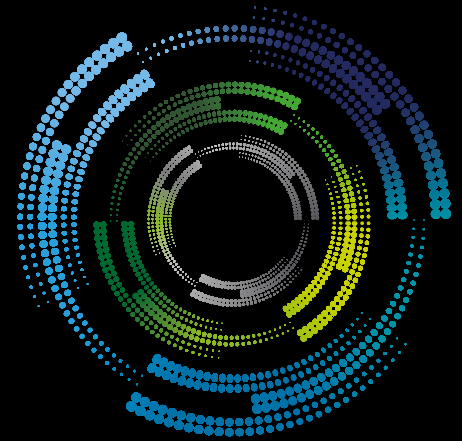


Global Tax and the impact of BEPS on consumer business

Deloitte's 2020 global survey on the OECD's Base Erosion and Profit Shifting (BEPS) initiative shines a spotlight on the next wave of the Global Tax Reset.



The BEPS agenda in 2020 – Consumer Business industry highlights



Consumer business leaders are concerned about the changing global tax environment. They seem to understand that, whether their business is digital, physical or a mix, current discussions at the OECD and international level will have a significant impact on their business models and profitability going forward. So why are so few consumer business organizations taking steps to mitigate their risks?

It's not due to lack of awareness. Our conversations with consumer business leaders suggest most are concerned about the ever-changing consumer expectations around fair tax payment. Nearly two-thirds say their boards are actively involved in their company's tax governance.

More likely, the problem is the uncertainty. Our survey data suggests few consumer business leaders expect current international discussions to result in a consistent approach to key issues such as Transfer Pricing or the taxation of the digital economy. Most anticipate their tax liabilities will increase in the wake of the OECD's Pillar One /Pillar Two projects, they just don't know by how much.

It is somewhat surprising, therefore, that just 31% of consumer business organizations say they are actively engaged in the OECD's project consultations. Our view is the best way to help influence and guide the outcomes of the project is to engage in the process, either directly or through other channels.

However, the data does suggest that consumer business tax functions are starting to prepare for the increased complexity that has resulted from the OECD's work. Some will secure more headcount. But the tax leaders in the consumer business are focused on investing into new technologies and outsourcing key functions in order to deal with the increased tax complexity resulting from the BEPS changes and free up their professionals to focus on more value-added activities. Based on responses collected from our survey, this industry spotlight explores how consumer business companies are responding to this continuously – changing environment.

Changing consumer expectations drive tax governance up the agenda



Consumers care about the reputation of the companies they buy from, while consumer businesses recognize that paying your fair share of tax has become a hot topic for consumers around the world. Not surprisingly, more than three-quarters of the consumer business executives participating in our survey admitted they are conscious of the continuing high interest of media, political and activist groups in corporate taxation.

77% of consumer business leaders are conscious of the increased scrutiny on corporate taxation



Our survey data and experience suggest that consumer business organizations are taking the risks seriously. Indeed, 65% of our industry respondents say their Boards are actively engaged in tax governance. More than eight-in-10 say they have implemented additional corporate policies and procedures in response to the increased scrutiny related to corporate taxation.

Even before the onset of COVID-19, the leading consumer companies were actively implementing new tax risk management systems, reviewing their processes and adopting new internal control systems. And the leaders have been working closely with their boards to ensure they fully understand the tax and reputational risks related to the BEPS agenda.

Concerns about digital tax remain



The onset of the COVID-19 pandemic clearly accelerated the digitization of consumer channels. Yet, even before the crisis, consumer businesses were voicing concerns about the potential impacts of the OECD's efforts around the taxation of the digital economy. Almost two-thirds (65%) of the consumer business respondents to our survey say they are concerned the outcome will result in an overall increase in their corporate tax liability.

65%



of consumer business leaders believe their corporate tax liability will increase as a result of the Pillar One/Pillar Two project

Perhaps not surprisingly given recent efforts to push ahead with unilateral digital tax initiatives, consumer business executives also seem somewhat pessimistic about the potential for a unified approach on digital taxation. In fact, just 35% say they expect meaningful global consensus on the issues and only 31% say they are actively engaged in the process either directly or through other channels.

The survey data suggests that, while consumer business tax leaders know the outcomes of the Pillar One/Pillar Two consultations will have a big impact on their business, they also expect the landscape to be scattered.

Inconsistency leads to uncertainty



Consumer companies seem equally pessimistic about the potential for consistency around transfer pricing rules and guidelines. Less than one-in-five respondents say they expect tax administrations to interpret the change to the Transfer Pricing guidelines in a consistent manner. 62% of respondents say they are concerned about the lack of guidance from tax authorities around the application of the Principle Purpose Test (PPT).

In response, many organizations (42% of our respondents) are now anticipating higher withholding tax obligations and more than one-in-ten say they will start obtaining more bilateral Advance Pricing Agreements (APAs) with their tax authorities.

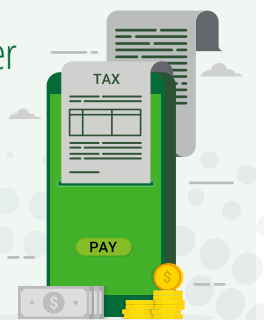


BEPS and beyond

The OECD's Base Erosion and Profit Shifting (BEPS) initiative grew out of a perception that many multinationals were not paying their 'fair' share of tax. The G20 tasked the OECD with addressing this, and the result was the OECD BEPS Action Plan focused on **15 key areas**.

In addition to the BEPS project, in recent years we have seen other significant initiatives including the introduction of the Automatic Exchange of Information (AEOI) and the Common Reporting Standard (CRS), the EU Anti-Tax Avoidance Directives (ATADs 1 & 11), US Tax Reform and the Inclusive Framework's OECD-led Pillar One/Pillar Two project.

Fewer than **1-in-5** consumer business leaders think tax authorities are interpreting the OECD's Transfer Pricing guidelines consistently



The uncertainty about the outcomes of these discussions has been heightened by the COVID-19 crisis, which forced many consumer companies to fundamentally rethink their operating models, supply chains and business structures. As consumer executives move to quickly pivot their organizations for the short-term, many understand that they also need to consider the mid-to-long-term impacts of international efforts such as the BEPS initiative and taxation of the digital economy.

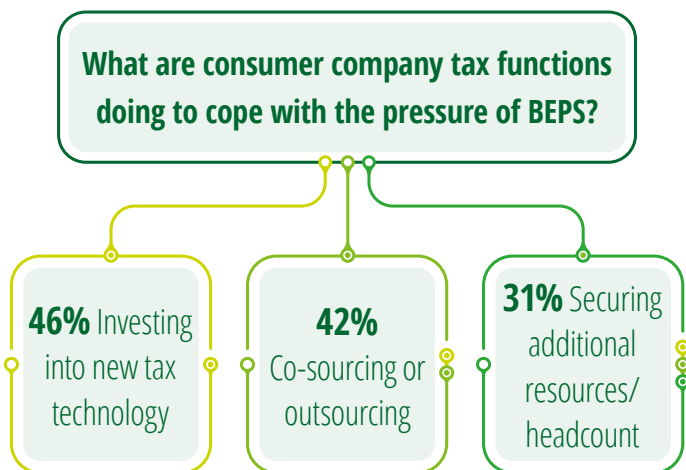
Consumer businesses respond with automation and outsourcing



Recognizing the rising complexity of BEPS-related changes to the tax landscape, most consumer companies are now becoming much more strategic about their response. Many are turning to technology in the hope of digitizing (or, better, automating) their BEPS-related processes. In fact, consumer business respondents were almost 50% more likely to say they would be investing into new tax technology than they would into securing new headcount.

“Rather than spending all their time continuously running ‘what-if’ scenarios, the leading consumer firms are focused on getting their data in shape so that – once the landscape settles – they have access to the type of real-time insights they will require.”

Dr Astrid Bregenhorn-Kuhs, Deloitte Global Tax & Legal – Consumer Business Leader



At the same time, 42% of respondents say they would look to co-sourcing or outsourcing some tax functions as a result of the BEPS-related changes. Deloitte’s experience suggests this number would be higher if the same survey were to be run today; the COVID-19 crisis has rapidly enhanced the perceived value of outsourcing models, particularly amongst consumer business tax functions.

“In some cases, cost savings are driving the move towards outsourcing,” adds Dr Astrid Bregenhorn-Kuhs, Global Tax & Legal, Consumer Business Leader. “But, at the same time, executives understand that tax is becoming more complicated and they want to be sure they are doing everything they can to

reduce their risks. Working with a dedicated co-sourcing or outsourcing services partner gives them confidence that their processes are being managed properly.”

Get more information



To learn more about Deloitte’s 2020 global survey on the OECD’s Base Erosion and Profit Shifting (BEPS) initiative, we encourage you to contact the authors listed below or your local Deloitte office.

For additional information, contact:



Dr Astrid Bregenhorn-Kuhs

Global Tax & Legal
Consumer Business Leader
Deloitte Tax LLP
abregenhornkuhs@deloitte.de



Albert Baker

Global Tax Policy Leader
Deloitte Canada
abaker@deloitte.ca

Or visit: <https://www.deloitte.com/2020BEPSsurvey>

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited (“DTTL”), its global network of member firms, and their related entities (collectively, the “Deloitte organization”). DTTL (also referred to as “Deloitte Global”) and each of its member firms and related entities are legally separate and independent entities, which cannot obligate or bind each other in respect of third parties. DTTL and each DTTL member firm and related entity is liable only for its own acts and omissions, and not those of each other. DTTL does not provide services to clients. Please see www.deloitte.com/about to learn more.

Deloitte is a leading global provider of audit and assurance, consulting, financial advisory, risk advisory, tax and related services. Our global network of member firms and related entities in more than 150 countries and territories (collectively, the “Deloitte organization”) serves four out of five Fortune Global 500® companies. Learn how Deloitte’s approximately 312,000 people make an impact that matters at www.deloitte.com.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited (“DTTL”), its global network of member firms or their related entities (collectively, the “Deloitte organization”) is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser.

No representations, warranties or undertakings (express or implied) are given as to the accuracy or completeness of the information in this communication, and none of DTTL, its member firms, related entities, employees or agents shall be liable or responsible for any loss or damage whatsoever arising directly or indirectly in connection with any person relying on this communication. DTTL and each of its member firms, and their related entities, are legally separate and independent entities.