETS



2017 REVIEW

Reflecting on last years' report, we predicted that 2017 would be an exciting time from a recruitment perspective for three main reasons:

- Implementation of VAT.
- Increasing frequency of tax audits, especially across Africa.
- The rise in oil prices.

We review each of these in turn and make predictions for 2018.

2018 PREDICTIONS

Implementation of VAT

This is something we have touched upon in the last couple of reports. Hence, what has it meant from a recruitment perspective? Certainly, a selection of multinational companies in 2017 have, for the first time, recruited heavyweight indirect tax professionals to be based in Dubai.

That said we haven't seen as many GCC based VAT roles being created for overseas parented companies as expected. It seems a lot of businesses are dealing with the VAT implementation through a combination of their own in-house expertise, perhaps, based internationally, combined with the local advisors.

We have observed that some newly-created tax roles in the region working for smaller, regional parented businesses are focusing on hiring people from a VAT background.

This is in contrast to most of the other international locations, where a corporate tax skill-set is often a pre-requisite. Will we start seeing a trend for indirect

tax professionals increasingly becoming Tax Directors/ Head of Tax for larger multinationals overseas? Candidates are also demonstrating more of a willingness to transition into VAT from other tax areas, especially if joining a professional accounting firm where they see plenty of opportunities. Last year, we observed indirect tax professionals relocating from countries outside the GCC region to take up local VAT vacancies, particularly, in practice.

As the GCC VAT implementation only took effect from 1st of January, it's too early to say how businesses are successfully adapting.



In 2018, the increasing role of technology and integration of robust internal controls, processes, and documentation has meant that people with different skills, other than purely tax technical, are becoming more in demand. This is a theme we expand upon in the other chapters of this report.

I believe recruitment volumes in practice will stabilize and there will be an increase in companies hiring, as businesses shift from pre-assessment to implementation and post-implementation phases.

Frequency of Tax Audits (Especially Across Africa):

The heritage foundation reports that tax revenue as a percentage of GDP in places like Nigeria is 2.8% and Angola 6.5%. Considering that these are significant economies across the Sub Saharan African region and

comparing them to the U.S. (26%) or the UK (36%), it is clear that there is a lot of untapped revenue! The strengthening capacity of tax audits, the various “localization” initiatives, and increased collaboration between tax authorities are all factors at play and increasingly on the minds of tax leaders and their staff.

In 2018, this will result in more emphasis on ensuring that the control framework is fit for this purpose through further investment in technology, people, and process improvements. Building co-operative rather than adversarial relationships with the tax authorities will also be of continued importance.

We have observed that some newly-created tax roles in the region working for smaller, regional parented businesses are focusing on hiring people from a VAT background.

necessary technical background, emotional intelligence, and cultural fit is a challenge and this is how we can really make a difference. Companies value our ability to draw from our knowledge of the tax market and undertake a comprehensive search, locally and internationally, to identify the very best talent, within your budget.

Due to the highly specialist nature of taxation and it's increasing profile combined with the significant impact a good tax professional can deliver, it's paramount to hire the right person.

Contact James Preselo to better understand how we can help you in 2018.

James@bpasearch.co.uk / +44 20 3457 2627

Increasing Oil Prices

Oil prices today are at USD 67.5 compared to USD 52.5 (Jan 2017) and around USD 30 in 2016.

As a result of the fluctuations in oil price, some governments and states have started to recognize the importance of diversifying their economy. We have already started to see that across parts of the Middle East (Saudi vision 2030), resulting in job-creating growth and improved prospects for future generations.

In 2018, there will be more positive sentiment with the companies impacted by this price increase. Historically, this has resulted in the lifting of budgetary freezes and increase in recruitment expenditure, which we predict will continue, albeit not at the level seen pre-2016.

Summary

Recruitment levels are forecasted to increase, based on the above reasons, but competition for high caliber tax candidates remains fierce.

Attracting high-volume interest in your vacancy will not be an issue. However, finding candidates with the

ASIA-PACIFIC TAX MARKET



2017 REVIEW

As predicted, we continued to see MNEs setup APAC hubs and Tax Centres of Excellence (particularly, in China and Singapore). We saw

unprecedented demand for TP staff at all levels, many making their first move in-house. Salaries for TP professionals have increased significantly year on year with the recognition of the significance of TP in cross-border disputes.

Many clients have stated that they faced an increase in tax audit activity, particularly involving intercompany transactions and TP. The level of aggressiveness and intensity of tax authority activity has continued to increase in 2017 (particularly, in China, India, and Indonesia) and shows no sign of lessening.

The ability of the China tax authorities to interact directly with a company's systems has been a major talking point this year. Over the next few years, we will see this happening in many jurisdictions.

Governments are trying to balance the need to attract investors whilst protecting the tax base. Tax policies are becoming increasingly important to attract business. Many companies believe that BEPS will cause a significant change in how multinationals are being taxed. Decisions on whether to enter or exit a country can be affected by the complexity of the tax regime.

2017 was the first year of compliance with BEPS and filing new TP documentation.

2018 PREDICTIONS

Tax technology and robotics will continue to be a hot topic with many companies looking for ways to strengthen the Tax function by using more modern tools. Tax people with an IT background will be a welcome addition and bring new ways of adding value.

More companies are likely to consider outsourcing compliance tasks to a 3rd party supplier, in order to focus on the tax advisory/business partnering work as the main task of the in-house Tax team. We will need to see what actions MNEs will take to restructure the business model at a group level in the face of the U.S. reform.

In China, the focus will be on B2V, big data collection of the tax authorities (Golden III tax system) and U.S. tax reform. Golden III was launched two years ago and has significantly improved the digitalization of tax data. It is expected that more tax information from various sources will be collected by tax authorities to strengthen their tax administration.



Companies will need to improve internal risk controls and enhance tax compliance capabilities. Companies will need to be more careful regarding the data provided in tax filings. It will become more challenging to defend tax audits in China, and hence, expect to hear of some big audit cases. Information technology is reforming the tax landscape. Now, tax authorities in China are better IT equipped for big data analysis. The data will be analyzed and shared in real time across departments. Tax people will need to think more deeply, not just about the tax numbers, but about the whole value chain and about all the group functions. Tax people in MNEs will need to catch up with these changes.

In India, U.S. reform will have serious ramifications for U.S. corporations with Indian subsidiaries. 2018 will be devoted to managing sweeping U.S. tax law changes. Tax technology will need massive capital inflow to deal with BEPs reporting and IFRS information requirements, but not all companies will be able to bear such costs.

CbCR will be available to various tax authorities in 2018; no one knows exactly how they will look at it or use it. Whilst the OECD strictly says that CbCR is just a tax risk assessment tool, only time will tell how much it is followed in real-life scenarios between countries in their quest to acquire every single dollar of tax revenue from another country.

Tax authorities will be busy continuing to conduct public consultations and drafting new tax regulations to ensure domestic tax regimes are compatible with BEPS. Notable changes are related to the new TP documentation rules and further enhancing tax transparency.

More companies are likely to consider outsourcing compliance tasks to a 3rd party supplier, to focus on tax advisory/business partnering work as the main task of the in-house Tax team.

We will see a continuing trend of countries shifting their tax revenue base from direct tax to indirect tax. After the implementation of a broad-based VAT in China, Malaysia, and India, the six member states of the Gulf Cooperation Council are next in the pipeline. Therefore, tax technology or a tax-shared service centers being established in an appropriate location for centralizing the VAT compliance needs of an MNE could be a cost-effective option.

In-house tax professionals are required to spend more time on business partnering, trying to provide optimal tax solutions and educating internal stakeholders on the limitations of aggressive tax planning in the light of various action items of BEPS working more toward a risk management role.

We will continue to have discussions with many companies across APAC on how tax departments should be structured and what the tax staff in these teams should be doing.

LATIN AMERICA TAX MARKET



2017 REVIEW

The two main predictions for 2017 were the impact of BEPS and an increase in tax reviews/ tax audits by the Tax/

Authorities due to new digital platforms. LATAM's governments and companies have also been extremely focused on attracting investment in 2017.

During the past year, multinationals have had to face the challenges of adapting and aligning structures, transfer pricing policies, intangibles management, and value chain definition. Additionally, we have seen local legislation changes driven by BEPS, especially in Mexico and Colombia. Even in LATAM countries that have not changed their legislation, many head offices are already assessing the potential impact and their obligations to all related parties around the world. Companies have had to adapt their policies and prepare for BEPS OECD guidelines by changing the way they execute and document transactions between related parties.

BEPS is providing tax administrations with useful information to assess the transfer pricing risks, and this is making it easier for tax administrations to identify whether companies have engaged in transfer pricing and other practices that have a tax effect in an advantaged environment.

Today, business models are incorporating technology in the way we do business. Tax is facing this evolution that leaves taxpayers with an uncertainty in how to define the tax impact of selling goods and services in a digital way. At the same time, governments are beginning to adapt legislation to the new digital environment.

All this, plus the changes in the way taxpayers interact with tax authorities in Latin America has changed in the last couple of years. Countries like Mexico, Chile,

Argentina, and Colombia are already extremely familiar with electronic invoicing because it has either been implemented or is in the process of being so.

Technology is key for tax authorities to ensure taxpayers are compliant and to audit and review detailed calculations. Cross-checking information between customers and suppliers is now the starting point of many tax reviews or in worse scenarios of tax assessments. Giving tax authorities electronic access to financial statements, tax calculations, and journal entries is becoming the new way to interact with tax authorities and agreeing with tax obligations.



2018 PREDICTIONS

We anticipate seeing better communication and co-operation with tax authorities, especially as the new digital platforms significantly reduce 'face time' between taxpayers and tax authorities and also because the topics are becoming more complex based on Digital Economy, BEPS Actions, changes in transfer pricing regulations, more effective tax audits due to information available and US tax reform.

Tax departments in 2018 must take a very important role in commercial business strategies. In 2017, tax issues definitely became more complex, requiring Tax department staff to develop new / better abilities and

skills to contribute to the objectives of organizations. Tax leaders in 2018, will need, more than ever, to integrate themselves as part of the leadership group and be involved in the most important decisions and help to moving the direction of the organization. We predict that companies will need to develop an even greater understanding of Transfer Pricing, the impact it has at a global level and its interaction with tax planning. In 2018, for many organisations, the profile of the TP Department needs to significantly increase. The TP Department needs to be the best informed function (of all functions) on all key business activities.

We predict that companies will need to develop an even greater understanding of Transfer Pricing, the impact it has at a global level and its interaction with tax planning.

productivity, reduce costs and human errors and increase efficiency, but to achieve this we have to make adjustments to and standardize processes and also align with organizational needs and local regulations.

As in all regions across the world, MNEs will need to assess the implications of US tax reform.

From a tax recruitment perspective, 2017 has been about recruiting high calibre Country Tax Leaders in Brazil and Mexico and Regional Tax Leaders in Panama, Costa Rica and several other locations.

BPA Search is available for confidential discussions with hiring authorities looking to recruit in Europe, the Middle East, Africa, Asia-Pacific and Latin America:

Barrie Pallen: barrie@bpasearch.co.uk

Will Sheppard: will@bpasearch.co.uk

James Preselo: james@bpasearch.co.uk

We will need to see a better knowledge and understanding of BEPS Actions other than Action 13, as there is more to come on the way companies do business and document business, intangibles, risks associated, Permanent Establishment, harmful practices and tax planning. To do all this, tax professionals need to become heavily involved in all relevant projects and business restructuring.

It is possible that, for some companies, outsourcing tax compliance could reduce some costs and provide time and resources to develop more added value analysis and planning. Centralizing / outsourcing tax compliance is particularly difficult in LATAM jurisdictions where tax legislation and tax obligations are so complex. It is probably better to start with countries with less complex legislation - but it all depends on the way the company interacts with the tax authorities, the complexity of the business, the expertise required to develop the centralized activities and the availability of technology to make the transaction effective.

2018 will also see discussion increase into the uses and merits of robotics. Many companies believe we can make better use of technology and data to improve tax effectiveness. Robotics can improve

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