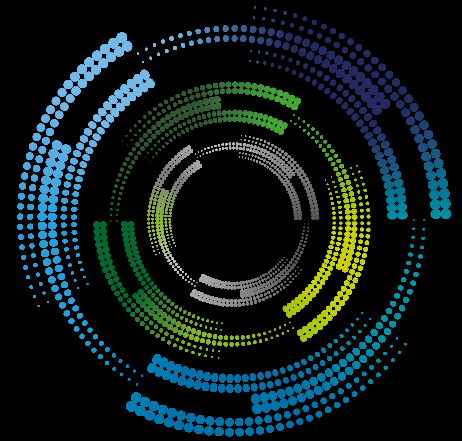


Global Tax and the impact of BEPS on life sciences

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 – Life sciences industry highlights



It's not surprising that life sciences companies are keenly interested in international tax initiatives – the ongoing BEPS projects.

For example, should the Pillar One/Pillar Two discussions lead to substantive changes to how and where 'value' is taxed (digital or otherwise), many life sciences companies may be significantly impacted. Most will need to make fundamental changes to their structure.

Expectations of future supply chain changes required by new trade and export regulations in the aftermath of the recent pandemic (particularly for rarer Active Pharmaceutical Ingredients or APIs) are heightening worries. So, too, are the ongoing discussions on Transfer Pricing rules and calculation of where value should be taxed. With many life science companies now expanding into digital services, conversations around the taxation of the digital economy are also becoming increasingly important.

Our survey suggests that many life sciences companies continue to take the steps required to help influence, adapt and adopt BEPS-related changes to their tax environment. But their concern about the outcomes of the various workstreams – and the complexity they have created for the tax function – is clear. Life science tax functions are already under pressure; making sure they will have the ability to take on increased work and complexity is becoming a challenge.

Despite the cost reduction environment they are operating in, our survey suggests many life science tax functions are looking to increase their headcount and add some new tax technologies in order to respond to the changing tax environment. Some are also looking to create more certainty by entering into new Advanced Pricing Agreements (APAs) and creating new policies and procedures aimed at reducing the complexity of BEPS-related changes.

Taken together, this survey offers a view into an industry that is taking steps to respond to growing uncertainty in the

global tax landscape. Yet there is still much to be done – both by the OECD and by life science tax leaders. As this survey demonstrates, BEPS will continue to be a high-level agenda item for life science companies for some time to come.

Based on responses collected from our survey, this industry spotlight explores how the life sciences industry is responding to this shifting environment.

Tax governance remains high on the life sciences agenda



Life science companies continue to pay close attention to the OECD's BEPS agenda. In part, this is because any changes to the location where profits are taxed could have major implications for their existing business models and operating structures. At the same time, life science executives are also mindful of, and want to anticipate, the reputational risks that could result from being perceived as a bad corporate citizen.

53% of life sciences executives are concerned about rising scrutiny on corporate tax



Key findings from our survey suggests that life science companies are keen to help shape and guide the OECD's BEPS initiative. Indeed, more than a third (35%) of the life science respondents say they are actively engaged in the OECD's Pillar One/Pillar Two project consultations, either directly or through other channels.

Our experience indicates that many life science companies are in direct contact with both the OECD and their local tax authorities, working to help build awareness of the unique needs and challenges facing the sector. Ongoing work on the Pillar One/Pillar Two initiatives, in particular, is being closely monitored by tax leaders at the leading life science companies.

The data also reinforces the view that most life sciences companies are taking steps to ensure that BEPS is being properly managed. 41% say they have already implemented new corporate policies in response to the increased level of public scrutiny related to corporate taxation. And 71% say their boards are actively engaged in tax governance.

7 out of 10 life science boards are actively involved in tax governance



As life sciences companies start to work with their boards to adjust their long-term strategy and re-align their organizational structure, concerns about how the BEPS initiative will influence future decisions are increasingly front and center.

Cross-border coordination and consistency concerns persist



Globally, life sciences companies are particularly focused on encouraging consistency in the application of new tax measures around the world.

29%



of life sciences executives think tax authorities are interpreting the OECD Transfer Pricing guidelines consistently

Our survey suggests that few – less than three-in-10 – believe tax administrations are interpreting the changes to the Transfer Pricing Guidelines in a consistent manner. 59% of life science respondents say they are concerned about a lack of guidance from tax authorities around the application of the Principal Purpose Test.

However, getting a clear and consistent understanding of where value is being created – and therefore where taxes will be applied – is key to proper tax planning. For life sciences organizations, that was already a complex equation before the pandemic and it has only become more challenging since.



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.

35% of life sciences companies expect to face higher withholding tax obligations due to treaty changes



Around a third (35%) of the life science respondents admit they expect to see a rise in withholding tax obligations as a result of treaty changes. However, the data does not suggest significant uptake in the creation of more APAs; just 12% of life science respondents say they have obtained one.

Technology and talent share the workload in life science tax functions

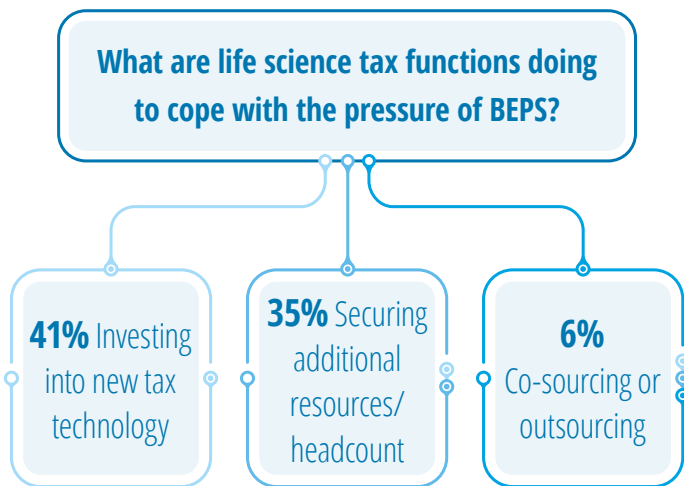


In response to the growing complexity of BEPS-related changes, many sector execs say they will increase their investment into tax-related technologies. In part, this continues a trend towards digitization within most life science tax functions. It also reflects internal cost pressures and growing technology adoption across the wider enterprise.

At a time when the tax function is under significant pressure to modernize, digitize and add value, Deloitte's experience is that many tax leaders see investment into enabling technologies like automation as a smart way to accelerate the digitization journey, enhance compliance and reduce costs.

“While we certainly see signs of positive progress and strategic activity, I worry that many life sciences organizations may be underestimating the complexity and resource requirements that will go into keeping on top of BEPS-related changes. By the time they realize they are falling behind, it may already be too late from a compliance perspective.”

Pierre-Henri Revault, Deloitte Global Tax & Legal – Life Sciences and Healthcare Leader



However, our data also indicates that life science companies are reluctant to outsource or co-source their tax functions, preferring instead to hire more resources. Indeed, life science companies were nearly six times more likely to say they would increase headcount versus leveraging outsourcing models. And almost six-in-10 respondents seemed to suggest no new headcount would be required at all, indicating that tax functions may soon be asked to (once again) do more with less.

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:



Pierre-Henri Revault
Global Tax & Legal
Life Sciences and Healthcare Leader
Deloitte Tax LLP
prevault@deloitte.com



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.