

Indirect Tax Compliance Centre – A buzzing success in Budapest

Asked to describe a typical day on the 8th floor of the KPMG firm in Hungary, Mike Glover, Senior Partner, Head of Tax, says one word: “frantic.” Then, he smiles and offers: “extremely busy.”

“It's almost like a beehive,” he explains of the 120 members of the Indirect Tax Compliance Centre (ITCC), who work in Budapest on VAT returns for a multitude of multinational clients, mostly from the UK and US. “You see people all the time working, moving, collaborating – it's very modern in that respect, because you see people working together in small teams, and from that point of view it's quite energising, a fascinating place to be.”

What the practice does is all about VAT compliance, he explains: returns, EC sales listings, intrastat reports, VAT books for places like Spain and Italy. Clients, he says, are looking for standardisation of approach: the same methodology for all of their territories across Europe; and visibility, as most groups have limited information about their VAT compliance

“By having a standardised approach we can have complete oversight of the whole process in real time, so rather than having to wait 3 weeks, a month, 2 months to get information, it's in real time,” he explains.

Because members of the ITCC team are focused on compliance, that is very much their key task, says Mike, working without distractions. “This is our business and people become specialised in the process of compliance, they're dealing with tax authorities about compliance and know exactly what they have to do to make it work well.”

The ITCC came about in a time of adversity. Back in 2009, recalls Mike, KPMG globally were losing a lot of requests for proposals to one of its competitors on VAT compliance outsourcing.

“It became clear the reason we were losing was because, by having a purely local approach we couldn't capture the efficiency benefits which our competitors were able to offer to our clients,” he says.

The Global leadership of KPMG's Indirect Tax practice pondered what could be done to alleviate the situation. Mike explains: “They realised they needed a centre to be able to compete, so the next decision was where to put that centre.”

For a number of reasons, he says, they decided on Budapest, one being that the deputy head of Indirect Tax was based in Hungary at the time. A compliance practice for Hungarian clients provided some background for the Centre.

One strength, he explains, was having shared services world class finance expert Alec Percival from the UK on secondment to the Hungarian firm. “He was able to give us the proper advice on how to set up a shared services model, so we set up a centre of excellence which began working the first week of January 2010.”

“When the next big potential client loss came up during 2009, which was Cisco, served by KPMG out of Amsterdam, the client said either we adopt a centralised way of working for them, which was more cost effective, or they would go outside, terminate the services.

“We took that as an important reason to start the centre at that point in time – of course, nobody knew exactly what was going to happen or how it was going to work out,” he says.

After making 10 new hires, the practice had to figure out how to sell the service, how to price it, not to mention deal with the pushback from the KPMG network who felt that ITCC was taking away some of their business. “It was work that never would have been won or retained within KPMG unless we did this,” comments Mike.

After sorting through a bit of an attrition process, more clients started coming through, systems improved and new processes were implemented.

The numbers are compelling: Mike reports that initially his practice had 2,000 returns under management in the first quarter of 2010 and now has 21,000 returns under management. “So it's a 10-fold increase in the business that we're doing in compliance, and the total team has risen to 120 people from about 20.”

He is visibly proud when he speaks about the members of his team.

“It consists of 22 nationalities and we cover 25 languages, with Greek coming on recently. It's a multinational, very interesting group; most people speak three or more languages, and it's a very high quality, market leading operation for Europe at the moment.”

Use of technology, says Mike, is of paramount importance for his practice, “Because you've got a concentrated group of people and a growing business you can invest in technological tools that you need and the advances that you need.”

For example, he explains that ITCC obtains source data from client systems. “So the clients do standard downloads from the system, give us the data and we can run data interrogation checks, which involve more than 80 logical checks over the data they give us – so they get a very systematic and thorough review of the data, which has never been done before.”

This, says Mike, has put KPMG ahead of the competition, with all the skills in one place at one time; the practice already had IT specialists in Budapest. “We had good tax people, but everyone has good tax people across the region, so it's not a differentiating factor.

“And we had good management, if I say so myself,” he quips, adding that his small team is able to make decisions very quickly, like decisions on price, whether to invest in people or in technology. “We're entrepreneurial in our approach.”

For global enterprises, moving processes to a place which is in reach, and their standardisation and centralisation to Budapest, could be considered “nearshoring.”

Mike offers, “The advantage here is we can have language capabilities, a nice place to live – people want to come and live here – we can't underestimate that for good, well educated graduates who have the right attitude to work.”

However, what's happening in Budapest, he says, is a bit different than a typical nearshoring approach. ITCC uses a shared service centre structure, he explains, a matrix approach that breaks down into country teams and client teams. The practice's tightly controlled processes, he adds, are ISO 9001 accredited and audited every year.

“We get confirmation of the fact that we are following our processes,” says Mike. “which is a good sales piece for our clients, that we're the only Big4 firm with that accreditation. We have desktop processes for what people should be doing, how they should be doing it – the complete standardisation of the process.”

According to Mike, the ITCC has a load of success stories. Just take Cisco, the first.

“Obviously we retained that work. They are so happy with us they've extended the work now we have approximately double the revenues on Cisco, who are a big advocate of our technology,” he offers.

Mike says that Cisco has been vociferous about KPMG's key differentiators: the technology. He comments: “To hear that from Cisco is very positive.”

Other key clients for ITCC are Honeywell (for whom the practice looks after 150 entities across Europe – 3,000 returns/year) and Microsoft. “Again, people who know about technology. They are happy to act as references for us, because they're happy with our service,” he explains.

Another satisfied client is NBCUniversal, says Mike, who explains that the company was implementing a competitor's client software, which was proving difficult. He recounts, “We went along to help them with some discussions on outsourcing VAT and ended up outsourcing their VAT across Europe and they terminated the arrangement with the other firm, even though they'd sunk quite a few hundred thousand into it, because the outsourcing was cheaper than implementing a software solution.”

“Success after success we get glowing reports from our clients,” says Mike, who adds that it is truly a service where KPMG is world class.

Most ITCC clients come from the UK or the US, with good referrals from Holland and Finland. He reports, “We're expecting that the German market will open up more, but they're a bit prudent in their approach at the moment, even though Germany is the country where we have the most VAT returns.”

“We believe that we haven't even scratched the surface of the market. We've grown 90% in the two years to September 2013 in terms of revenues and in the first quarter of 2014 we've grown more than 40% compared to the first quarter last year. We expect the overall growth for the year to be somewhere close to 30%,” he says.

Mike says ITCC plans to expand both the number of clients that it deals with, the geographies, into Latin America and Asia-Pacific, as well as into other services like personal tax. “We've seen that this approach can apply to many other aspects of the business that we do, so we think there's massive growth potential in this type of service, both within VAT and also in other taxes and services.”

According to him, there are opportunities within CEE to refer clients to the Centre, like in Croatia where the practice there has approached a shared service centre with that proposition.

He adds: “I think we should all be very proud that this initiative has come out of CEE. Whilst it happened in Hungary, it is the CEE practice that has generated this success, so I hope this helps assuage any misgivings that some may have had.”

For Mike personally, he says the new initiative made life interesting. “I've been head of Tax for 10 years. When we hit the recession in 2008-09 it became more difficult to grow the business within the Hungarian economy and others as well. So ITCC gave me a new challenge and reenergised my position, something to work hard at,” he explains.

Of the Centre, he says, “Until you actually come and see it, ideally see the technology in operation, you cannot grasp how far we have advanced in 4 years. We really encourage anyone who has an interest, to come along and see it.”

(ITCC has secondment opportunities, by the way.)

Considering ITCC's success story, Mike offers some sentiments for how the KPMG network might look for trends in the market to figure out where it's going, which he says suggests that things are going towards more centralisation. “The old geographical models are unlikely to be sustained for the long-term. It's better that we grasp the nettle of the fact that the market will drive us towards more centralisation and away from geography as soon as possible so that we can be ahead of the market and take on the market opportunities ourselves rather than leave them to our competitors.”

-Drew Leifheit