

2010 Quarter 1 Tax Market Update

Background

Following a bounce back in February, momentum in the UK economy seems to be waning. The economy grew by just 0.2% in the first quarter of 2010, down on the 0.4% expansion in the final quarter of 2009 and weaker than the City had been expecting. However, a return to the dark days of the 1970s is wide of the mark and much will depend on the policy decisions that are taken over the course of the next couple of years. The prospect of a hung parliament will not help in this regard!

Looking ahead to the remainder of the year, monthly economic data released so far suggests that the recovery will be uneven. Uneven is also how we would look to describe the tax market since the turn of the year. It's apparent that the worst of the market is now firmly behind us with many labour barometers showing the strongest March hiring figures for a number of years. Certainly, compared to this time last year, there are many reasons to be optimistic:

- Activity levels (M&A deals or compliance regulation) are up from January 2009
- Recruitment strategy (now or later in the year) is being talked about, something that wasn't even broached for many companies in 2009!
- There is budget to recruit in tax – it is a case of choosing when and where it is best utilised
- Staff that were let go during 2009 are being replaced in certain areas
- Legislative changes (e.g. SAO rules) requires staff to undertake this work
- More people in work are moving jobs (something that didn't happen much during 2009), thus creating more opportunities – the infamous 'carousel effect'

As the market is significantly different in each area, it might be useful to distinguish Q1 trends in Commerce, Financial Services, Professional Services and the International market.

Commerce

- After a traditionally slow start in early January, vacancies in the in-house tax market have increased by c.200% compared to the same period in 2009.
- In-house tax redundancies have been minimal and only evident as a result of M&A activity, e.g. Cadburys, Vanco.
- With transactional activity down from previous years, the main focus on in-house tax teams has been around the compliance, reporting and risk areas. The establishment of dedicated functions and teams in this area has increased from previous years.
- Transfer Pricing (TP) has seen the biggest expansion in tax during Q1. Tax authorities in almost all major economies have implemented TP tax rules, usually accompanied by documentation requirements with significant penalty provisions. A number of multinationals have expanded their capability in this area, whilst some have brought it in-house for the first time.
- Experienced VAT professionals continue to be in demand. Given the heightened demand for liquidity among corporates, a real-time tax such as VAT which directly impacts on cash-flow has been important to Heads of Tax.
- Bringing tax in-house for the first time has continued at pace – something that increasingly started to happen during 2008. AIM listed/fast track companies have looked to establish an internal tax function early in their development.
- No specific sectors have been hit more than others. Despite lagging slightly behind in the economic cycle, the Real Estate market has seen some activity as a selection of clients believe the market has bottomed out and are keen for structures and procedures to be in place before the market returns to a more healthy state in 2011.

- Salaries have started to move in this sector, not only in terms of base salary but also bonus levels. Inflationary increases are common but c.5% has been an average increase on base salary, after salary freezes.

Financial Services

- In-house group tax functions at financial institutions have experienced steady levels of recruitment across most disciplines of tax throughout Q1 of 2010. However it is still evident that we are not back to 2007 levels just yet, as sign-off is still difficult to obtain. Client mandates are very specific and they are now willing to wait for an exact profile match rather than take any risk. As a result, more interviews are taking place and processes taking longer time to complete.
- After a difficult period for the front office structured finance industry, redundancies seem to have come to an end. The size of tax teams have become a lot smaller and the type of skill set required has changed significantly. Strong technical skills are essential for anyone joining the industry, providing innovation in developing new products. The focus for businesses has shifted towards emerging European and Latin American markets as well as developing equity structured finance platforms. A number of smaller structuring boutiques have also been created with particular emphasis on alternative investment and funds markets.
- As a result of changing demands in the front office, appointments have predominantly been at the senior level with the preference for recruiting an established structurer that can provide immediate revenue rather than appointing a tax specialist from the profession or a law firm. This may change as the year progresses and these businesses look to rebuild at the more junior level.
- Base salaries in tax across the financial markets have continued to experience an upward trend as a result of mounting pressure to reduce or defer bonus payments.
- The skills required by financial institutions have not changed significantly, although there has potentially been more focus on tax planning in an effort to minimise tax exposure.
- Transfer Pricing has remained at the forefront of business agendas with many group tax teams increasing staff in this area.
- The asset management sector has remained very quiet in the first quarter of 2010 with very few opportunities available in-house – and when they have, more so at a junior level.
- The insurance sector has been fairly stable with VAT/IPT being the main area of activity. Life tax has experienced some movement but this has been created through job swapping as opposed to new roles being created.

Professional Services

There is mixed news from the accounting firms during Q1 of 2010.

Deloitte have started the year positively with investment in many areas across tax including M&A tax, Financial Services, Indirect Tax and Real Estate.

Following a relatively heavy recruitment campaign during 2009, Ernst & Young announced 55 Director and Partner redundancies at the end of January. They have since followed this up with a few more at the end of March which has caused some instability in certain areas.

PwC have quietly been assessing headcount needs throughout Q1 of 2010. There are strong rumours of the need to remove a number of Tax Partners from the P&L in 2010 and will only promote 2 people across the whole of the corporate group (which includes indirect tax) to Partner in the summer promotions.

After a turbulent 2009, KPMG seem to have found some stability and are starting to make strategic hires in a few niche areas.

The mid-tier accounting firms appeared to have a much stronger footing at the start of the quarter with many teams achieving much higher utilisation rates. By the end of Q1, at least 6 Top 20 firms achieved sign-off for new, experienced tax specialists with most of these positions being expansion rather than replacement hires.

International

Geographical variances and specific highlights within territories have been outlined below:

Asia Pacific

Australia – Businesses are waiting on the results of the Henry Review which it is believed will lead to a large re-design of the Australian tax system as the country emerges from recession.

Japan – The government is looking to increase taxes in order to help beat deflation. There have been no definite statements over this, although it is widely perceived that Consumption tax will be targeted.

China – It is reported that businesses will soon be facing an environmental tax within China. The government is looking for new ways to deal with what is becoming a high profile problem within the country.

Summary - There continues to be a growth in demand within the region for technically strong tax professionals. Within the Big 4, senior opportunities remain on a strategic basis with a heavy emphasis on both Transfer Pricing and TESC.M.

Europe

France – The government is seeking to either cap or remove tax breaks for both individuals and businesses as they aim to dramatically reduce the public deficit

Denmark – Reports show that the government has more than doubled its annual revenue gathered from Transfer Pricing audits in 2009. As such the government is also seeking to hire auditors as they further increase their investigative case load focused on Transfer Pricing.

Greece – A heavy tax reform package has been passed through the Greek parliament designed to assist and cope with the huge fiscal deficit. Main increases in tax revenue will be derived from VAT, Real Estate Tax and Income Tax.

Summary - There has been a consolidation of tax roles across Europe, especially within the Big 4. This is looking to ease within the second quarter with a number of senior strategic moves taking place. A resurgence in Financial Services and Transfer Pricing roles has been witnessed especially with regards to specific structuring opportunities in Luxembourg and Germany.

Americas

United States – The Healthcare Bill passed at the end of the first quarter by President Obama has created new concerns due to the fact that it also includes a number of revenue raisers for the government. Businesses have also raised concerns over the spiralling costs in relation to new compliance and administrative burdens.

Brazil – The government is considering imposing a tariff on over 100 individual US goods due to a dispute over US Subsidiaries for cotton producers.

Mexico – The SAT in Mexico have announced new transfer pricing information requirements. Despite increases in compliance costs, this has been deemed largely as a step in the right direction as it will enable the safe harbour information filing process to become more straightforward.

Summary – The American job market has been steadily improving and should continue to do so. Senior business winning tax roles are emerging in the major consulting firms in North America, whilst in Brazil and Argentina there continues to be a shortage of local talent. This has led general increases in salaries for tax professionals across Brazil, echoing the trend witnessed by other BRIC nations.