Global Tax Survey: Beyond BEPS

Deloitte's 2022 global annual survey of multinationals

In early 2022, Deloitte conducted its ninth Global Tax Survey to understand how large multinational organizations view the global tax landscape and how it has evolved.

In this latest survey, we were interested in the respondents' views on the topics that were high on their agenda in 2022, such as tax governance, adoption of the voluntary tax transparency standards and the expected impact of Pillar One / Pillar Two, in addition to their views on the general progress of BEPS related measures.

Tax governance remains high on the Board's agenda

Concern about the media coverage, political and activist group interest in corporate taxation has remained consistently high over the years (77% of respondent groups are concerned, a gradual increase from 2020). Moreover, most respondents (85%) still expect an increase in stakeholder interest in tax behavior and outcomes over the next 3 years.

The majority of Boards continue to be actively involved in tax governance (66%), although this has dropped from 2021, which is somewhat surprising given the growing level of concern. Country trends vary (e.g., 100% for the respondents from Australia but only 50% for respondents from Belgium and Sweden).

Many groups (41%) are interested in engaging in cooperative compliance frameworks with tax authorities, where these are available and 18% have already joined or are in the process of joining such a program.

Voluntary tax transparency standards are increasingly being adopted by businesses

In response to the increased public interest in corporate taxation, groups are increasingly volunteering more disclosures of their tax affairs – a third (33%) of respondents expect to increase their level of voluntary tax transparency over the next year.

60% of respondents expect their group to align its external communication in relation to its tax performance with a transparency standard, with GRI207 and the World Economic Forum tax metric being the most popular (27% and 20%, respectively).

A group tax transparency strategy is becoming increasingly common among multinationals - 42% of respondents have such a strategy and tested it with senior leadership and 55% either already have a tax transparency strategy or expect it to be set up within 12 months.

Pillar One/Pillar Two project remains a 'hot topic' and businesses are preparing for impact

The OECD / G20 / Inclusive Framework (of 141 countries) Pillar One/Pillar Two project seeks, (under Pillar One) to reallocate certain taxing rights to market jurisdictions using novel approaches such as moving away from a traditional legal entity approach and use of "permanent establishment" principles as set out in tax treaties and towards using a consolidated group approach using financial reporting and formulary allocations rather than traditional transfer pricing. The thresholds have been set such that initially Pillar One would only apply to approximately 100 of the largest companies in the world. Under Pillar One countries are required to remove unilateral measures (to be defined) such as Digital Services Taxes (DSTs). Pillar Two also uses novel approaches in adopting a global minimum tax rate of 15% including heavy reliance on consolidated financial reporting with very complex adjustments and mechanisms. Pillar Two would generally apply to groups with consolidated revenue in excess of 750 million Euros.

At the time the survey was conducted, in early 2022, 59% of respondents expected that a critical mass of countries will implement Pillar One / Pillar Two by 2024, and a quarter of respondents expect that the U.S. Senate will pass a treaty to implement Pillar One by 2023.

Stakeholder engagement in OECD's Pillar One/Pillar Two project consultation has increased significantly in 2022 - 55% of respondent groups have been actively engaged either directly or through other channels (41% in 2021).

Almost a half of respondents (47%) expect a significant increase in their group's global effective tax rate as a result of Pillar One / Pillar Two. However, the majority (62%) do not expect that the implementation of Pillar Two will cause groups to make significant changes to their corporate structure.

It is expected that Pillar Two will result in a significant compliance effort and having necessary data will be important. Groups are beginning to prepare for this: 46% of respondents have a very rudimentary analysis of the impact of Pillar Two on their tax profiles and over a half (55%) are somewhat confident that they have readily available tax and accounting data necessary to comply with Pillar Two.

EU tax directives are seen as increasing rather than simplifying tax compliance

Interestingly, EU tax directives are not viewed as contributing to simplification of tax compliance. Most respondents are concerned about the resulting increase in their compliance obligations, mainly (60%) due to the growing number of rules with separate data disclosure requirements and deadlines. A smaller group (20%) believes that the complexity is created by inconsistent transposition of proposals across member states (this view is held by 50% of respondents from Germany). These views are likely explained by the recent releases of final or draft legislation on Public Country-by-Country Reporting, implementation of minimum tax under Pillar Two or ATAD3 which addresses so-called shell companies, recent implementation of DAC6(mandatory disclosure requirements), with further proposals expected in 2022 and 2023.

Looking ahead

In the 9th year of the survey, most of the BEPS measures are 'business as usual' for many groups. However, the amount of change in the tax world continues to remain high, with the focus on the OECD Pillar One/ Pillar Two project – there is significant momentum for the global solution to be implemented, however, the timelines are tight, political issues add complexity, and the risk of unilateral measures continues to cause concern.

Voluntary tax transparency is on the rise in response to increasingly high public interest in corporate tax affairs of large groups. This contributes further to the already high tax compliance burden (which is expected to increase with implementation of Pillar Two), adding pressure on many tax departments worldwide.

Governments continue to seek additional tax revenues following recovery from Covid-19. Cooperative compliance programs, where available, may prevent some tax disputes, increase tax certainty for businesses and improve efficiency for both businesses and tax administrations. As always, the level of change in the tax world is high and businesses need to remain prepared.

Deloitte can help organizations navigate the changing landscapeby taking a holistic view of their tax profile and develop a comprehensive strategy.

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