



MANAGING INTERNATIONAL TAX: A GLOBAL PERSPECTIVE



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Managing a company's taxes is becoming increasingly complicated as a result of rapid globalisation and the resultant increase in the sophistication of tax legislation including that of South Africa.

This, in turn, escalates the risk of underpayment of taxes including penalties and interest. Liability for non-compliance can attach to both the public officer (a tax officer which carries the inherent risk of personal liability for the company's outstanding taxes) and the directors of the company who have fiduciary duties in common law towards the company and its shareholders to correctly manage the company's taxes.

As a result, many companies are outsourcing the tax management function which includes tax planning as well as tax compliance.

Outsourcing can be defined as the assumption of a specific task or a series of tasks by an independent service provider. It is important to note that outsourcing does not entail the delegation of responsibility for the company's tax affairs which remains with the public officer and the directors of the company.

Greater tax complexity as a result of globalisation means that outsourcing will become a much more important management tool for global corporate groups to ensure profitable competition.

Whilst it is difficult for an in-house tax function to keep abreast of local South African related tax developments, it is almost impossible to keep abreast of global tax development especially if the group operates in many tax jurisdictions.

Further, the steady improvement in the tax collection ability of the South African Revenue Service means that more management attention will need to be paid to correct treatment of business transactions.

In a global study carried out in most First World tax jurisdictions by Yankelovich Partners, almost half the executives interviewed indicated that business process outsourcing had increased in importance in their businesses.

Many also indicated that their strategic business plans took outsourcing into consideration as an essential element. Various benefits of outsourcing were identified.

Companies were allowed to focus on core busi-

ness. There was a gain in outside expertise, access to advanced technology and improved service quality.

The business processes that these executives indicated as most frequently outsourced featured tax compliance and tax planning.

Outsourcing tax management assists in achieving tax efficiency thereby reducing tax costs. The reason is that a professional service provider will know of and apply successful planning techniques to which the company would otherwise not have had access. Outsourcing tax management therefore not only enhances process efficiency, but cost efficiency, contributing to increased competitiveness.

South Africa has enthusiastically joined the international tax arena by

- ◆ the rapid conclusion of a wide tax treaty network,
- ◆ the introduction of CFC legislation,
- ◆ transfer pricing legislation and
- ◆ the world-wide taxation of investment income.

In fact, South Africa's tax treaty network is fast becoming one of the widest in the world. All these changes mean that reliance will increasingly be placed on overseas precedents and best practices for optimum tax management.

Furthermore, international tax expertise is highly mobile with the best technical experts emigrating to First World countries. South African companies increasingly find that they are losing their international tax experts just at the time when they need them most.

Outsourcing of tax management is becoming essential.

Only those service providers with first class global knowledge management systems are in a position to take on these outsourced functions because they have the necessary knowledge and skills base and also the required international tax experts based in South Africa.

One of the reasons is that these service providers are in a better position to offer technical experts a career path than South African corporates. Indeed, this is the same problem being faced in the IT industry and is the reason for the huge recent upsurge in the outsourcing of IT functions.

While outsourcing of international tax services is not a new phenomenon, it is becoming an increasingly essential management tool. The choice of service provider and the definition of the scope of tax tasks will resultanty become more important. ■

