

Local firms gain market share in Latin America

Sed Crest finds out which firm has the best brand in Latin America and that tax advisers need to think like their clients

More tax executives took part in this year's survey of tax services in Latin America than last year. The size of the companies taking part also was larger than last year. Those with annual turnover of more than \$1 billion edged higher from 14% last year to 15% this year. The smaller end, companies with turnover below \$10 million, went down from 23% to 20%.

The proportion of top-end tax spenders dropped from last year however. Only 3% of respondents said they spend more than \$1 million on tax advice each year, which is down from 7% a year ago.

The spread of survey respondents across industry sectors was pretty similar to last year except the proportion of services firms participating in the survey surged from 5% last year to 12% this year. A significant proportion of agri-business companies doing business in the region took part this year too.

Big-four market share

Ernst & Young has the best brand in tax services in Latin America according to participants in this year's survey. The firm only just pipped PricewaterhouseCoopers, which topped the brand ranking last year.

The big-four professional services firms

Methodology

International Tax Review opened the survey of international tax services in Latin America in August 2005. We encouraged consumers of international tax services in the region to provide their views by completing the online questionnaire. The survey closed on December 2 2005.

We received 139 responses from heads of tax, chief financial officers and tax executives. Just over 72% were personally responsible for the selection and retention of their tax advisers. Most responses were from tax executives within the region (84%). The questionnaire asked respondents how much they spend on tax services, what tax services they outsource and how satisfied they were with the

services they receive. It also asked them what their biggest challenge was and how tax services could be improved. Some of their responses are reproduced here.

Not all respondents provided information on their annual turnover but just over half did. More than 65% revealed how much they spend on tax services each year. We then divided this into three groups according to how much they spend on tax services each year:

- above \$250,000 (15%);
- between \$50,000 and \$250,000 (43%); and
- below \$50,000 (42%).

All currency references are in US dollars unless stated otherwise.

accounted for 66% of the tax services market in this year's survey. This is down three percentage points from last year. International law firms were next, capturing 29% of the market, which is exactly the same as last year. The "other" category jumped from 2% to 5% this year. Local law firms and local accounting firms made up most of this growing group.

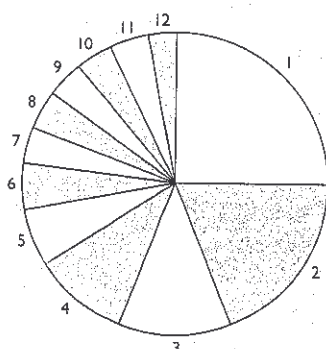
Somewhat surprisingly, the proportion of those allocating more of their tax budget to local law firms and local accounting firms

was highest in the top-end segment of the market - those spending more than \$250,000 a year on external tax services.

Looking for satisfaction

Overall the level of satisfaction with tax services in the region rose, particularly in Peru (up from 0.73 to 1.38). Both Brazil and Argentina slightly improved their satisfaction rating. Satisfaction fell slightly in Mexico (down from 1.41 to 1.24) and Venezuela (down from 1.55 to 1.20).

Diagram 1: Survey respondents by sector



- 1. Manufacturing 25%
- 2. Energy & utilities 19%
- 3. Professional services 12%
- 4. Banking & finance 10%
- 5. Transport & distribution 6%
- 6. Retail 5%
- 7. Agribusiness 4%
- 8. Engineering & construction 4%
- 9. Telecoms & technology 4%
- 10. Entertainment & media 4%
- 11. Healthcare & biotechnology 4%
- 12. Other 3%

The best brands in tax

The survey asked respondents the name of the firm that they thought has the best brand in international tax services. The big four took the top places in this order:

1. Ernst & Young
2. PricewaterhouseCoopers
3. Deloitte; and
4. KPMG.

Local firms, particularly Brazilian law firms, also got a mention here. Some respondents thought the following firms had the best brand in tax:

- Machado Meyer Sendacz e Opice;
- Castro, Barros Sobral e Gomez; and
- Levy & Salomao.

The biggest challenge for selected respondents

"Creatively find tax opportunities and savings"

- Alejandro Hernandez, tax manager, Mexico City
Colgate Palmolive (Mexico)

"Retention of key talent"

- Ana Isabel Gervasoni, finance director, Buenos Aires
Dell Computers Argentina

"The challenge is to effectively allocate limited budgets and resources to those issues that will create the greatest benefit to the company. These benefits and challenges can vary from managing an effective tax rate to ensuring that local operations are adequately staffed with the most effective technology."

- Steve Axler, tax counsel for Latin America, Houston, TX
Halliburton

"Transfer pricing issues, US GAAP versus local GAAP, customs regulations and leasing regulations"

- Ferro Claudia, finance and administration manager, Lima
Hewlett Packard Peru

"Compliance and personal responsibility"

- Héctor D'Agostino, chief financial officer, Buenos Aires
ING Bank - Argentina

"Dealing with the concept of risk in other areas"

- Claudia Nicolo, regional tax planning manager, Sao Paulo
Johnson&Johnson

"Coordination among my offices and my tax adviser's offices on a restructuring proposal"

- Deborah Flanagan, tax attorney, New York, NY
McGraw-Hill

"Make top management aware of the increasing importance of taxes for business results and continue increasing the tax contribution to the bottom line. Translate that into more resources and career opportunities for the tax team."

- Hernán Caire, tax manager - Argentina and Chile, Buenos Aires
Procter & Gamble

"To avoid conflict with the local tax authority"

- John Diaz, tax coordinator, Caracas, Venezuela
Sanofi-Aventis

Top ten challenges facing tax executives in Latin America

The survey asked respondents to give the biggest challenge for someone in their role. They are:

1. keeping abreast of developments (33%);
2. growing compliance complexity (14%);
3. communication with tax authorities or unpredictable legislative interpretation (12%);
4. managing tax risk and reducing the effective rate of tax (10%);
5. tax laws in other countries and coordination (9%);
6. internal resource constraints, recruiting personnel or lack of quality tax advice at reasonable cost (8%);
7. Sarbanes-Oxley-type restrictions or greater regulatory scrutiny (5%);
8. transfer pricing (5%);
9. blending corporate goals with tax requirements (3%); and
10. unstable economic and political conditions and other reasons (1%).

Key people

The survey asked respondents to name an individual that influenced their choice of firm.

Respondents mention individuals such as:

- Armin Campos, KPMG, Costa Rica
- Roberto Del Toro, PricewaterhouseCoopers, Mexico
- Horacio Dinice, Deloitte, Argentina
- Alejandro Gomez, Deloitte, Venezuela
- André Gomes de Oliveira, Castro Barros Sobral e Gomes, Brazil
- Gil Mendes, Ernst & Young, Brazil
- Cristian Rosso Alba, Rosso Alba, Francia & Ruiz Moreno, Argentina
- Manuel Solano, Ernst & Young, Mexico

Diagram 2: How much respondents spend on tax advice each year

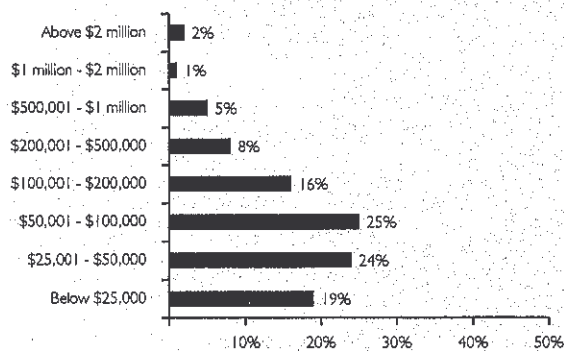
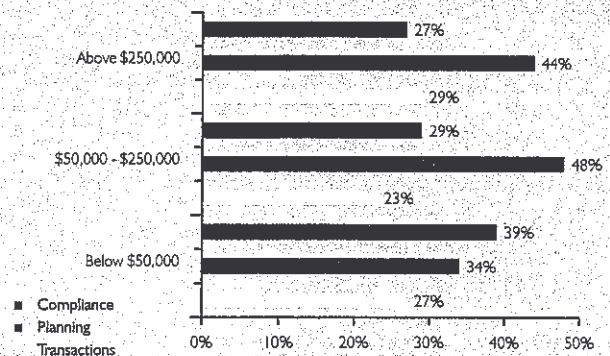


Diagram 3: Proportional average of outsourced tax services by tax spend



Top ten ways tax advice needs to improve

The survey asked how tax services could improve. They are:

1. faster response times, more proactive advice (22%);
2. understand the client's business better (20%);
3. bring practical (not theoretical) transaction-based, value-adding ideas relating to the client's business (18%);
4. reliable planning advice on a solid legal basis that is preventative (11%);
5. more face-to-face contact with senior staff (9%);
6. more frequent updates and seminars (6%);
7. improve price competitiveness and more honest, transparent advice (5%);
8. better timetabling, staffing and training of advisers (4%);
9. give more support, cooperation and team-like behaviour (3%); and
10. better use of international networks to provide more comprehensive advice and other ways (2%).

How tax advice needs to improve – selected respondents

"Faster turnaround of responses."

- Jessica Lovio-Rodriguez, assistant vice president of taxation, Miami, FL
Visa International

"We are a global business so they need to understand which jurisdictions we operate in, the scale and nature of our operations, and bring us updates and ideas for those jurisdictions that fit commercially with our organization."

- Andrew Stockwell, head of tax, London, UK
Charter

"More company-specific proposals."

- Jaime de la Garza, chief financial officer, San Pedro, Mexico
Corporate Properties of the Americas

"Faster delivery and fewer disclaimer protections. If you contract a service at least you can expect an appropriate answer and the corresponding action plans to deploy it, not a lot of paragraphs about responsibility not taken."

- Juan Aguilar, finance services manager, San Jose, Costa Rica
GBM Corporation

"As chief financial officer I need ONE timetable for ALL taxes (income tax, value-added tax, pensions, central bank and transfer pricing)."

- Jose Manuel Diaz, chief financial officer, Martinez, Argentina
Arla Foods

"The key is to provide advice that can be implemented with minimal effect on business operations. The advice needs to have a solid legal basis and at the same time take into account the practical issues in the local environment."

- Steve Axler, tax counsel for Latin America, Houston, TX
Halliburton

"Getting more involved in the company's core business, being more proactive in evaluating tax opportunities and risks that may affect the company (customized tax assessments) when offering tax planning services."

- Ferro Claudia, finance and administration manager, Lima
Hewlett Packard Peru

"Concentrating advice on real issues and avoiding use of time and fees for topics that do not have risk or are for academic use only."

- Hernán Caire, tax manager for Argentina and Chile, Buenos Aires, Argentina
Procter & Gamble

Table 1: Company turnover by annual tax spend

Annual turnover	Average tax spend
Above \$5 billion	\$916,667
\$1 billion-\$5 billion	\$525,000
\$500 million-\$1 billion	\$578,000
\$200 million-\$500 million	\$120,417
\$100 million-\$200 million	\$77,893
\$20 million-\$100 million	\$60,005
\$10 million-\$20 million	\$35,000
Below \$10 million	\$38,367

Diagram 4: Third-party tax advice by firm type and tax spend

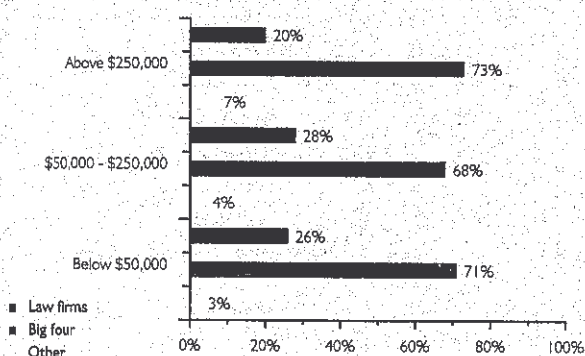
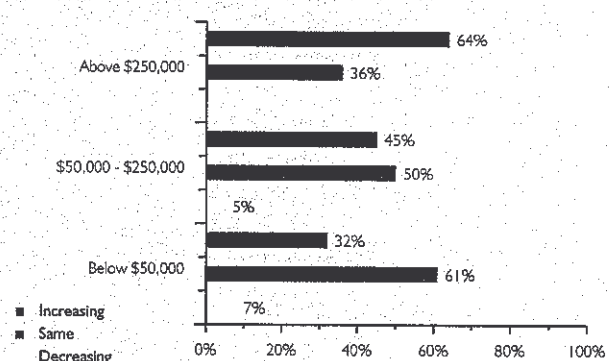


Diagram 5: Use of third-party advice by tax spend



Latin America survey

Diagram 6: Why taxpayers choose their advisers

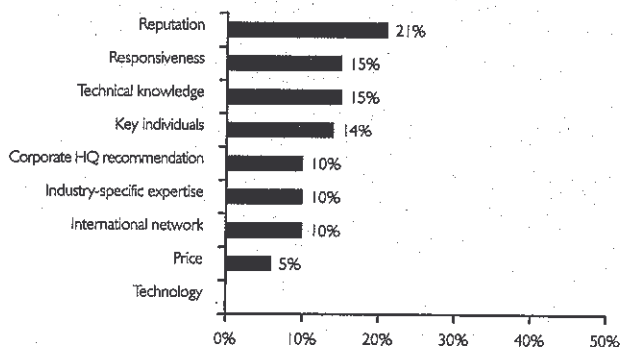
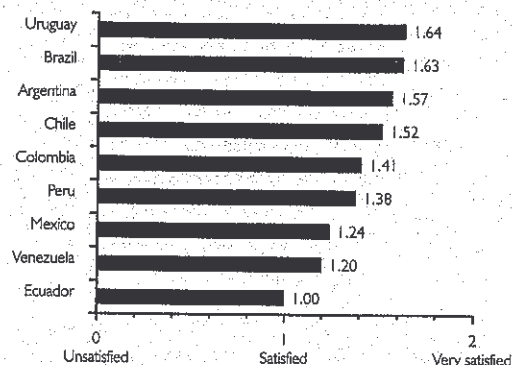


Diagram 7: How satisfied taxpayers are with tax advice by country



A lot more tax executives in Uruguay took part in this year's survey and took it upon themselves to rectify the country's satisfaction rating from 0.67 last year to 1.64 this year.

Sarbanes-Oxley dust settles

More than one-third of respondents said the main tax challenge they faced was keeping abreast of legislative developments, up dramatically from 17% last year. Managing tax risk was a new factor, combined with reducing the effective rate of tax, which came in as the fourth-biggest challenge. Another new problem that tax directors mentioned was recruiting tax talent in the region.

The Sarbanes-Oxley effect on tax services seems to be finally settling down in the region. Only 5% of respondents listed Sarbanes-Oxley-type restrictions or greater regulatory scrutiny as the key challenge they faced.

More and more companies no longer use their auditor for tax services. This year more than 70% of respondents do not receive tax advice from their auditor, while a year ago it was 59%.

Of the remaining 30% or so that continue to receive tax advice from their auditor; only 13% plan to change this in the next 12 months. Last year, within the group of com-

panies that still receive tax advice from their auditor, 24% said they planned to make the change in the next 12 months.

Client's shoes

Two novel ideas for making tax advice better came up this year. Many tax executives wanted more of a solid legal footing for their tax advice. This translates into a heightened awareness of tax-risk exposure and the need for assurance that the tax structures that they have in place comply with the law. This can be difficult in locations where tax authorities are not consistent in how they interpret and apply tax law. One thing is clear though, the appetite for tax risk in Latin America, which is a likely consequence of Sarbanes-Oxley, is certainly less ravenous.

Another fresh suggestion in this year's survey was better timetabling in the advice they receive. That means a coordinated appreciation of various reporting deadlines for different taxes in different countries. Consumers of tax services want anything that will make their life easier.

Tax executives in Latin America, like elsewhere, have a lot on their plate. Tax advisers that take the time to fully understand their client's business needs and proactively offer solutions to make their

Table 2: Satisfaction with level of contact with tax advisers

How often do you meet with outside advisers?	2004	2005
Weekly	2%	13%
Every second week	10%	8%
Monthly	20%	36%
Every 1-3 months	37%	28%
Every 3-6 months	16%	8%
Every 6-12 months	15%	7%

How would you assess the level of contact with outside advisers?	2004	2005
Poor	1%	0%
Average	19%	18%
Good	46%	36%
Very good	34%	46%

How often do you review your use of firms?	2004	2005
Every six months	11%	17%
Once a year	41%	49%
Every two years	33%	21%
Every five years	15%	13%

life easier will excel. It is as simple as putting themselves in their client's shoes.

Diagram 8: Respondents' annual turnover

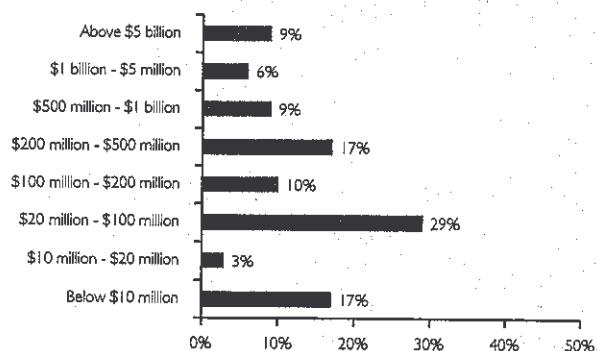
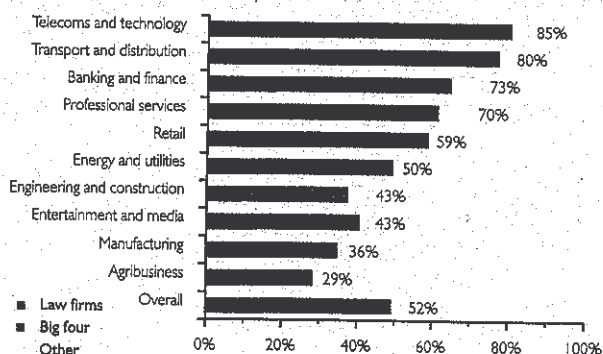


Diagram 9: Average proportion of tax services outsourced by sector



Other providers of tax services can be further divided as follows: local accounting firms (58%), local law firms (22%), customs consultants (6%), and independent practitioners (3%)