

Manufacturers Alliance/MAPI Survey of Corporate Tax Departments—4th Edition

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Manufacturers Alliance/MAPI Survey of Corporate Tax Departments—4th Edition

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Manufacturers Alliance/MAPI Survey of Corporate Tax Departments—4th Edition

Introduction

This fourth edition of the Survey of Corporate Tax Departments provides a snapshot of the state of the corporate tax department. It considers how the corporate tax department has changed—or remained the same—over the last 5 years, and even 10 and 15 years. Overall, tax departments are somewhat leaner and smaller—doing more with less. Greater availability of technological tools and increased skill at using them have allowed tax departments to manage ever-growing compliance duties, while continuing to seek out planning opportunities and other means of assisting the company to meet its business objectives.

The increasing globalization of companies adds to the tax department's technical tax and administrative burdens. Certainly, many departments report growing demands on their resources. At the same time, tax departments have sought to shift (and succeeded at shifting) resources from compliance activities to value-added contributions in the form of tax planning, advising management and units, and participating in the company's strategic processes. Technology is an enabler in this process and has contributed to increased productivity in the tax department. It will continue to do so in the future, as the tax department deals with globalization. Indeed, the combined forces of globalization and technology may well define the department's structure, staffing, and processes over the next few years.

The Manufacturers Alliance/MAPI wishes to express its appreciation for the time and resources devoted by many companies and individuals to this edition of the survey, as well as the earlier editions. The information gathered and reported by respondents is extensive, reaching from budget and staff details to reporting relationships, compliance and audit management, best practices, benchmarking, and technology. Over the years, survey data have proved useful to many who have sought to benchmark tax departments against the norms and ranges reported in the earlier editions.

These results should not be viewed as absolutes. Variances from the reported aggregated data should be expected. The exercise in comparing any par-

ticular tax department against the results is useful only to the extent that it promotes a better understanding of that department.

While providing a snapshot of the corporate tax department, the survey results below are not intended to be (nor are they) necessarily representative of the tax departments of large manufacturing companies and other multinationals. Rather, they reflect the current operations of the tax departments of the 131 respondent firms.

Survey Background and Methodology

In response to requests from industry, the Manufacturers Alliance/MAPI in mid-1986 surveyed the members of its then-two Tax Councils (a third Tax Council was formed in 1997)¹ on various aspects of tax department management.² The survey was repeated, in modified form, in 1991³ and again in 1997.⁴

In fall 2001, questionnaires were sent to all companies represented on the Manufacturers Alliance/MAPI Tax Councils, as well as to tax executives in other Alliance member companies and to a number of nonmember companies that operate in industries that are represented in the Alliance membership. To enhance multiyear comparisons, the questions in this survey parallel those in previous surveys, wherever possible. Responses were received through the end of 2001. For this survey, 131 questionnaires were tabulated, eight more than for the 1997 survey.

¹ The Manufacturers Alliance/MAPI Tax Councils provide forums for chief tax officers to exchange knowledge and information on all aspects of managing the corporate tax function. Each council meets twice a year to address an agenda that is member-driven and largely member-delivered. In addition, members are in regular contact throughout the year on policy, technical, and management issues. These interactions are facilitated and supported by the Alliance.

² *MAPI Survey on the Scope, Organization, and Activities of the Tax Department*, MAPI Memorandum T-75 (August 1986), hereinafter referred to as the 1986 Survey.

³ *MAPI Survey of Corporate Tax Departments: Norms, Ranges, and Attributes*, LAR-223, August 1991 (the 1991 survey).

⁴ *Manufacturers Alliance Survey of Corporate Tax Departments*, LAR-403, March 1998 (the 1997 survey).

Summary of Survey Findings

Company Information (Survey Section I, Page 6)

The companies whose tax departments are profiled—in the aggregate—in this survey range from smaller manufacturing companies (less than \$200 million in sales) to very large multinationals (over \$25 billion in sales). More than half reported sales of at least \$3 billion, and 75 percent had sales of \$1 billion or more. Average worldwide revenues, \$9.6 billion, are almost 25 percent higher than in the 1997 survey. Indeed, the revenues of the typical respondent have more than doubled since 1986.

More than 80 percent of the survey companies are manufacturers (as contrasted with 90 percent in the 1997 survey) in primary metals and fabricated products, electrical equipment and components, chemicals, machinery, instruments, and “other.” The remainder are engaged in services, retail, distribution, and computer-related activities.

The preponderance of survey companies are publicly traded (86 percent). The remainder are privately held or foreign-owned. These results are substantially the same as those reported in the 1997 survey, with the exception that some of the foreign-owned entities also are publicly traded.

Chief Tax Officer, Tax Department Structure, Budget and Staffing (Survey Section II, Page 11)

The “typical” tax department is headed by a Chief Tax Officer (CTO) with the title of vice president (56 percent) or director (36 percent). In earlier surveys, the CTO was more likely to be a director than a vice president. The shift may be attributable to the larger size of the companies—in the aggregate—that participated in this survey. The CTO generally reports to the Chief Financial Officer (70 percent versus 73 percent in the 1997 survey and 57 percent in the 1991 survey).

A new series of questions focuses on the CTO’s background. Typically, the CTO has been in his or her present position for five or more years and, previously, was a member of the company’s tax department (44 percent) or was the CTO of another company (19 percent). Thirty-nine percent of CTOs have law degrees (J.D. and in many instances a legal masters). Overall, 22 percent have an MBA and 30 percent have some other masters degree, including a masters in taxation.

Tax personnel reporting directly to the CTO typically are directors or counsel, rather than managers. For many tax departments, the director

or counsel has relatively broad responsibilities covering tax generally (e.g., compliance, planning, audit, etc.). In other cases, planning and compliance are merged, but audit is separate. When separated out from other functions, audit is somewhat more likely to be handled by a staff member with the title of “counsel” rather than one with a director title. International planning is handled as often by a director as by a counsel.

Almost two-thirds of CTOs are officers, either appointed (37 percent) or elected (28 percent). As was the case in the 1997 survey, the likelihood that the CTO will be a vice president and an elected corporate officer (versus an appointed officer) appears to increase with company size.

A third of CTOs also have nontax functions, e.g., in accounting, customs, treasury, or controller-ship. A CTO in a smaller company is more likely to have a split function than a CTO in a larger company. On average, those with split functions devote 20 percent of their time to the nontax function. The 1997 survey found that 36 percent of CTOs had nontax functions that required, on average, 30 percent of the CTOs’ time. In earlier surveys, the time requirement was greater, 45 percent in 1991 and 44 percent in 1986. The relative size of the companies in the earlier surveys may account for at least some of the difference.

Structure.—The “typical” tax department is centralized, at least with respect to U.S. operations (89 percent). The basic reporting structure within the department tends to be hierarchical—more so than in the earlier survey (63 percent versus 49 percent in the 1997 survey). Nonetheless, a significant percentage (30 percent) of tax functions in companies with sales under \$10 billion use a team-oriented approach.

Most tax departments, especially those in companies with sales of \$1 billion or more, are organized by type of tax, e.g., federal, state, and local, etc., or by a combination of type of tax and function, such as compliance or research and planning (71 percent). Where the tax department has a small staff, responsibility for all types of taxes and all functions is shared by the professional staff as a whole—more or less along a team model.

Almost two-thirds of respondent companies have an in-house tax counsel, usually in the tax department and often the CTO. The reverse, of course, is that a third outsource the tax counsel function.

Budget.—The average tax department budget in this survey is 0.06 percent of worldwide sales, down from 0.07 percent in the 1997 and 1991 surveys and 0.08 percent the 1986 survey. This

apparent reduction may be attributable, at least partially, to the generally larger size of the companies in this survey. The tax budget does decline as a percent of worldwide sales as those sales rise. In companies with sales below \$1 billion, the tax budget shows a 0.02 percent decline.

Total tax administrative costs, the product of budget plus other tax administrative costs, on average, account for 0.07 percent of worldwide sales, down from 0.08 percent in the 1997 survey. We believe that total tax administrative costs reported in this survey are understated. A significant number of respondents were unable to provide data (or estimates) on foreign tax compliance costs, information technology expenditures, and other tax administrative expense items that are not included in the tax department budget.

Compensation, not surprisingly, is the largest single tax department expense category (57 percent). The next largest is outside consultation, which jumped from 20 percent of the budget in the 1997 survey to 28 percent. Tax departments with lower compensation costs typically have higher costs for outside consultation.

The portion of the tax department budget that is devoted to information systems reduced by half to 4 percent. One possible explanation for the reduction in systems spending is that the tax department's needs are being met by corporate systems. For example, the tax department may not need to purchase equipment to the extent it did previously. Further, software used widely in the company may be more suitable to the department than in the past; less specialized software is needed. The cost of tax software—as a percent of the budget—declined from 4 percent in the 1997 survey to 3 percent. The reasons for this are not clear, particularly given the proliferation of products and the consolidation of providers.

Seventy-six percent of respondents indicated that tax department costs are not charged out to business units or are treated as part of the corporate allocation. Twenty-two percent charge at least some cost to units or to projects, e.g., acquisitions. Foreign units frequently are responsible for the cost of their own local tax compliance.

Staff.—The “typical” tax department has 21 staff members, 19 of whom are professionals. This represents a reduction from the 1997 survey, which reported an average staff of 25 with 21 professionals. The total staff reflected in this survey is the same as that in the 1986 survey, but then the tax department had fewer professionals (15) and more clerical staff. It should be noted, as

well, that the 1997 survey included one company with a particularly large staff.

Most members of the tax department are located at the company's headquarters. Some companies also have tax personnel at other U.S. locations, as well as outside the United States. Thirty-one percent (compared with 38 percent in the 1997 survey) of survey companies employ tax personnel who are not part of the tax department.

Tax Department Functions (Survey Section III, Page 36)

Core functions for which the tax department is responsible include tax planning, compliance, audit, appeals, and litigation. Not surprisingly, the tax department is universally responsible for the company's compliance with U.S. federal income tax and state income and franchise tax laws. Usually, this means that the tax department actually performs the compliance tasks. Generally, the tax department also is responsible for U.S. tax planning with respect to domestic and foreign operations.

The tax department often avails itself of outside services for assistance with core tax functions. Indeed, the average tax department spends 28 percent of its budget on outside tax consulting. These expenditures are devoted most frequently to the tax aspects of acquisitions and divestitures, international tax planning, general tax planning, research, and transfer pricing studies. Except for companies that are engaged in tax litigation, these categories consume the most budget resources for consulting.

Questions on outsourcing revealed that virtually every tax department uses outside providers, usually accounting firms, to perform tax functions. Frequently the outsourcing is selective rather than all-encompassing. For example, 63 percent outsource all tax work with respect to expatriate employees and 45 percent outsource 100 percent of foreign tax return preparation, in each case almost exclusively to an accounting firm. Functions most likely to be outsourced, often only in part, are domestic tax planning, foreign tax audits, and tax planning for acquisition and dispositions.

Compliance (Survey Section IV, Page 43)

Viewed narrowly, tax compliance refers to the filing of returns to report taxable earnings and to remit taxes to national and subnational jurisdictions. It also encompasses defending those filings on audit. Not surprisingly, the vast majority of income tax returns filed in the United States, whether at the federal or state levels, are prepared within the tax

department. Returns that are filed outside the United States are more likely to be prepared locally, usually by outside consultants.

In preparing income tax returns, the tax department relies on information extracted from the company's accounting system and developed via tax information packages that are completed by unit personnel and from other sources. Tax information packages are necessary because the tax law frequently prescribes a treatment for an item that differs from that required or allowed for financial accounting purposes. Further, that information must be organized and reported on a legal entity basis, which often is ignored by systems designed to accommodate financial and management reporting.

Tax data collection increasingly is electronic; almost half of the surveyed companies now use online databases or spreadsheets. Tax departments rely far less in this current survey on paper-based forms (25 percent) for collection of tax data than they did in the 1997 survey (61 percent). Gathering tax data and managing it are key issues for the tax department. The menu of software options is evolving.

Survey respondents were asked to identify the three primary hurdles their departments face in collecting the data and documentation needed to ensure the company's compliance with national and sub-national tax laws. Among the broad themes that emerged from the responses are:

- Rapid organizational changes add considerably to the tax department's compliance burdens;
- Many tax departments encounter substantial difficulties in obtaining data on a separate legal entity basis; and
- Multiple accounting systems do not yield information that can be translated into tax return data without significant, time-consuming manual intervention.

Audit Management (Survey Section V, Page 52)

The present Manufacturers Alliance/MAPI survey is the first conducted since the Large and Mid-Size Business (LMSB) division "stood-up" within the reorganized IRS. The questionnaire sought information on experiences with LMSB initiatives and audits. The survey continues to look at the tax department's audit "inventory" and practices in managing audits.

Overall, respondent companies reported slightly less federal audit activity. Eighty-three percent of the survey companies were under audit in 2000, in

contrast with 86 percent in the 1997 survey. The real drop-off in audit coverage occurred in companies with sales under \$1 billion.

Survey companies generally are fairly "current," with most current audits focusing on the 1996 and later tax years. Thirty-seven percent of respondents reported having protests pending before the IRS in 2000, down from 43 percent in the 1997 survey. The "typical audit" covered three taxable years and required 29 months to complete.

Because the number of information and document requests (IDRs) received by a company can be an indicator of the intensity of the audit, or at least measure a key portion of the related workload, respondents were asked to track their inventory of IDRs. Seventy-four percent report having IDRs (up from 69 percent in the earlier survey), with 25 in process at the beginning of the year, 71 received, 83 completed, and 20 on hand at the end of the year. Companies with sales under \$1 billion reported a much reduced number of IDRs when compared with larger companies and with the responses to the 1997 survey.

Respondents report mixed experiences in their first audits under LMSB. While some see improvements, others continue to have difficulties with getting decisions made and issues resolved, inexperienced auditors, and lack of coordination, particularly with respect to specialists.

Technology (Survey Section VI, Page 64)

We no longer ask questions about how many computers are available in the tax department. Most departments have access to adequate company equipment and networks. Certainly, developments in technology have completely altered both the compliance function and the planning function. We have come a long way from doing dividend planning on spreadsheets.

Tax departments invest significant resources in tax compliance and planning software systems. We noted in the last survey that the vendors and their products continually change. The same is true here. CLR FastTax, the leading compliance system in the last survey, has been absorbed into RIA, which is now part of the Thomson Companies. RIA In-Source has fallen behind CORPTax, now owned by Deloitte & Touche Tax Technologies. A major system provider in the past, Price Waterhouse, now Pricewaterhouse Coopers, offers tax management systems rather than tax compliance software.

Increasingly, tax departments use electronic and online resources for tax library and research needs.

Even so, almost half continue to rely on some paper source material.

Performance Measures and Best Practices (Survey Section VII, Page 67)

Tax departments have actively searched out process improvements and achieved productivity gains in many areas. Quality improvement standards have been incorporated into the performance measures that are applied to tax departments. Even so, the measures that are applied most frequently to the tax department focus on tax savings, whether by particular projects or reductions in effective tax rates, rather than process improvements and cycle-time reductions.

Eighty-six percent of the surveyed companies have put in place at least one reengineering or quality improvement mechanism. Chief among these are tax package improvements (48 percent). Given that almost half of the respondents report the use of Internet-based tools to assist in the collection of tax data, these improvements may be attributed, at least in part, to the deployment of new technology tools. Other improvements address the accuracy of projections to the return as filed (28 percent, compared with 34 percent in the 1997 survey), and mapping or flowcharting major processes (24 percent, compared with 31 percent in the 1997 survey).

Eighty-five percent of respondents reported cycle-time reductions in at least one area, a noteworthy increase from 70 percent in the 1997 survey. Cycle-time reductions have been achieved with respect to closings and property tax in addition to returns, compliance, audits, and packages as considered in the prior survey.

Effective Tax Rate (Survey Section VIII, Page 74)

Effective tax rates hover around the federal statutory rate of 35 percent, with smaller companies reporting somewhat higher rates than larger companies. Very substantial ranges were reported. Interestingly, companies whose non-U.S. sales exceed 40 percent of worldwide sales, or are less than 10 percent of worldwide sales, report lower effective tax rates than companies whose non-U.S. sales fall in between.

A company's effective tax rate can be influenced by a wide range of factors, many of which are outside the department's control. Corporate transactions can have a major impact, both in the current year and in subsequent years. Acquired goodwill, domestic losses, and overall foreign losses are examples of elements of the effective rate that the tax department cannot control. Even with these challenges, tax departments devote significant time and resources to managing the rate.

Twenty-eight percent of survey respondents reported that the rate had remained the same over the past three years. A change usually was in the form of a decrease. Thirty-eight percent projected that the effective tax rate will remain the same over the next three years.

Sixty-three percent (versus 73 percent in the 1997 survey) indicated that audit settlements generally do not impact the effective tax rate. Contingency reserves usually are sufficient to cover the cost of the settlements. These contingencies are based on a risk-adjusted percent of gross exposure (63 percent versus 51 percent in the 1997 survey) and/or a "best guess" (43 percent).

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SURVEY RESULTS

COMPANY INFORMATION (Survey Section I)

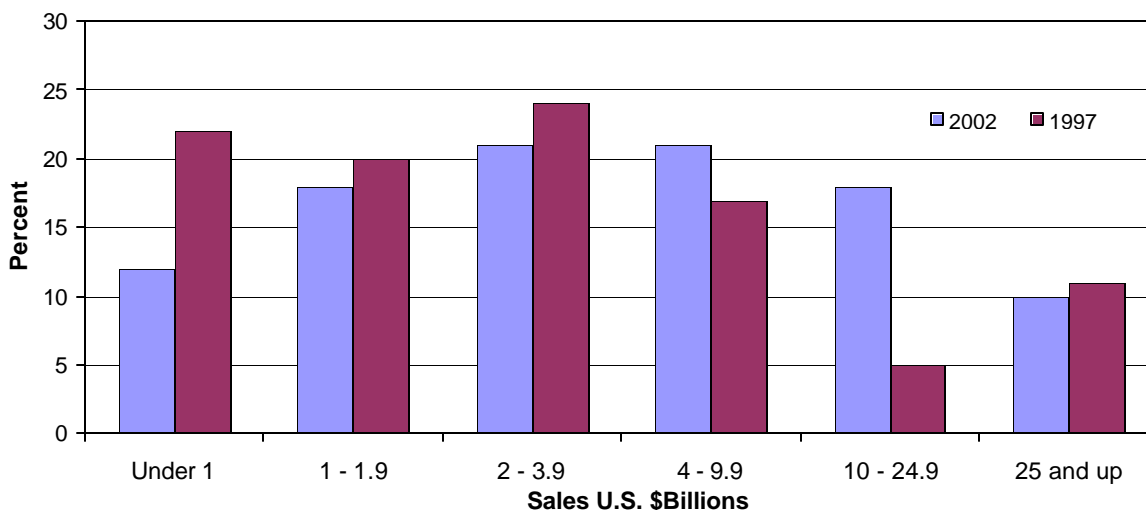
Section I of the survey questionnaire called for general information about the companies participating in the survey. This included U.S. and worldwide revenues, assets, and employees, as well as industry, numbers of legal entities and reporting units, and “public” or “private” status.

Companies participating in the survey reported worldwide revenues ranging from less than \$200 million to more than \$100 billion. Average worldwide revenues were \$9.6 billion, a substantial increase over the average, \$7.8 billion, reported in the 1997 survey. Ninety percent of survey respondents reported revenues from outside the United States, ranging from 3 percent to 76 percent of worldwide revenues. The average was 28 percent; the median 26 percent, both modestly higher than in the 1997 survey.

More than 80 percent of the surveyed companies are manufacturers—in instruments, machinery, computers, electrical equipment, transportation equipment, chemicals, and metals. Companies that do not characterize themselves as manufacturers include those in the wholesale distribution, software consulting sales and support, transportation, and retail industries.

The preponderance (87 percent) of companies that participated in the survey are publicly traded. Six percent are privately held, and 7 percent report that a majority interest in the company is held by a foreign corporation or other non-U.S. entity.

Chart 1
Respondents by Sales Groups
2002 and 1997 Survey Data



Company Size

To provide context for the responses, each respondent was asked to indicate the company’s size in terms of sales, assets, and employees in the United States and worldwide. Responses concerning sales are summarized in Table 1, and are grouped by the six sales ranges that are used throughout the survey. The same sales groups were used in the 1997 survey so that results can be compared. Aggregate results also are compared where possible with those of the 1991 and 1986 surveys.

The following charts and tables consider the profiles of survey companies in terms of sales (Table 1), assets (Table 3), and numbers of employees (Table 5). Table 2 considers U.S. sales and non-U.S. sales as percentages of worldwide sales, while Table 4 looks at assets in a similar fashion.

Table 1
Company Size by Sales
U.S. \$Millions

Sales Groups (\$US)	Worldwide Sales			U.S. Sales		
	Average	Median	Range	Average	Median	Range
Less than 1 billion	637	595	191 – 964	466	426	87 – 870
1 billion – 1.9 billion	1,409	1,350	1,050 – 1,955	1,121	1,064	369 – 1,700
2 billion – 3.9 billion	2,769	2,748	2,000 – 3,900	2,015	2,000	1,000 – 3,712
4 billion – 9.9 billion	6,762	6,915	4,000 – 9,748	4,928	45,000	1,985 – 9,300
10 billion – 24.9 billion	15,475	14,443	10,000 – 22,900	10,042	10,049	4,766 – 15,500
25 billion and up	45,729	33,813	25,296 – 100,000+	29,865	22,000	7,000 – 100,000+
2002 Overall	9,607	3,881	191 – 100,000+	6,964	2,295	87 – 100,000+
1997 Survey	7,756	2,300	91 – 100,000+	5,388	1,579	66 – 100,000+
1991 Survey	5,400	2,000				
1986 Survey	4,400	1,700				

Table 2
**U.S. Sales and Non-U.S. Sales
as Percent of Worldwide Sales**

Sales Groups (\$US)	U.S. Sales as Percent of Worldwide Sales			Non-U.S. Sales as Percent of Worldwide Sales		
	Average	Median	Range	Average	Median	Range
Less than 1 billion	73	75	43 – 100	28	26	0 – 57
1 billion – 1.9 billion	80	82	34 – 100	20	18	0 – 66
2 billion – 3.9 billion	73	75	44 – 98	27	25	2 – 56
4 billion – 9.9 billion	72	74	27 – 100	28	26	0 – 73
10 billion – 24.9 billion	65	61	37 – 100	35	39	0 – 63
25 billion and up	64	66	24 – 100	36	34	0 – 76
2002 Overall	72	74	24 – 100	28	26	0 – 76

Table 3
Company Size by Assets
(Grouped by sales)
(U.S. \$Millions)

Sales Groups (\$US)	Worldwide Assets			U.S. Assets		
	Average	Median	Range	Average	Median	Range
Less than 1 billion	667	664	238 – 1,296	579	504	207 – 1,290
1 billion – 1.9 billion	1,424	1,300	579 – 3,511	1,180	1,162	243 – 3,000
2 billion – 3.9 billion	2,649	2,521	944 – 7,901	2,078	1,922	622 – 6,696
4 billion – 9.9 billion	9,604	7,368	2,356 – 17,941	6,257	5,800	1,000 – 17,941
10 billion – 24.9 billion	13,136	13,600	2,770 – 31,691	9,462	9,541	1,470 – 24,991
25 billion and up	94,540	42,000	18,000 – 400,000+	77,780	33,170	9,000 – 400,000+
2002 Overall	14,350	3,217	238 – 400,000+	11,594	2,455	207 – 400,000+
1997 Survey	8,847	1,900	100 – 200,000+	6,446	1,255	45 – 100,000+
1991 Survey	6,000	1,600				
1986 Survey	4,100	1,500				

One respondent noted that their U.S. assets are higher than the company's worldwide assets due to intercompany investment and receivables on U.S. books which are eliminated in worldwide consolidation.

Table 4
**U.S. Assets and Non-U.S. Assets as
 a Percent of Worldwide Assets**
 (Grouped by sales)

Sales Groups (\$US)	U.S. Assets as Percent of Worldwide Assets			Non-U.S. Assets as Percent of Worldwide Assets		
	Average	Median	Range	Average	Median	Range
Less than 1 billion	85	88	66 – 100	15	12	0 – 34
1 billion – 1.9 billion	82	86	27 – 100	18	14	0 – 73
2 billion – 3.9 billion	78	80	38 – 100	22	20	0 – 62
4 billion – 9.9 billion	71	79	33 – 100	29	21	0 – 67
10 billion – 24.9 billion	72	74	40 – 100	28	26	0 – 60
25 billion and up	75	86	23 – 100	25	14	0 – 78
2002 Overall	77	81	23 – 100	23	19	0 – 78

Table 5
Number of Employees
 (Grouped by sales)

Sales Groups (\$US)	Worldwide			United States		
	Average	Median	Range	Average	Median	Range
Less than 1 billion	3,159	2,750	902 – 7,900	2,478	2,406	483 – 5,500
1 billion – 1.9 billion	7,597	6,300	2,673 – 16,500	4,984	5,000	1,508 – 8,800
2 billion – 3.9 billion	14,425	13,127	2,000 – 30,750	10,699	8,000	3,000 – 30,000
4 billion – 9.9 billion	28,164	24,282	3,000 – 60,000	19,282	18,000	3,000 – 41,000
10 billion – 24.9 billion	79,081	47,244	3,900 – 350,000	38,158	34,748	4,000 – 115,348
25 billion and up	145,345	123,000	3,600 – 363,689	83,303	55,000	3,600 – 267,000
2002 Overall	21,491	9,750	902 – 300,000+	39,079	15,000	483 – 200,000+
1997 Survey	8,847	1,900	100 – 200,000+	6,446	1,255	45 – 100,000+
1991 Survey	6,000	1,600				
1986 Survey	4,100	1,500				

Alliance Observations:

- More than half of the survey respondents reported sales of at least \$3 billion, and 75 percent had sales of \$1 billion or more. As indicated in Chart 1, companies represented in this survey generally are larger—with average worldwide revenues of \$9.6 billion—than those profiled in the 1997 survey, which reported average worldwide sales of \$7.8 billion. Indeed, the revenues of the typical respondent have more than doubled since 1986. The number of companies with sales over \$10 billion has increased, while the number with sales below \$1 billion has declined.
- As in the earlier surveys, 90 percent of respondents reported revenues from outside the United States, ranging from 3 percent to 76 percent of worldwide revenues.
- Companies in the upper sales ranges, over \$10 billion, reported a somewhat greater percentage of worldwide sales from non-U.S. sources. Overall, results of this survey are not greatly different than those of the 1997 survey, with U.S. sales accounting for 72 percent, on average, of worldwide sales, up from 68 percent in 1997.
- Respondent companies that are subsidiaries of foreign-based companies typically report a higher percentage of U.S. sales because the non-U.S. sales (and non-U.S. tax function) of the global enterprise are not reflected in this survey. Indeed, one respondent noted that they are the holding company for the U.S. operations under a \$26 billion foreign-based company.
- Globalization of business operations inevitably adds to the complexity of the company's tax structure and hence to the workload of the tax department. In most cases, the tax department's primary efforts with regard to foreign operations relate to planning, as opposed to compliance. Most U.S. tax departments have limited, if any, responsibility for tax compliance outside the United States.
- On an aggregate basis, companies in the present survey reported much higher asset levels, both worldwide and in the United States, than the companies that participated in the earlier surveys. It should be noted that one company in the 2002 survey reported particularly high assets.

- The share of worldwide assets represented by non-U.S. assets is smaller than the share of worldwide sales represented by non-U.S. sales. The differential is greatest at the lower sales levels, suggesting that smaller companies supply a greater proportion of foreign sales from the United States than do larger companies.

Industry

Survey participants were asked to select an industry classification from those listed below in Table 6. These are based on the Standard Industrial Classifications (SIC) established by the Department of Commerce, and are the same as those used in the prior survey. To make comparisons easier, we used SIC rather than the newer North American Industry Classification System (NAISC).

Table 6
Industry Classification
(Comparison of 2002 and 1997 Surveys)

Percent		Industry Classification
2002	1997	
10	7	Chemicals and allied products (SIC Major Group 28)
3	2	Petroleum refining and related industries (SIC Major Group 29)
3	1	Rubber and miscellaneous plastic products (SIC Major Group 30)
12	11	Primary metal industries and fabricated metal products, except machinery and transportation equipment (SIC Major Groups 33 and 34)
9	16	Industrial and commercial machinery, and computer equipment (SIC Major Group 35)
11	15	Electronic and other electrical equipment and components, except computer equipment (SIC Major Group 36)
5	6	Transportation Equipment: Motor Vehicles and Motor Vehicle Equipment, Including Parts (SIC Industry Group 371)
3	9	Transportation Equipment Other Than Motor Vehicles, e.g., Aircraft and Parts and Guided Missiles and Space Vehicles (SIC Industry Groups 372-379)
2	1	Measuring, analyzing, controlling instruments; photographic, medical and optical goods; watches and clocks (SIC Major Group 38)
21	20	Other Manufacturing (SIC Major Groups 20 through 27, 31, 32, and 39)
1	2	Communications (SIC Major Group 48)
5	3	Services (SIC Major Groups 40 - 47 and 49)
15	7	Other
100	100	Total

Alliance Observations:

- More than 80 percent of the survey companies are manufacturers—in instruments, machinery, computers, electrical equipment, transportation equipment, chemicals, and metals.
- This survey reflects a larger representation of both services and other uncategorized industries. The latter includes the wholesale distribution, waste services, software consulting sales and support, public utility, transportation, mining, and retail industries.

Legal Entities, Reporting Units, Corporate Status and Functional Currency

The survey questionnaire asked for information on the number of legal entities and reporting units in the United States and outside the United States. It also considered the company's legal status and functional currency. Table 7 summarizes the number of legal entities reported by respondents, stratified by sales. Table 8 sets forth similar information regarding reporting units. Table 9 breaks down respondents by corporate legal status, e.g., publicly traded, privately held, and/or foreign-owned. Table 10 summarizes responses regarding functional currency.

Table 7
Number of Legal Entities
 (Grouped by sales)

Sales Ranges (\$US)	U.S. Legal Units			Non-U.S. Legal Units		
	Average	Median	Range	Average	Median	Range
Less than 1 billion	13	10	1 – 62	17	14	1 – 53
1 billion – 1.9 billion	30	23	3 – 172	24	18	2 – 80
2 billion – 3.9 billion	45	25	5 – 278	53	40	6 – 148
4 billion – 9.9 billion	63	50	3 – 300	127	78	15 – 387
10 billion – 24.9 billion	65	40	10 – 250	142	115	1 – 632
25 billion and up	80	79	6 – 200	164	112	1 – 688
2002 Overall	49	29	1 – 300	84	40	1 – 688
1997 Survey	49	16	1 – 600	57	26	1 – 820

Table 8
Number of Reporting Units
 (Grouped by sales)

Sales Ranges (\$US)	U.S. Reporting Units			Non-U.S. Reporting Units		
	Average	Median	Range	Average	Median	Range
Less than 1 billion	13	5	1 – 71	13	13	1 – 43
1 billion – 1.9 billion	32	20	2 – 181	27	20	2 – 80
2 billion – 3.9 billion	31	9	1 – 250	30	19	1 – 120
4 billion – 9.9 billion	51	17	3 – 276	83	18	1 – 524
10 billion – 24.9 billion	75	24	2 – 420	136	88	1 – 700
25 billion and up	49	18	4 – 315	82	39	2 – 217
2002 Overall	44	15	1 – 420	62	20	1 – 700
1997 Survey	22	10	1 – 205	23	5	1 – 225

Table 9
Corporate Legal Status
 (Comparison of 2002 and 1997 Surveys)

Percent	Corporate Status
2002 1997	
86 87	Some or all of the company's stock is "publicly traded"
8 6	None of the company's stock is "publicly traded"; i.e., the company is "privately held" **
8 7	A majority interest in the company is held by a foreign corporation or other non-U.S. entity
102* 100	

*The 2002 column under Table 9 foots to 102 percent due to respondents who report that a foreign corporation or other non-U.S. entity owns a majority interest in the company and that the company's stock is publicly traded.

**Survey companies that are privately held, for which sales information was not provided, were "assigned" to sales groups based on information derived from the *Hoovers* online service at www.hoovers.com.

Alliance Observations:

- The typical respondent had 49 legal entities in the United States (the same as in the 1997 survey) and 84 outside the United States (up from 57 in the 1997 survey) possibly suggesting growth in foreign regions.
- The number of reporting units also has increased from 22 U.S. units in the 1997 survey to 44 here. Again, non-U.S. units showed significant growth to 62 from 23 in the 1997 survey.
- The preponderance (86 percent) of companies that participated in the survey are publicly traded. Eight percent are privately held, and 8 percent report that a majority interest in the company is held by a foreign corporation or other non-U.S. entity (with some overlap with the publicly traded category).

Table 10
Functional Currency

Percent	Functional Currency
100	Company uses the U.S. dollar as its functional currency for book accounting purposes
100	Company's functional currency for U.S. tax purposes is the same as for book accounting purposes

One respondent commented that the functional currency of the company's foreign units is the local currency of their business environment, with the exception of units operating in hyperinflationary countries, which use the U.S. dollar. Another company expects to change its functional currency to the local functional currency, but currently is using the U.S. dollar. Other respondents provided the following comments:

- Functional currency for U.S. tax purposes for foreign subsidiaries is local currency.
- There are a few exceptions where local currency is the functional currency.
- Minor functional currency differences in some countries due to hyperinflation definition, etc.

*Respondents' Comments Concerning
Company Information*

- The company divested all of its foreign operations during 2000.
- The company has a shared services center.
- There are two main operating subsidiaries in the United States with presence in most states, which doubles state tax compliance.
- Data submitted is for U.S. parent and domestic subsidiaries only as tax compliance for foreign subsidiaries primarily handled by major accounting firm.
- The legal structure overstates foreign significance. Revenue is better measure. All legal entities report through six business segments.

**CHIEF TAX OFFICER, TAX DEPARTMENT STRUCTURE,
BUDGET, AND STAFFING
(Survey Section II)**

Section II of the survey considers various aspects of tax department organization, budget, and staffing. In most respects, the results are consistent with those of the earlier surveys. In two areas some differences are noteworthy. In particular, the tax department budget is smaller than in the earlier surveys, when measured as a percentage of worldwide sales. As noted above, this may be attributable to the larger size of the companies participating in this edition of the survey. In another change, the proportion of Chief Tax Officers (CTOs) who are vice presidents has now passed the percentage who are directors. Again, the larger size of the companies in this survey may account for this difference.

Consistent with the results of the 1997 survey, the CTO reports to the company's CFO (70 percent). In 1997 we noted a shift toward this reporting line (73 percent), reflecting a significant change from the 1991 reporting line (57 percent) and that of 1986 (48 percent). Both the title and the reporting line of the CTO reflect the tax department's role as a key part of the financial team.

Typically, the tax department is centralized with most staff members located at the headquarters tax department. The internal reporting structure is more likely to be hierarchical (63 percent) than was the case in 1997 (49 percent). At that time, the structure appeared to be undergoing a transformation away from strict hierarchical models to more team-oriented, cross-functional approaches, particularly in companies with sales under \$4 billion.

Chief Tax Officer

Title and reporting line.—As in the past, the survey questionnaire considered the title of the CTO, which is an important factor in the stature of the tax department. Respondents were asked to indicate whether the CTO's title *includes* vice president, director, chief tax officer, treasurer, controller, counsel, or manager. A CTO whose title is vice president and director of taxes was treated as a vice president. A number of CTOs are assistant controllers; their titles were assigned to the controller category. The same applies to assistant treasurers. Many CTOs are both vice presidents (or directors) and counsel. Their titles were assigned to the vice president category (or the director category as appropriate).

Chart 2 presents the results in the aggregate, while Table 11 provides additional detail on the CTO's title based on the size of the company, measured by sales. Chart 3 considers the frequency and the vice president title across industries. Table 12 stratifies the data by the industry of the company, and Table 13 provides the results of the 1997 survey for comparison purposes. Chart 4 and Table 14 consider the officer to whom the CTO reports.

Chart 2
Chief Tax Officers With Vice President Title
(Sales groupings)



Table 11
Title of the Chief Tax Officer (CTO)
(Percent of Respondents in Sales Group)

Sales Group (\$US)	Chief Tax						
	Vice President	Director	Officer	Treasurer	Controller	Counsel	Manager
Less than 1 billion	25	69	—	—	—	—	6
1 billion – 1.9 billion	33	54	—	8	4	—	—
2 billion – 3.9 billion	52	37	4	—	—	4	4
4 billion – 9.9 billion	68	25	—	4	—	4	—
10 billion – 24.9 billion	70	26	—	—	—	4	—
25 billion and up	100	—	—	—	—	—	—
2002 Overall	56	36	1	2	1	2	2
1997 Survey	41	46	2	4	2	1	4
1991 Survey	35	47	—	—	—	—	11
1986 Survey	39	40	—	—	—	—	8

Alliance Observations:

- In a shift from earlier surveys, the title of the CTO is more likely to include the designation “vice president” (56 percent in current survey versus 41 percent in the 1997 survey) than “director” (36 percent versus 46 percent in 1997). As indicated in Chart 2, the likelihood that a CTO will be a “vice president” increases as the company’s sales grow. Companies in this survey are larger, measured by sales, than companies in the earlier surveys. This may account for some of the shift away from the “director” title and toward a title that includes the designation “vice president.”
- The industry groupings show a number of changes. CTOs in companies in the transportation equipment, services, motor vehicles, or measuring instrument industry show a greater incidence of a vice president title.



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