2022 Middle East Tax Leaders Survey

Navigating the storm

What a difference a year makes. In 2021 we described the tax challenges facing organisations in the Middle East as a ‘perfect storm’. The combination of the introduction of further local indirect taxes and well-funded, highly active tax authorities was placing increasing demands on multinational organisations in the region.

As businesses across the region grappled with the growing complexity of tax and the significant risk – financial and reputational – of failing to keep up with developments, we warned that tax teams needed urgent investment in technology and support from the top of the organisation if they were to meet the demands placed upon them.

A year later, our second survey reveals that huge progress has been made. The responses of senior tax decision-makers operating in 12 jurisdictions across the Middle East reveal an increasing confidence in dealing with the demands of the evolving tax regime and a maturing relationship with tax authorities. Investment is being made in tax departments, particularly in technology.

As organisations are seemingly better able to ‘navigate’ the storm, we are of the view, based on this year’s survey, that 2022 will perhaps be remembered as the turning point for tax awakenment in the GCC. But this is just the beginning of the story. The tax landscape in the Middle East continues to evolve and align with international requirements – and tax professionals will be called on to respond.

This report charts the growing maturity of tax departments in the region and highlights the urgent steps that need to be taken as we move into the next phase of transformation.

Once again, we would like to thank all respondents who took the time to contribute to this research.

Jay Riche
PwC Middle East Partner | TLS Tax Strategy & Transformation Leader

Key findings

Our survey charts three key themes around increasing complexity, tax department maturity and a focus on resourcing.

01 The ‘hockey stick’ phenomenon

Tax departments in the Middle East have made huge progress in a relatively short period of time, rising to meet the demands of a rapidly developing tax environment. But this is just the beginning. 79% of tax leaders expect the Middle East tax landscape to continue to undergo extensive change in the next three to five years.

02 The rise of the strategic tax function

As the tax environment in the region continues to evolve, tax departments need to swiftly shift from a compliance-focused mindset to take a more strategic, data-centric and technology-based approach.

03 A race for resources

Tax functions have the ability to drive competitiveness and inform decision-making in an increasingly sophisticated environment, for example, in responding to e-invoicing mandates in Saudi Arabia and Egypt and now, the planned introduction of federal corporate tax in the UAE. But organisations will find themselves competing for the increasingly scarce tax talent needed to enable themselves to keep up.

01

The ‘hockey stick’ phenomenon

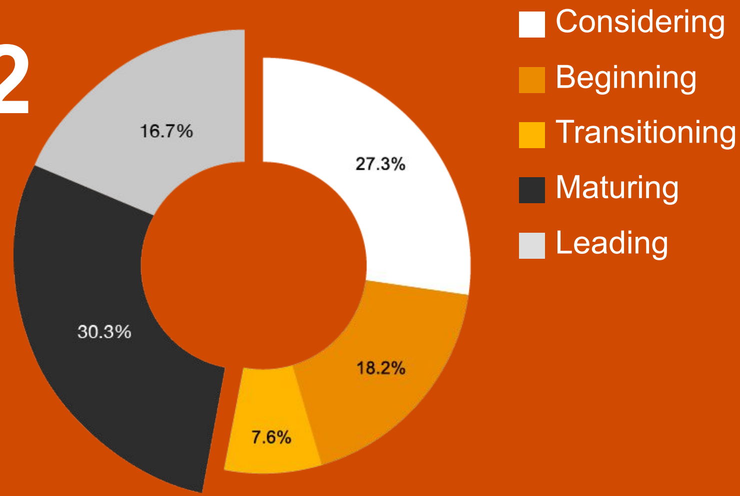
The scale and speed at which tax departments across the region have developed and matured over the past year is staggering. Last year we found tax teams struggling to cope with the scrutiny of tax authorities and many were only at an early stage of exploring the benefits of tax technology. This year's survey shows that organisations are embracing tax technology, expanding their tax teams, and are more confident in their relationship with tax authorities.

30% of respondents (compared with just 8% a year ago) describe their approach to the implementation of technology for direct taxes, for example, as 'maturing' and 17% say their approach is 'leading'.

Q. Please indicate which of the following best describes your organisation's position with regard to the implementation or adoption of tax technology

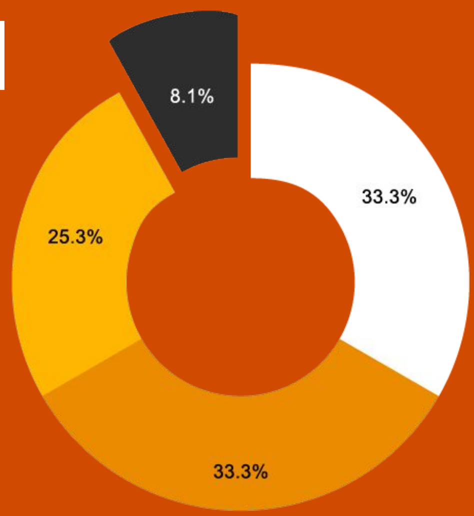
Direct tax

2022



Direct tax

2021



Organisations across the region are investing in people and technology to meet the increasing demands of a rapidly changing tax environment. Last year, three quarters of organisations taking part in the survey had five people or fewer in their tax function; this year, close to half have between six and 20 people and one in 10 employ more than 21.

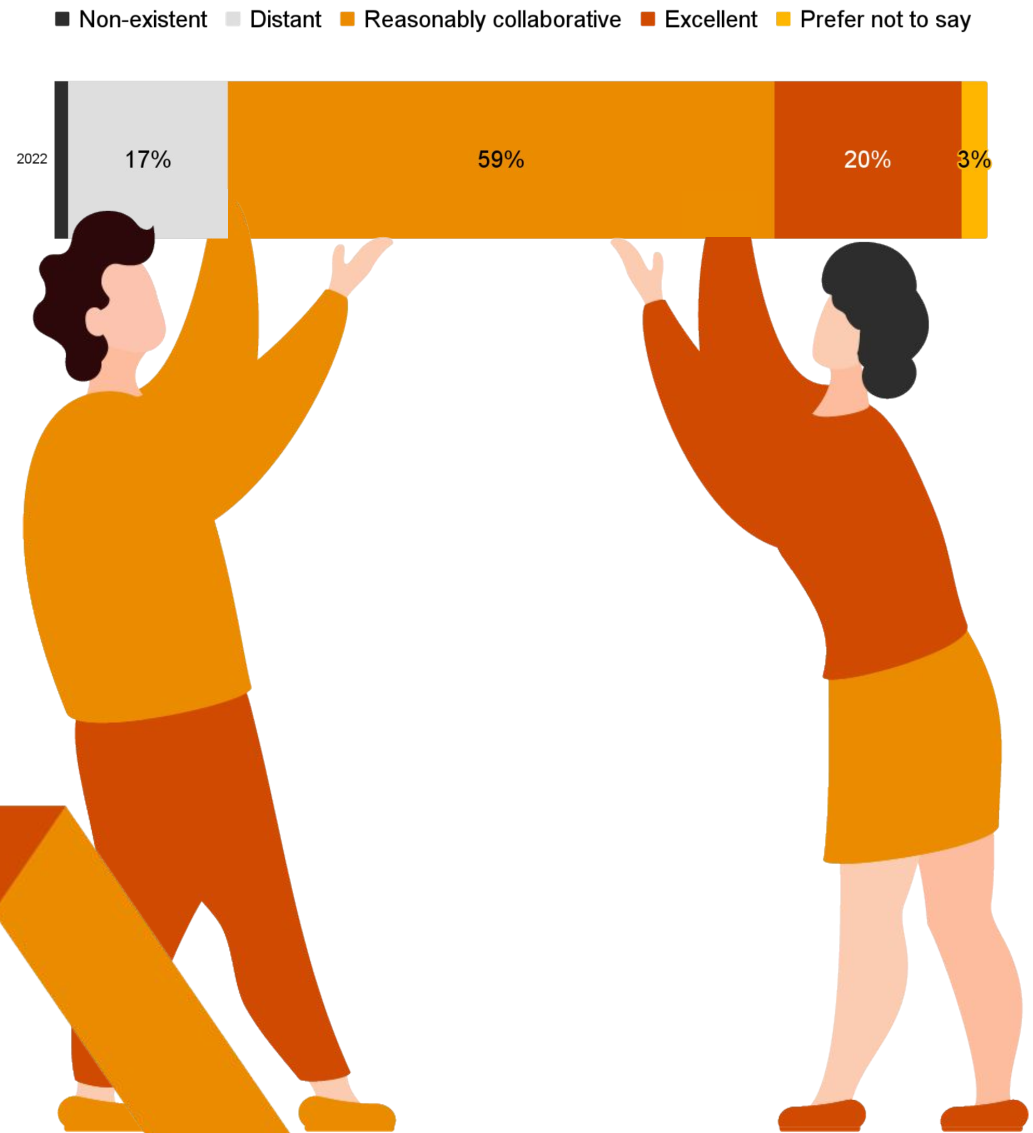
There has been a

66%

increase in the size of the tax function in the last 12 months.

The activity levels of the tax authorities have not receded – 49% of respondents say they have experienced a tax challenge or dispute in the past 12 months, compared with 45% last year – but organisations are more accustomed to audits and better equipped to answer questions. Relationships with the tax authorities have also improved; whereas last year almost a third of respondents described their relationship as ‘distant’, this year 79% have a relationship with tax authorities that is at least collaborative and at best, excellent.

Q. How would you describe your/your organisation’s relationship with the tax authorities in the jurisdictions you operate in?



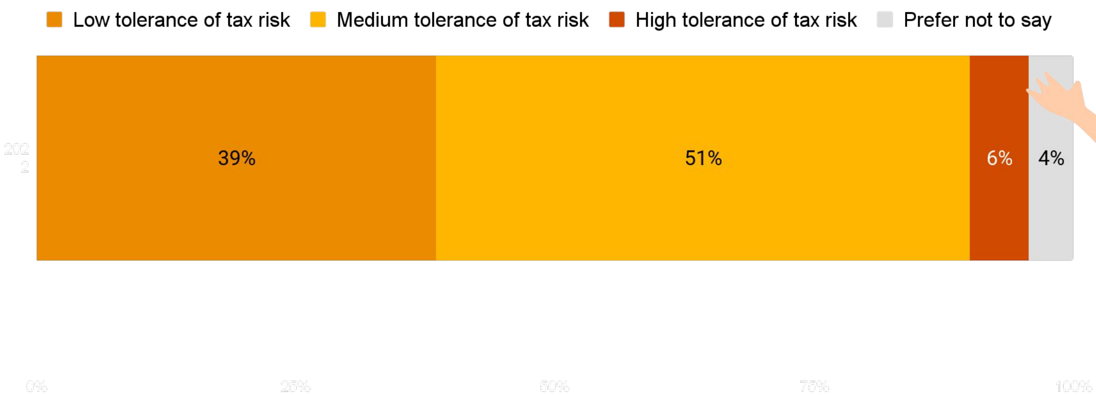
"It's encouraging to see that organisations have worked hard to build trusted relationships with the tax authorities and have really invested in their tax functions in the face of enormous - and rapid - transformation."

Mohammed Yaghmour
PwC Middle East Tax & Legal Services Leader

49% experienced a challenge by a tax authority in the past year

This more mature tax governance programme has translated into businesses having a higher tolerance for risk. Last year, just over half said they had a low tolerance, but this has fallen to 39% and almost 60% say they now have a medium or high risk tolerance rate, showing far greater levels of resilience in being able to react and respond to new legislation.

Q. How would you describe your organisation's tolerance of tax risk?



There are signs that the relationship between organisations and the tax authorities is settling into a routine. This is encouraging, as the activity of tax authorities is not likely to decrease but will further mature into a tech-driven, real-time approach to reporting and compliance.

The region's low-tax history means that the tax compliance infrastructure is being built from the ground up in a digital world, in stark contrast to authorities and taxpayers in many other 'more mature' regions who are still using legacy, paper-based systems. A system built around technology such as e-invoicing, will ensure that the Middle East tax compliance regime will be one of the most innovative and technologically advanced in the world. Saudi Arabia and Egypt both adopted e-invoicing systems in the last 12 months, and it's inevitable that other countries in the region will follow.

The challenge for organisations in the Middle East is that they must keep pace with tax authorities – and that will mean significant investment in technology and people, as well as a fundamental change in mindset.

The rise of the strategic tax function

02

Tax professionals across the region have risen to the challenge, making huge progress in meeting the demands of increasing compliance and tax authority scrutiny. But this is just the beginning of the journey. Significant issues for organisations remain the management of VAT and excise duty requirements in the UAE, KSA, Oman and Bahrain, along with adapting to the introduction of e-invoicing systems in KSA and Egypt. Direct taxes are the next challenge, as jurisdictions seek to increase revenue and feel international pressure through the OECD Base Erosion and Profit Shifting (BEPS) initiative.

At the time of publishing this report, the Pillar 1 of the BEPS project is still under discussion and will set out a global framework for the taxation and allocation of the profits of large multinationals (and predominantly applies to automated digital services). Pillar 2, which will set a global minimum tax rate for large multinational groups, could come into force in OECD countries as early as 2023.

79%

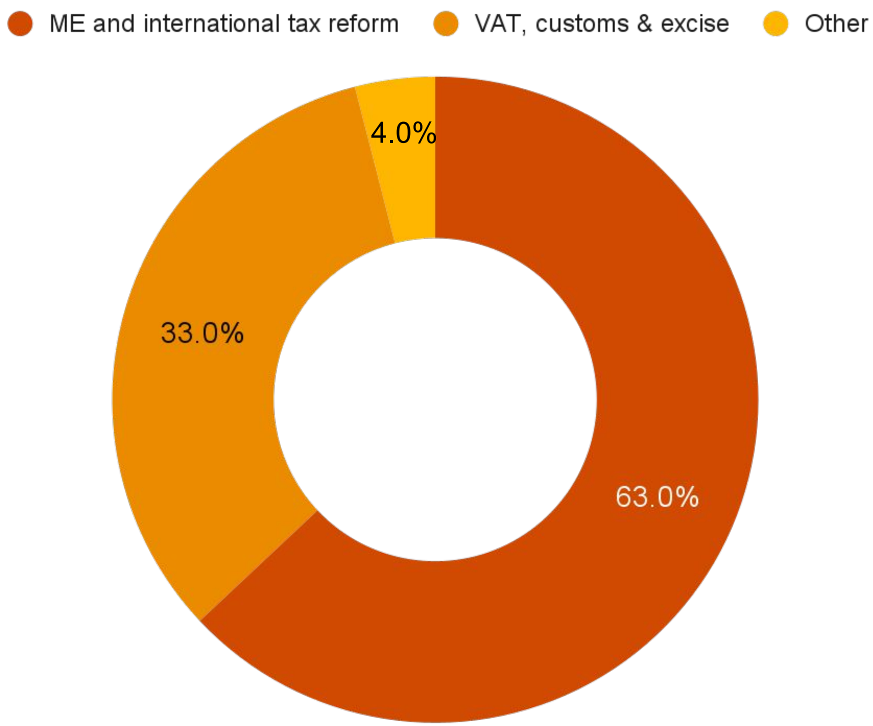
of tax leaders expect the Middle East tax landscape to undergo 'extensive change' in the next three to five years.

“The UAE is the first country in the region to respond to the global minimum tax measures. Other countries are expected to follow suit by either introducing or amending tax legislation. This means an even bigger impact on businesses including on tax functions and other stakeholders within the organisation.”

Hanan Abboud

Partner | M&A & International Tax, PwC Middle East

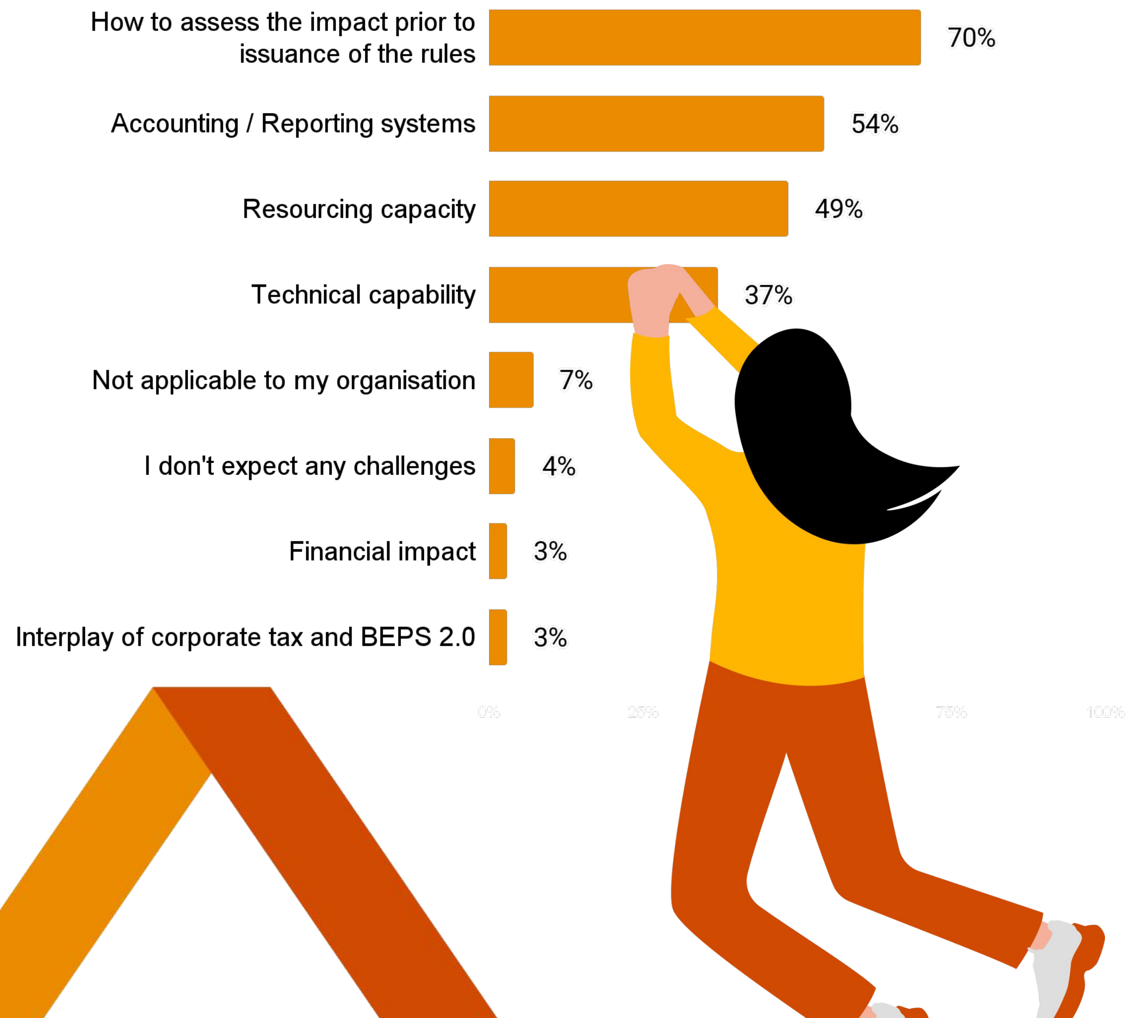
Q. Which of the following areas would you say is your organisation's main tax technical risk/pain point?



The central question for low-tax jurisdictions in the region is how to respond to BEPS 2.0. The choice for individual states is to introduce taxes themselves or accept that income earned by these organisations within their borders will be taxed elsewhere. The direction of travel is clear and the introduction of Federal Corporate Tax (CT) in the UAE for financial years starting on or after 1 June 2023 is the first step in the next phase of this tax transformation.

We can see this reflected in our survey – tax leaders are looking forward rather than back. While VAT remains a significant area of concern, two thirds of respondents named issues other than indirect tax – ongoing Middle East tax reform, transfer pricing and BEPS 2.0 – as their most significant pain points. This is a stark contrast to last year's results.

Q. Following the recent announcement of the proposed introduction of a federal corporate tax in the UAE from June 2023, in which of the following areas do you feel you will face the greatest challenge?



The question is, how prepared are tax departments for what is to come?

The impact of UAE Corporate Tax (CT)

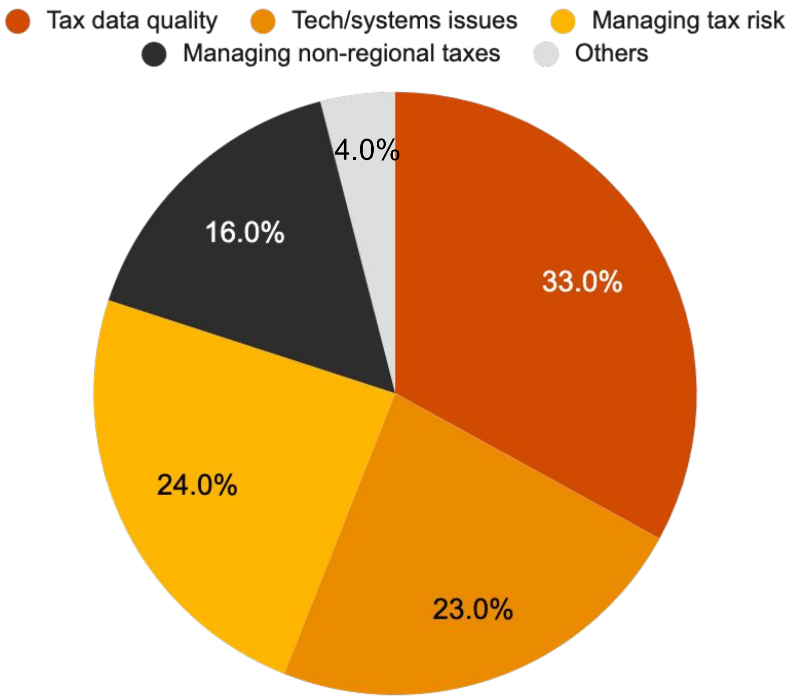
With a little over a year to go before UAE CT becomes effective, organisations with operations in the UAE are still assessing what the new tax will mean for their business, and for the bottom line.

The reality is that the introduction of CT has wide-ranging implications for the tax function and the wider business. While more organisations have implemented tax technology in the past year, in most cases this has been introduced to address VAT compliance and is focused around e-invoicing systems. CT reporting and compliance requires, arguably, a much more sophisticated approach.

All relevant revenue data, for example, will need to be extracted from existing ERP systems or consolidation systems, verified and collated, as well as any data relating to deductions. They will, however, not only require an entity-by-entity view of that data for CT reporting and returns, but for tax provisioning and Pillar 2 (if applicable) they will also need to have the group consolidated position and jurisdictional level data. Organisations will need to track spending that may not have been monitored before.

The quality of tax data will be critical as organisations adapt to a more complex tax environment. Tax data quality is already a significant concern for tax leaders – 33% identified this as their biggest worry this year, compared with 18% in 2021.

Q. In which of the following tax areas would you say your organisation typically faces its greatest challenges?



This is by no means a problem confined to the Middle East. Good quality data ensures that compliance requirements are met, that risk is managed effectively, and generates meaningful insight for decision-makers. Poor quality data, on the other hand, creates inefficiency and waste, as huge resources can be spent collating, cleansing and reconciling information.

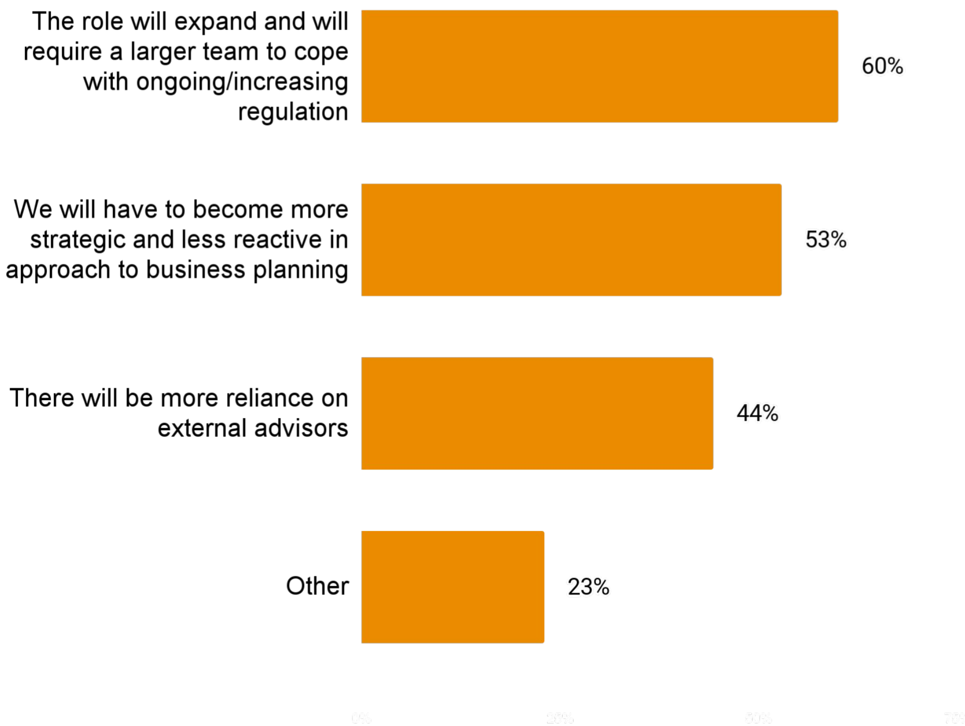
> **"Good quality data is the oxygen that tax functions need to operate successfully – it ensures that compliance requirements are met, that risk is managed effectively, and it fuels meaningful insight for decision-makers."**

Jay Riche
Partner | TLS Tax Strategy & Transformation Leader, PwC Middle East

But the challenges ahead are not limited to technology; income taxes require a different mindset across the organisation. VAT is about compliance – organisations are essentially responsible for collecting and reporting the tax. Corporate income tax, by contrast, is a cost to the bottom line.

Tax functions must therefore not only manage compliance, but they may also need to undertake planning, develop PnL modelling, and manage stakeholders and investors. In other words, tax will become a strategic issue, commanding more attention than ever before from the rest of the c-suite.

Q. Increasing regulation in the region means that the role of the in-house tax advisor is expected to change over the next five years. Please tell us what you are expecting.



“We have to become more strategic as a tax function. We have to. Until a couple of years ago, when we were planning for the business, we could focus on the business decisions and add in the tax implications at the end. But that has changed. We must factor in the changing tax landscape in our initial assessments rather than considering it as an after-thought.”

Awaiz Patni
CFO, Bugshan Investments

The race for resources

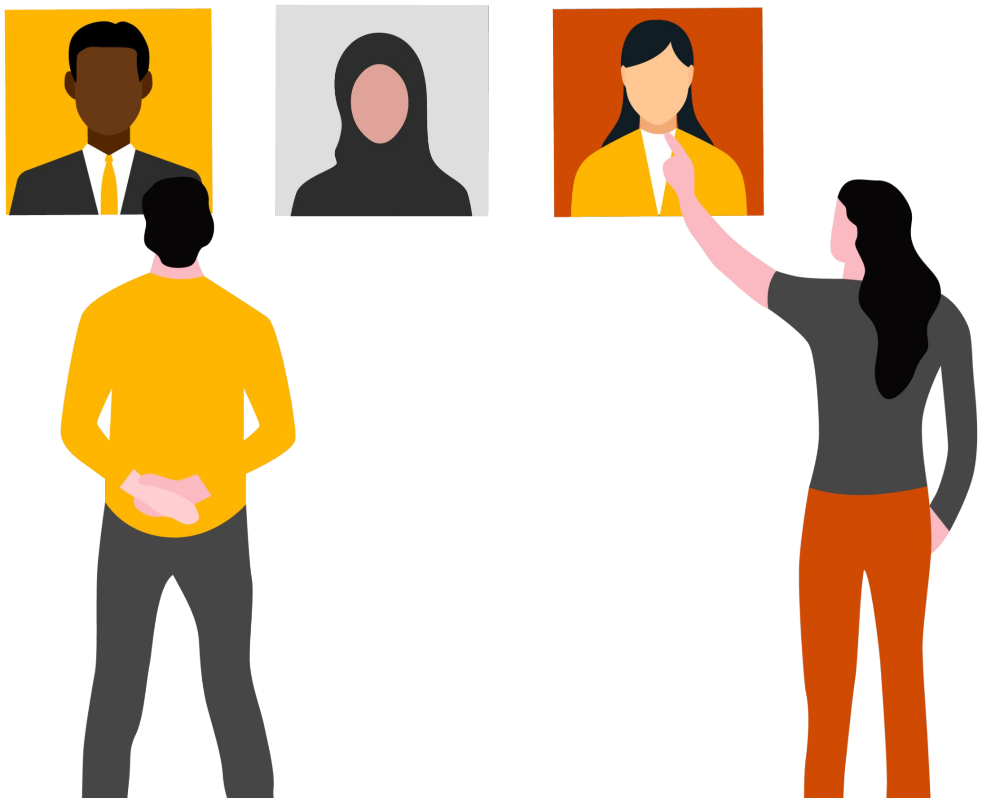
03

A potentially significant problem we see on the horizon for organisations is the ability to source tax skills. Tax functions across the region have already grown considerably in the past year and six out of 10 respondents say that the role of internal tax advisers will expand in the coming five years, with 53% agreeing that their role will become more strategic in the medium term. But there is likely to be more pressure on resources to come, as companies try to keep up with the expected pace of continual change.

For some businesses, much larger tax teams will be needed with deeper expertise in data analytics, technology, planning, and strategic risk management skills, and 44% say there will also be a greater reliance on external advisers to help manage this pressure.

60% **say they will need a larger tax team to cope with increasing regulation**

Recruiting and retaining tax professionals with the right skills and a strategic mindset will be extremely challenging in the coming years. Demand for tax professionals across the world is high as organisations grapple with a rapidly changing tax landscape. Companies across the Middle East need to prepare early and search for the people they need.



“Strong tax talent is in high demand all around the globe in 2022. This is especially true in the Middle East region. Organisations should plan and have a very focused hiring strategy in order to ensure they secure the resources they need.”

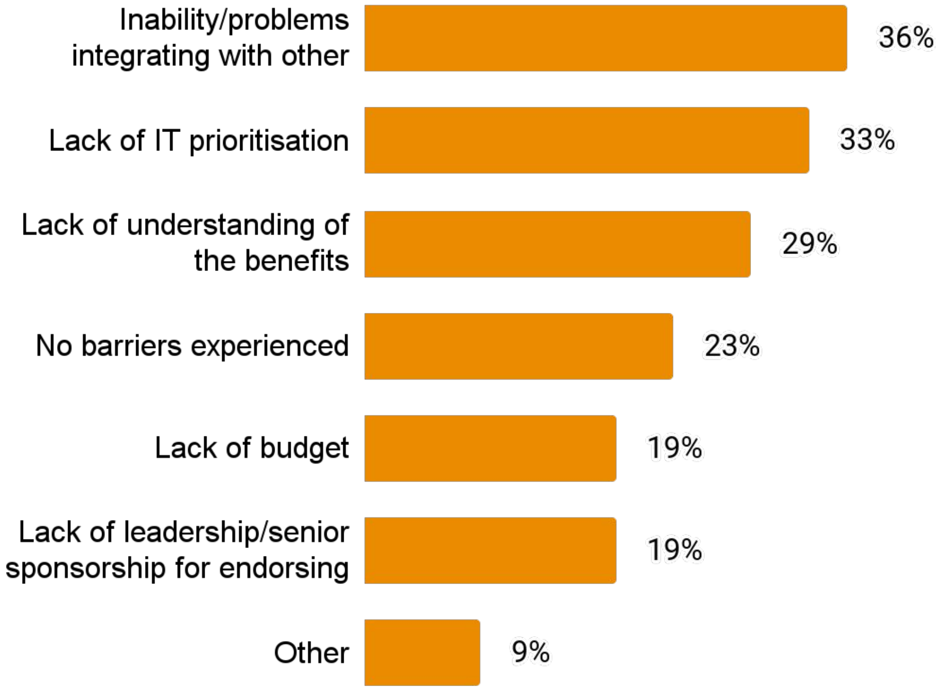
Jay Riche
Partner | TLS Tax Strategy & Transformation Leader
PwC Middle East

Investment in technology resources will also be key

As they look to prepare their organisations for an increasingly complex tax environment and - for those with operations in the UAE - the introduction of federal corporate tax, tax leaders know that they will need to secure significant investment in technology and expertise.

Tax technology plays a vital role in mitigating the risks of poor data quality and while tax functions in the region are embracing tax technology at pace, there is still work to be done. Last year, four out of 10 tax leaders said that a lack of budget was holding back their ability to implement tax technology. This problem has eased over the past year and only 19% now say that budget is an issue – but it is clear that tax leaders are still struggling to make the economic case for tax technology at the board level. A third tell us that technology is still not being prioritised and while tax leaders understand the benefits of advanced tax systems, the message still needs to be understood across the wider organisation.

Q. Which barriers, if any, do you face in implementing tax technology in your organisation?



“I want to be more proactive [about tax management] but the problem is a lack of resources. In the past couple of years we have been overloaded with requests from tax authorities, which doesn’t leave us a lot of time to be proactive.”

Mohammad Faycal
Group Tax Director, Aujan Group

04

Three critical steps to building a strategic tax function

Tax departments across the Middle East have made excellent progress in the past year. This research shows that organisations' tax functions have grown and matured, embracing technology and gaining confidence in their interactions with tax authorities. But the continuing evolution of the tax environment in the Middle East will require much more - more investment, more technology and more support from the top of the organisation. A strategically-focused tax function will provide valuable support as organisations navigate increased complexity - but important decisions must be made now to ensure that tax functions are fit for the changes ahead.

01 Get ahead in the race to recruit.

Tax professionals with strategic, technical skills are a scarce resource. Tax teams across the region are set to grow significantly in the coming years and will be competing with organisations across the world for the best talent.

02 Continue to leverage technology.

Tax departments across the region have made huge advances in tech implementation over the past year. But while tax leaders understand the value of tax technology, continued investment is critical to keep pace.

03 Have a sharper strategic focus.

Tax is rapidly becoming one of the most important elements of strategic decision-making. Tax teams will increasingly find themselves needing to be led by those with the right experience and technical expertise to understand and react to more complex tax transformation.

Top three strategic priorities for tax functions for the next 1-3 years

67% Managing increasing tax compliance requirements and disputes

57% Digital enablement

51% Tax authority relationship management

05

Research Overview

The 2022 Middle East Tax Leaders survey is focused on understanding how the combination of advancing technology, evolving tax regimes and increased scrutiny - both domestically and internationally - is continuing to impact tax functions and their organisations across the Middle East.

The majority of respondents hold c-suite roles including Head of Tax, CEO and Finance Director, and are either solely or partly responsible for overseeing tax activities in their organisation

The survey was conducted between February and March 2022.

Respondents included companies headquartered in 18 different countries and operating across 12 different territories in the Middle East

Size of regional tax teams

1-5pl	6-20pl	21+pl	No regional tax team
43%	**44%**	**10%**	**3%**

Industry in which organisation primarily operates

17% Industrials

13% Retail & Consumer Markets

11% Financial Services

11% Energy, Utilities and Resources

7% Transportation & Logistics

6% Government / Public

6% Healthcare

6% Banking & Capital Markets

23% Other

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