

---

THOMSON REUTERS

**ONESOURCE™**

# THE IMPACT OF VAT ON INVESTOR RELATIONS



REUTERS/Stefan Wermuth

In a new regulatory era, characterized by multinational tax arrangements, revenue flowing off-shore is under far greater scrutiny than ever before.

---

The priorities of the investment community are shifting and there is greater focus among investors on corporate accountability, tax transparency and corporate social responsibility – making it critical for companies to have a capable and efficient investor relations function in place.

The G20 and the Organisation for Economic Cooperation and Development (OECD) are pressuring corporates and financial institutions globally to comply with greater disclosure requirements, driven by global initiatives such as Base Erosion Profit Shifting (BEPS) and the Common Reporting Standard (CRS). Ending corporate secrecy has become a priority for these international bodies and they're supported on this quest by investigative journalists, NGOs, and digitally-connected clients and consumers.

As the global drive for tax transparency picks up pace, the line between perfectly legitimate tax planning strategies and public outcry on deemed tax evasion schemes is becoming blurrier by the day. Being legitimate simply isn't good enough anymore; and this is increasingly becoming the starting point, as opposed to the end game, for most tax planning strategies.

Greater transparency, however, does come at a price. Companies are, for instance, concerned about disclosing sensitive data to competition in jurisdictions where the same standards are not necessarily enforced. Moreover, additional compliance always comes at a cost, which is ultimately reflected on the bottom line.

Ironically, perhaps, the same argument is also used to favor an extended roll-out of these global standards to create a world where shareholder value, corporate social responsibility and greater transparency can co-exist in harmony.

# THE DRIVE FOR TAX TRANSPARENCY PICKS UP PACE



---

Many players in the investment community are now basing investment decisions on more than just financials. Investors want visibility into new areas such as corporate social responsibility, governance and reputation – taking these policies into account when determining the overall value of a company.

It's therefore essential for the Investor Relations (IR) team to be aware of – and articulate – this new type of information and insight for investors so they can allow anyone to make an informed judgement about the fair value of a company.

Investors are also making decisions to invest and divest more often. According to John C. Bogle, Founder and Former Chairman of The Vanguard Group, "investor holding periods have declined from over six years in the 1950s to less than one year in the 2000s."<sup>1</sup> This makes the competition for capital even fiercer.

<sup>1</sup> January/February 2005 issue of the Financial Analysts Journal.



## A NEW SET OF DEMANDS FROM THE INVESTMENT COMMUNITY

---

# THE EVOLVING INVESTOR RELATIONS ROLE

Due to complex external and internal pressures, the responsibilities of the investor relations officer (IRO) are shifting.

In order to build credibility in today's investment community, the modern IRO – or investor relations department – needs to:



## BE MORE THAN A GOOD COMMUNICATOR

As this function supervises the flow of information between the corporation, its shareholders and the investment community, it has traditionally been viewed as a communication role. Today, however, there's a need to augment these communication skills with finance expertise and analytical experience; which is why more chartered financial analysts (CFAs) and certified public accountants (CPAs) are entering the IR department.



## HANDLE NEW RESPONSIBILITIES

In some companies, the IRO role is growing more multi-disciplinary to include responsibilities such as competitive analysis, reporting the strategic planning.



## BE INCREASINGLY PROACTIVE AND ENGAGED INTERNALLY

IROs can play a valuable role in protecting their companies' financial reputations by advising their boards and senior managers on investors' feedback and providing advice on how to engage with financial analysts and media watchdogs. At the same time, IR professionals need to communicate regularly with relevant executives to ensure they maintain a clear understanding of their companies' financial strategies and policies on corporate governance and social responsibility. This way, these corporate pillars can be effectively and honestly presented to investors.

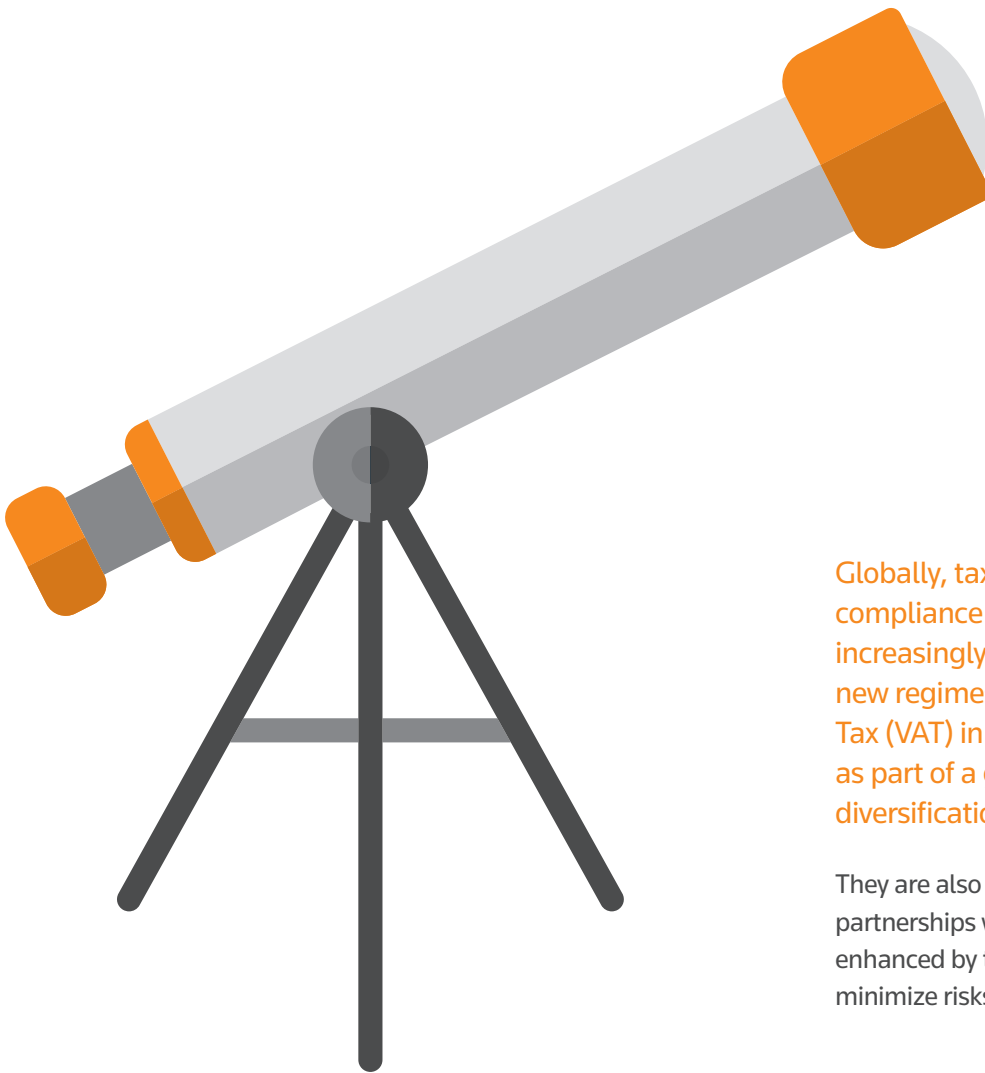


## BE ON THE FRONT LINE OF PROTECTING SHAREHOLDER VALUE

A key aspect of this role is to maintain strong, transparent relationships with shareholders through robust information sharing and financial reporting. This helps to decrease investor uncertainty – which ultimately translates into a better share price.

---

# THE INTRODUCTION OF VAT IN THE GCC



Globally, tax authorities are driving compliance requirements that are increasingly invasive and introducing new regimes, such as Value Added Tax (VAT) in the Middle East, as part of a government revenue diversification strategy.

They are also creating regulatory partnerships with other jurisdictions, enhanced by the BEPS initiative, to minimize risks of losing tax revenues.

---

In the GCC, many corporations have recently rolled out – and are still developing – new policies, processes and systems to effectively manage their VAT implementations.

The introduction of VAT in the region can be seen as either a burden that needs to be dealt with using a short-term approach (usually driven by budget consideration and/or lack of knowledge), or an opportunity to get ahead of the curve and set up a future-proof process going forward.

VAT is known to have an enterprise-wide impact, touching every single function and department of a company due to its transactional nature. While it is a simple concept to grasp, its day-to-day management is far more challenging – as most companies, especially in the United Arab Emirates (UAE) and the Kingdom of Saudi Arabia, have come to realize at their expense.

The modern IRO needs to understand these major shifts in the business landscape. The impact of VAT on shareholder value can be significant and he/she has to be able to advise the C-Suite on what seasoned investors would look at in such instances:



### COST OF THE TAX FUNCTION

This involves all resources that the business requires to remain compliant, including internal teams and systems, as well as external service providers, such as tax advisors.



### CONSEQUENCES OF NON-COMPLIANCE

Failure to fully comply with VAT regulations carries very real risk of significant financial penalties, directly impacting one's bottom line and potential jail time. It might also lead to an increased scrutiny from the relevant tax authority, which sets a company up for increased compliance costs in the future.



### REPUTATIONAL RISKS

No one wants to be in the headlines for the wrong reasons. Being compliant is always a sensitive issue from a governance and public relations perspective, especially as the general public is becoming increasingly vocal about certain behaviors that are deemed ethically or morally unacceptable, despite sometimes being perfectly legal.



### ERODING MARGINS

Without a proper tax control framework in place, VAT can quickly become an absolute cost for companies. These organizations might:

- Over-charge clients where they shouldn't and thus face client retention challenges
- Fail to recover VAT in its entirety and end up having to absorb unnecessary costs, impacting financial key metrics



### CASH FLOW

The time lag between when VAT is due (i.e. tax points) and the receipt of the client payments or refunds from governments have always been challenges faced in a VAT world. Additionally, a lack of visibility into upcoming tax obligations can be difficult to manage from a liquidity point of view if the amounts are significant or if the internal reporting is widely inaccurate.



### IMPACT ON OTHER BUSINESS-CRITICAL FUNCTIONS

Staff training, contact reviews, expense claims, internal data manipulation and tax audits all involve hidden costs for businesses (especially in the case of tax audits). This is due to the time devoted by internal teams towards managing these processes, rather than focusing on their core roles.



### PLANNING AND INSIGHT

With the right tax control framework in place, tax teams can provide insight for strategic initiatives such as finance transformation, supply chain optimization or international development. These are all aspects that help the IR team attract positive attention from investors and also demonstrate professionalism in how a company is managed on a day-to-day basis.

---

# THE BENEFITS OF MANAGING VAT WELL

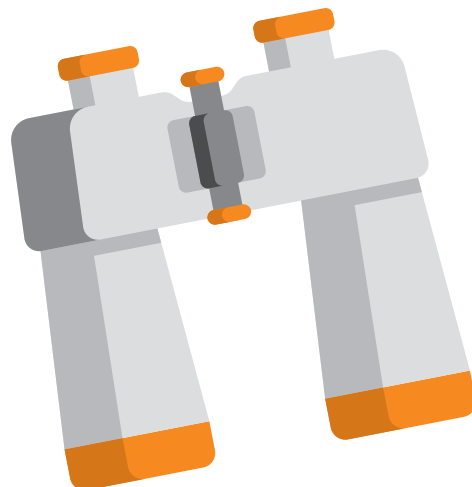
While effective VAT management does come at a cost to organizations in the GCC, this new tax landscape could be viewed as an opportunity for companies to streamline business processes, modernize systems, update risk and compliance policies, and introduce better financial reporting strategies.

These developments will add to the IRO's arsenal when presenting to investors on how well-prepared the organization is to meet both current and – more importantly – future requirements in an ever-evolving tax landscape.

Tax technology with automation capabilities can help drive down the operational costs associated with VAT compliance, including expenses related to audits. The right set-up enables companies to better monitor their audit risk exposure, stay abreast of regulatory changes and monitor compliance on an ongoing basis. At the same time, well-chosen technology can also help IROs to respond swiftly and confidently to demands for financial reporting, analytical insights and other information that's required both internally and externally.

---

# THE WAY FORWARD



An increasingly demanding world requires an agile investor relations officer. Tax landscape complexity is a common theme throughout the world and the GCC is no exception.

The introduction of VAT provides an opportunity for corporate leaders in the region to establish strong(er) IRO functions that align their approaches with global best-practices and the evolving expectations of the investment community.

---

# BEHIND THE PUBLICATION



**PIERRE ARMAN**

**Market Development Lead for Tax and Accounting, MENA, Thomson Reuters**

Pierre Arman is the Market Development lead for Tax & Accounting at Thomson Reuters based in Dubai, and is responsible for the strategy and product management of all Tax & Accounting and Global Trade Management solutions in the MENA region.

[pierre.arman@thomsonreuters.com](mailto:pierre.arman@thomsonreuters.com)



**ALEX PAVEL**

**VAT Specialist, MENA, Thomson Reuters**

Alex Pavel is the VAT Specialist for Saudi Arabia and Bahrain at Thomson Reuters. He is responsible for engaging with Finance, Tax and IT leaders to find the right technology solutions for managing VAT in several verticals including Financial Services, Insurance, Retail, Hospitality, Manufacturing, Aviation and Oil & Gas, and works closely consulting firms and regulatory authorities to create awareness about VAT processes and technology.

[alex.pavel@thomsonreuters.com](mailto:alex.pavel@thomsonreuters.com)

---

Thomson Reuters provides trusted answers as a dedicated partner serving consultancy and accounting firms, corporations and governments. Blending intelligence, technology and human expertise, we provide leading tax and accounting solutions for a fast-paced and evolving world.

We work with your organization to introduce ONESOURCE® VAT-approved trusted advisors and systems integrators to help make the VAT implementation process as seamless as possible.

<https://mena.thomsonreuters.com/en/tax-accounting-solutions.html>