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Megatrends and banking

At EY, we take the view that there are a number of distinct but interconnected global forces that are transforming business, society, culture, economies and individuals. We call these “megatrends.”¹

We believe that each has the present and future capacity to disrupt and reshape the world in which we live in surprising ways. Those megatrends affect the business of banking just as they affect all sectors. The ones that we believe have the greatest effect on the banking sector are:²

1. Digital business

2. Demographic shifts

3. Global marketplace

4. Changing workforce

As well as adapting to these megatrends, banks continue to wrestle with wholesale regulatory reform in the wake of the financial crisis. Tackling these major forces together has created transformational change within almost all major banks and most smaller ones. However, the world of tax is also changing, often driven by those same megatrends. As a result, tax has its own change agenda that needs to be addressed by banks too. In fact, global tax changes will probably affect banks more than any other sector. This paper considers how banks are managing tax within these major forces.

In preparing this paper we have gathered intelligence from the banking tax director community via a survey of 30 major banks. The results of the survey have helped inform our thinking on these issues, and we have highlighted some of the most interesting insights throughout.

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¹ Megatrends 2015: Making sense of a world in motion
² EY Global Banking Outlook 2015
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Reviewing the change agenda within a bank

Banking is being influenced by global megatrends shaping the world.

**Digital business**
- Changing customer expectations?
- How to do digital better?

**Demographic shifts**
- Who are your customers?
- What will they want?

**Global marketplace**
- Where will growth come from?
- With whom will you compete?

**Changing workforce**
- Whom to employ?
- Where will they work?

Source: EY Global Banking Outlook 2015

**China’s share of worldwide disposable household income**
- 2005: 3%
- 2029: 29%

**Infrastructure investments required by 2030, equivalent to 60% of global AuM**
- US$57 trillion

**Ratio of smartphone users to bank accounts in Vietnam**
- 1:1

**Net gain in financial and business services jobs, 2013-30**
- Beijing: 2.9 million
- Mumbai: 1.5 million
- Chongqing: 1.4 million
- New Delhi: 1.0 million
- Lagos: 1.6 million

Change agenda – Banking and tax 2015 | 3
Banks have their own external pressures.

Banks are in a period of fundamental change. They have to face not only the transformational challenges presented by the global megatrends but also the equally powerful transformational challenge of new regulation and market structures. While emanating from the western financial crisis, many of the regulatory changes now have global application.

As the world changes, banks are grappling with multiple stakeholder pressures.

**Regulators and governments**
- Where will regulation end?
- What will it cost?

**Investors**
- Are higher returns gone forever?
- Will banks be safe investments?

**Staff**
- How to motivate staff?
- How to attract top talent?

**Customers**
- How to deliver the experience consumers want?
- Can trust be regained?

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**US$270 billion**

Conduct costs and conduct-related provisions for 15 leading banks, 2009–13

<table>
<thead>
<tr>
<th>Pre-crisis</th>
<th>Post-crisis</th>
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<tbody>
<tr>
<td>2005–07</td>
<td>2011–13</td>
</tr>
<tr>
<td>17%</td>
<td>9%</td>
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**Average ROE of 200 largest banks**

- **Pre-crisis**
  - 2005–07: 17%
- **Post-crisis**
  - 2011–13: 9%

**Wharton graduates taking finance jobs**

- 2007: 48%
- 2013: 25%

**Retail customers with more than one bank**

- 73%

**Retail customers who have opened or closed accounts in last year**

- 50%

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Source: EY Global Banking Outlook 2015
If we look at how these global megatrends combine with the post-crisis response, then we can begin to understand the strategic change themes for banks.

These are essentially amounting to a wholesale transformation of banks for a new generation. Different banks will define their change programs in different ways, but their change agendas are well underway. Typically, these programs are like supertankers running through organizations with unstoppable momentum and long lead times to change direction. The question for organizational transformation is whether they carry the right tax cargo on board. And does the captain know the taxation weather forecast for the journey?

Leaner but larger? Five transformation imperatives that drive new business models.

<table>
<thead>
<tr>
<th>1</th>
<th>Delivering profitable growth</th>
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<tbody>
<tr>
<td>17% revenue increase would enable the average global bank to deliver a 15% ROE without further cost reduction.</td>
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<tr>
<th>2</th>
<th>Surviving a new era of competition</th>
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<tbody>
<tr>
<td>Almost every part of a bank’s business faces increased competition.</td>
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<table>
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<tr>
<th>3</th>
<th>Defining a bank’s new core</th>
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<tbody>
<tr>
<td>Banks will have to re-determine their core businesses.</td>
<td></td>
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<tr>
<td>With customized products, customers would:</td>
<td></td>
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<tr>
<td>14% Pay more</td>
<td></td>
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<tr>
<td>28% Add products</td>
<td></td>
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<tr>
<td>20% Increase deposits</td>
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<tr>
<th>4</th>
<th>Adopting advanced technology</th>
</tr>
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<tbody>
<tr>
<td>As banks invest more, “bang for buck” and higher ROI are critical.</td>
<td></td>
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<tr>
<td>IT spend must be carefully balanced across the following:</td>
<td></td>
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<tr>
<td>Customer expectations</td>
<td></td>
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<tr>
<td>Cyber-security</td>
<td></td>
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<tr>
<td>Internal processes</td>
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<tr>
<th>5</th>
<th>Defining a bank’s new structure</th>
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</thead>
<tbody>
<tr>
<td>Banks will have to change their operational footprint through entity rationalization, functionalization and right-shoring.</td>
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</tbody>
</table>

In a “new mediocre” era of low growth, the most successful banks will be those that master transformation.

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<thead>
<tr>
<th>Strategy</th>
<th>Focus on “core” Targeted customer segments Focused market expansion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Distribution and sales</td>
<td>Manufacturing and distribution partnerships</td>
</tr>
<tr>
<td>Customer-driven products New products</td>
<td></td>
</tr>
<tr>
<td>Functionalization Outsourcing Operating or leveraging industry utilities Right-shoring</td>
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Sources: EY Global Banking Outlook 2015
As well as transforming business, the megatrends are also transforming government and public policy. Tax is in the front line of this change. Where is that headed?

<table>
<thead>
<tr>
<th>Global megatrend</th>
<th>Fiscal consequence for governments</th>
<th>Tax policy response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Digital business</td>
<td>• Mobile tax base risk for both enterprises and individuals</td>
<td>• Harness “big data”</td>
</tr>
<tr>
<td></td>
<td>• Technology challenge for tax collection</td>
<td>• Changing tax bases</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Adapting tax administration for a digital world</td>
</tr>
<tr>
<td>Demographic shifts</td>
<td>• Government debt pressure</td>
<td></td>
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<tr>
<td></td>
<td>• Public interest in tax (fair tax debate)</td>
<td>• International tax authority collaboration instead of competition</td>
</tr>
<tr>
<td></td>
<td>• Generational change in tax payers</td>
<td>• Focus on controversy and closing tax gap</td>
</tr>
<tr>
<td>Global marketplace</td>
<td>• Competition for trade and investment</td>
<td>• New and often higher taxes</td>
</tr>
<tr>
<td></td>
<td>• Increased cross-border tax risk</td>
<td></td>
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<tr>
<td></td>
<td>• Tax complexity</td>
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These are some of the key themes that are driving change at a global level. So how are these feeding into the agenda for governments and tax authorities?
Digital is a major risk to the tax base

Digital businesses, by nature, can easily locate and relocate. This factor, together with customers who are now able to transact in huge scale across borders through digital technology, has created a much more mobile tax base.

Tax authorities are responding by introducing new unilateral provisions aimed at capturing profits made by these businesses and their customers even before the different strands of the OECD Base Erosion and Profit Shifting Project (BEPS) come to fruition.

Digital technology has also enabled tax authorities to demand greater transparency of data from corporate taxpayers and in particular financial services organizations. Tax administrations are looking at ways to harness digital in order to improve efficiency and compliance.

A case study: Sweden

The Swedish Tax Agency (Skatteverket) introduced pre-populated tax returns in 1995 and moved the system online in 2002. Sweden uses each citizen’s national identification number system to automate and simplify the tax return submission process. This electronic identification (ID) number is recorded as part of almost all economic transactions in Sweden that are undertaken by the citizen.

The Swedish tax authority sends a pre-populated return to the individual, containing all the information that it already has, which the citizen then amends or accepts. This mature system, having been in operation for more than 20 years now, allows taxpayers to review and submit returns using text message or even a smartphone or tablet app. However, as part of approving pre-populated tax returns, taxpayers need to verify data sourced from financial intermediaries and other third parties. Accordingly, banks in particular need to be ready to provide customers with access to the data provided to tax authorities on a near real-time and understandable basis. Access to this information needs to be available in the manner demanded by the customer, be it through an online banking portal or a smartphone app.

In Sweden, privacy and confidentiality laws restrict tax authorities from sourcing and sharing private data with other authorities and agencies without an express mandate. Authorities do however leverage publicly available data to detect tax fraud and evasion. A culture of transparency also encourages citizens to report cases of apparent fraud and non-compliance.
Global tax change

Demographic shifts is a major influence on tax policy

Changing patterns of demographics in the western world with a generational change in the taxpaying base, coupled with continued pressure on governments to reduce the debt burden and control public expenditure, have driven significant public interest in tax.

The desire for taxpayers to pay their “fair share” has put the spotlight on wealthy individuals and multinational corporations. In the short to medium term this has led to increased cross-border tax collaboration in place of the global tax competition of the previous two decades. In the longer term we may see a resumption of this competition when austerity gives way to growth.

Fiscal pressure on tax authorities has also given rise to a breaking wave of tax disputes as governments focus on closing the “tax gap.”

A global marketplace makes tax collection harder

The economies of the world are increasingly interdependent, and the ability of businesses to transact across borders is leading to increasing competition for trade and investment.

This is giving rise to increasing cross-border tax risk as well as increasing tax complexity.

The response to these developments has been mixed. On one hand supranational bodies such as the G20, EU, IMF and OECD are increasingly taking on a political role as national governments prove unable to address these issues at a local level. Governments in mature markets are facing increasing competition from emerging market tax regimes able to offer lower tax rates and attractive incentive packages. The OECD, which was founded in 1961 in order to stimulate economic progress and world trade, now increasingly sees its purpose as avoiding double non-taxation, rather than double taxation.

Stakeholders are also demanding increased tax transparency, particularly for multinational businesses with their ability to locate their business in favorable tax regimes. Public disclosure of corporate tax is firmly on the agenda, although the appetite for this disclosure of tax data varies widely according to local market dynamics.

In short, global megatrends are requiring economies, particularly western ones, to grow their tax base, and to do so against the threats of digital and international mobility. They are using a better coordinated approach to cope with this challenge and want to use the benefits of technology too.
In this section we will consider how the twin forces of bank transformation and global tax change collide. In principle, dealing with tax is often problematic for organizations in the context of change programs:

- Taxes are national and often legal entity based, while business units are generally cross border and are legal entity agnostic.
- While tax-driven change is easier to plan for (e.g., FATCA) it is harder to judge how to involve tax in non-tax-driven change.
- There is an organizational reluctance to embrace tax, believing it to be a specialist subject only to be dealt with by specialists.
- Tax specialist skill sets are typically not geared to large-scale change programs or to manage processes.

Against this backdrop, how are tax resources being allocated by banks?
We asked 30 banks to rate their level of tax involvement in group change programs. The percentage shows how many respondents ranked the involvement of tax as a high or medium focus on these issues:
These results indicate that tax resources are fairly well connected to the major change programs within banking.

The priority areas tend to be in the area of regulatory change, both structural and behavioral. However, some areas where a lot of detailed regulatory work is currently underway has less of a focus (e.g., EMIR, MIFID II/MIFIR). Many of the priority areas are likely to require traditional international tax skills, but these need to be deployed against a background of increasing tax law change and cross-border policy development.

It is interesting to note which of the areas identified in our survey were currently of less focus. These were the forward-looking business-based programs: e.g., customer journey, channel management and European market reform. Later on we look through the tax lens at how the customer (both individual and businesses) are changing and how banks are looking to adapt. This would tend to indicate a greater priority is needed going forward.

Similarly, in a world where fiscal authorities are demanding exponentially more data, the fact that “data quality and IT infrastructure” has relatively little current priority is noteworthy.
Tax target operating models

Given the volume and range of change, there is a clear focus on tax departments’ target operating models. This is borne out by our survey, which suggests that there is a big focus on considering change in tax, mirroring overall organizational change.

Sixty-eight percent said that they had recently, currently or were planning some form of operating model review for all tax resources/processes.

Not all banks are undergoing significant reviews of their operating models. Instead, they are looking at discrete priority areas. This perhaps reflects the fact that different banks with different business models across a range of different locations will be under different types of pressure at any one time. The tax function will need to agree what core value it is to deliver in a reshaped tax function in order to determine what is best delivered centrally and what needs to be delivered in more innovative ways.

The table below identifies which (if any) additional skills our survey respondents think they will need most in their tax department over the medium term in order to deal with the impact of change.
Many banks are looking at the skill sets of their tax departments in order to ensure they are able to keep pace with institutional change. Tax reporting is at the top of the agenda.

Sixty-one percent think that additional reporting skills are most needed by their tax department in the medium term.

The need for staff with specialist information technology skills is also apparent from our survey. We think this may be an area of acute skill shortage given the number of our survey respondents who identified this as a gap in their current skill makeup.

Forty-three percent think that more information technology skills are needed by their tax department in the medium term.

Whether it is reporting or information technology, the funds required for delivering these new skill sets won’t necessarily be readily available given the cost of existing priority change programs. Reallocation of existing staff to new areas of importance may be required.

Our survey suggests that banks are reconsidering how they currently deliver some of their key functions to see if these can be delivered more cheaply and effectively.

Respondents indicated that currently they deliver both indirect (75%) and direct (85%) tax compliance as part of their core function activity, the following suggests this could change.

Highlights from our survey include:

• 26% expect direct tax compliance to no longer be a core function of their department.
• 22% expect indirect tax compliance to no longer be a core function of their department.
• 11% expect that financial reporting will no longer be a core tax function
• Only 5% expect an increase in partnering with other functions to deliver core processes.
• Our survey suggests a clear preference for local outsourcing compared to offshore outsourcing.
• No bank indicated outsourcing of customer tax documentation and reporting.

Although many banks are engaged in a thorough review of operating models, it is not obvious that many expect radical change in their roles. For instance, it is perhaps surprising to have little movement in expected models for customer taxes, given the major change in this area. Perhaps tax functions are concluding that a significant change in skill sets that they expect to be material will be sufficient to deal with this and other challenges.
Three key lenses for tax change in banking:

1. Tax and the customer

Of all the trends we have identified in this paper it is the rise of the global marketplace and digitization that is at the heart of the changing relationship between banks and their customers.

Individuals in rapid-growth jurisdictions will be looking to banks to provide them with different products tailored to their needs and different methods of delivery. Those individuals will behave differently - they are increasingly mobile, will shop around for banking-related services and require new product sets. Businesses in these countries will also have different priorities and different needs.

The interest in tax transparency and reporting at the customer level is in part driven by the ability of customers to move money easily and quickly around the globe. The customer journey (both for individuals and businesses) is also changing, and banks are adapting accordingly.

These global megatrends are increasing the fiscal stakes for bank customers with:
- More international mobility increasing cross border tax risk
- Digital increasing the potential for customers to be noncompliant

If nothing else changes, the tax risks from customers are set to increase. In addition, tax policy trends and bank regulation continue to increase the financial and franchise costs of customer noncompliance. For instance, we can expect:
- More litigation/controversy
- More international cooperation between tax authorities
- More data requirements such as the Common Reporting Standard (CRS)
- Tax to be increasingly covered by regulatory provisions (e.g., AML)
The risks are increasing, and the consequences of failure are too. So what is the bank’s overall response to the customer change agenda? Will that make the tax risks naturally reduce? Well, there are both positives and negatives. Left unchecked, banking transformation change may actually increase risk:

- By responding to customer needs by providing flexible digital platforms, the bank may unwittingly facilitate non-compliance.
- Centralizing booking centres suggests an increase in offshoring booking.
- Customer-designed products, where the customer self-selects services potentially reduces the capacity for tax due diligence.

On the positive side:

- If compliance programs like KYC and AML, sanctions and others can be properly leveraged for tax, then that revived regulatory focus on conduct is helpful.
- If risk culture programs properly reflect tax then the first line of defense is strengthened.
What does our survey of banks indicate?

In our survey we asked questions in order to better understand two key issues: how does the bank’s changing customer proposition affect tax risk, and are key compliance programs being leveraged to mitigate that risk?

Sixty percent now undertake due diligence to assess tax suitability of financial products for customer before recommending them.

As borne out in our survey, banks have often entered into a significant review and overhaul of their product sets. The future may, in part, lie in helping the customer be compliant. While this may not mean giving tax advice, it may involve the provision of data for tax returns in a user-friendly fashion. It will be necessary to see how tax can be used as an opportunity to add value to the customer relationship through facilitating compliance.

There are also real risks flowing from the tax affairs of customers. The stakes have been raised. It is no longer sufficient for banks to rely on a bright-line approach where behavior is either deemed compliant or noncompliant. Instead, there is a spectrum of behavior that may be deemed unacceptable by the media, regulators and tax authorities.

Eighty-five percent have carried out work or are putting in place a plan with regard to the potential impact of customer tax fraud.

Money-laundering restrictions have been in place for many years, but we are seeing a change in the role of the Money Laundering Reporting Officer, with greater interaction with audit committees and the other risk functions.

There is now an increasing trend toward the creation of new predicate criminal offenses relating to customer tax affairs which will mean further focus on new customers.

Currently tax risk is not well integrated in this process. With the onboarding of customers becoming ever more elaborate it will be increasingly important to understand how tax fits within the overall risk framework.

Seventy-four percent have changed their procedures for the approval of new products significantly in respect to the tax impact on customers.

From our survey of 30 major banks.
Financial regulators’ increasing focus on the “conduct agenda” (broadly, about how customers are treated, how firms behave toward each other and how they operate in the market) is also changing the way banks interact with customers regarding the tax treatment of financial products.

Tax also plays an increasingly important role in mis-selling and resulting remediation programs.

These are generally encouraging results. We would argue that this is evidence supporting the view that customer tax risk is increasing but that there are measures that can be taken to mitigate that risk. Clearly the days when the customer’s tax position was regarded purely as a matter for the customer are long over.

The questions now are “How far does one go in protecting the bank against customer tax risk?” and, in the future, given the requirement to increase tax reporting on customers to tax authorities, “Should banks offer some kind of tax service to customers using that data?”

While banks are clearly stepping up to the challenge of customer tax fraud, the survey raises a question about how well prepared banks are to anticipate how risk might change in the light of changes to the customer proposition and the bank’s response. For instance, the change programs involving the customer journey are the ones that attract the least focus from the tax function. Many of the future risks of the changing customer proposition are present in our next lens - digital.
2. Digital

Fueled by the convergence of social, mobile, cloud, big data and growing demand for anytime, anywhere access to information, technology is disrupting all areas of the business enterprise.

Disruption is taking place across all industries and in all geographies. For banks there are great opportunities to capture vast amounts of information, enter new markets, transform existing products, and introduce new business and delivery models.

However, the evolution of the digital enterprise also presents significant challenges for banks, including new competition, changing customer engagement and business models, unprecedented transparency, privacy concerns and cybersecurity threats.
Tax policy and digital

All of the aforementioned has led to significant changes in tax policy. The evolution of digital businesses has given rise to new challenges for tax authorities, who see these developments as a threat.

This is reflected in the work that has been done at a supranational level on the tax challenges of the digital economy, including that being delivered under Action 1 of the BEPS Action Plan. Not everyone is waiting for the OECD to complete its multilateral BEPS work, and some (notably the UK and Australia) have introduced specific direct tax measures to target perceived avoidance in the digital sphere.

Seventy percent expect the changes in tax authority policy or practice arising from a move to digital will have an impact in a number of areas of their business.

So when looking at the impact of the megatrends, we have identified and combined these with the consequent changes in tax policy, and we can begin to see how banks should be shaping their own digital agenda to incorporate tax.

We have identified three key themes arising from digital from a banking tax perspective:

- The requirement that banks provide more data to tax authorities.
- The move to different business models and the creation of new products have consequential effects on the tax risk and the positioning of tax in the product set.
- The digitization of tax processes within a bank.
Our survey: costs and risks

Our survey respondents ranked these tax risks or tax costs arising from digital business change in the following order:

1. Tax impact of business restructuring
2. Tax risk arising from cross-border business complexity
3. Increasing granularity and volume of data accessible to tax authorities
4. The tax risk of customer data loss or misuse
5. Operational tax risk through high-volume digital transactions

The growing importance of data quality

Our survey identified the increasing granularity and volume of data accessible to tax authorities as key areas of risk and ancillary cost. There is a new emphasis on data quality. As banks harvest increasing amounts of customer data there will be an increasing demand by customers to see what data is being reported to tax authorities. This leads to a new risk for banks that may damage their relationship with their customers through inaccurate tax data reporting.

The availability of data has also led some tax authorities to seek to use that data in smarter ways. Some governments have gone as far as creating truly digital tax returns, which bring taxpayers’ details in one place so they can register new services, update their information and understand quickly what they need to pay without the need to complete a formal tax return.

In order to deliver on these commitments, governments are increasingly looking to banks to provide customer data to them in a form that can be used to populate returns. A separate but linked development is the increasing use of banks as intermediaries carrying out activities that would once have been the domain of the tax authority.
Three key lenses for tax change

The importance of automation of tax

Another different manifestation of digital change in a banking context is the increasing focus on banks’ ability to deliver straight-through processing (STP). This is the ability of banks to execute financial transactions automatically without manual intervention such that the entire process can be conducted automatically.

The cost savings delivered by front-to-back STP will be increasingly important in a difficult market where efficient processing is key. Large banks with such systems will have a competitive advantage over banks without the necessary IT systems.

Tax has an increasingly important part to play here. Any transaction that could require manual intervention including any operational tax mechanism will slow or disrupt the process. The question for banks is whether they have the required technical specialist skill set either within the tax department or elsewhere to help build the requisite STP modules.

There is a separate question to consider too:

Is there a place for an industry utility solution to support a low-cost delivery model of some parts of operational taxes?

Conclusion

Banks are seeing digital as transformative both in terms of the marketplace they serve and also the way in which they organize their business. From a tax perspective, as banks design their own digital future, they need to recognize that the taxation of businesses is changing to cope with the risks that new technologies pose to tax revenues.

They will need to have the right data and data of the right quality to support tax positions in an increasingly transparent and hostile tax environment. Business models will need to be resilient to support changes in tax rules as governments struggle to maintain tax revenues against disruptive change.

Additionally, the data in terms of payments and transactions that banks have in relation to their customers will be an increasingly important resource that tax authorities will look to access. This will drive banks to take more of an interest in their customers’ tax affairs – whether they want to or not.
3. External stakeholders

After the financial crisis, banks have become “public property,” often quite literally. As a result, their behaviors, cultures and roles have been scrutinized and in many cases, reinvented.

The regulatory response to these issues is to require banks to undertake programs to change their culture and to ensure that the board is in a position to monitor the effectiveness of that change (i.e., prove that the bank is not “too big to manage”).

There has been a strong emphasis on governance and accountability. The tone from regulators now is that they are looking for banks to prove that their policies are actually working in practice.

Regulators themselves are facing public scrutiny, often leading to a zero-tolerance approach to regulatory breaches.

The global tax climate, particularly when it comes to unacceptable tax behavior of multinationals and high-net-worth individuals, has strong parallels to the scandals that many banks have faced in their risk culture: such as mis-selling to customers and market manipulation.

Just as regulators have been put under pressure in the light of these scandals, so have tax administrations. Financial regulators have responded with tighter regulation, more data requests and more intrusive inspection. The same could be said for many banks’ experience with tax authorities.

Additionally, there are actual linkages between regulation and tax:

• Regulators are increasingly being explicit in their coverage of tax as part of their role (e.g., in Italy and Switzerland).
• Regulators are considering tax behavior of a bank in their overall assessment of governance and leadership (e.g., in the UK).
• The black-letter provisions themselves often explicitly include tax (e.g., FATF definition of tax fraud as a predicate financial crime).
Three key lenses for tax change

“The bank tax code of practice has forced us to communicate more regularly with HMRC.”

Client survey respondent

63% of clients have recently changed the manner in which they engage with the tax authority.

52% have had limited or no engagement with regulators regarding tax.

In theory, the direction of travel in financial regulation is broadly similar to the direction of travel in tax administration. They face a broadly similar environment of public interest, although they take separate form. In the tax world, they manifest themselves through the fair tax debate and the supranational work on tax by the OECD and others.

This should facilitate the change management process necessitated by the new tax environment. Nonetheless, the challenges are many and varied:

• Is there sufficient resource and focus to ensure the investment in people, technology and controls that is being put into the business to eradicate compliance failures is enough to cover tax too?

• How does a multinational bank get the right national coverage of tax issues across its geographies?

• Is there sufficient resource in tax to get the appropriate input into all the change programs in this area (e.g., risk culture, conduct, MiFiD 2 implementation)?

• How can you demonstrate that you not only have the right policies in relation to tax behavior, but that they are working?

Fifty-two percent of respondents to our survey said their bank has had limited or no contact with regulators over tax, which suggests that a lot of banks have yet to experience the trend of tax and financial regulation becoming increasingly intertwined.

With regard to the relationship with tax authorities, 63% of clients have recently changed the manner in which they engage with the tax authority.

Tax authorities are changing their approach given the need to raise additional revenue, and as they come under increasing pressure themselves in the light of allegations of incompetence, sweetheart deals and leaked tax rulings. The most rapid change has been in the attitude of tax authorities in developing countries. They are rapidly being upskilled as a result of the BEPS project. This has led to a shift in the way in which banks approach their relationships with those authorities.
The fair tax debate and corporate tax transparency

The global tax policy trends that are driven by bank stakeholders are not limited to tax behavior from the bank and its customers.

For corporates outside of banking, possibly the biggest impact of the interest in tax now being taken by politicians and those promoting the fair tax debate is corporate-level transparency and the consequent tax policy changes. This is a powerful trend that the ongoing BEPS program will add weight to in terms of discrete policy measures. The general issue is the need for all multinational enterprises to justify their tax footprint and align it to the pattern of their commercial activity.

In the first instance, this requires disclosure of where tax is being paid around the world and in consistent documentation of transfer pricing.

Only 4% think that banks should never engage in the fair tax debate – for example, because this is a no-win proposition for financial sector businesses.

Despite the fact that 56% have had their tax affairs mentioned in the media in the last 12 months, only 40% have a media readiness policy that specifically deals with tax.

From a banking perspective, this aspect of the stakeholder agenda is not aligned to the direction of travel of the Change the Bank program, and there is not an obvious parallel with any regulatory approach.

The tax function within a bank will need to work harder to ensure these issues are reflected in transformational change. For instance:

- Can the appropriate data be sourced on a country basis to support disclosures?
- How will new target operating models be robustly transfer priced against a more transparent and hostile tax environment?
- As BEPS measures play out in a fragmented way where double taxation can be anticipated, will the group’s location strategy be flexible and resilient enough to cope with tax policy changes that render locations uneconomic?
- Is the tax profile across the globe capable of a simple explanation to an investor relations/political audience?

These types of issues are unique to the tax world and not otherwise given much consideration within the bank.
5 How should a bank respond to correctly position tax?

So how should banks respond to the major structural changes discussed in this paper? We think this necessitates a fundamental reappraisal of the way tax fits within a modern bank.

The precise actions will vary depending upon the type of bank, its geographic footprint and the depth and maturity of its change program. In general terms, the appropriate actions that follow from the analysis in the paper might include:

- A reappraisal of the change program within the bank to ensure the tax agenda has the right positioning, connectivity and resourcing.
- The initiation of a change program within tax to identify tax’s core role, define target operating model, and re-establish hand-offs with businesses and group functions.
- A reappraisal of skills, career structure and metrics of tax personnel.
- An internal benchmarking of tax business processes to ensure governance, controls and data quality are aligned to the new standards being adopted across the bank.

These types of actions are the appropriate response in EY’s view. Tax does need to “get with the program,” but it may well need to step up to change that program to achieve its different needs. This cannot wait since it will be too late if tax gets considered after the change agenda has been hardwired into a bank already transformed for a new generation.
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