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Healthcare and Life Sciences Predictions 2020

Taxing times ahead

Foreword

Tax is a hot topic right now for big business. New changes to international tax rules will fundamentally change the global landscape, putting tax at the forefront of strategic business change.

These new rules, like the OECD's Base Erosion and Profit Shifting project, have been introduced to bring global tax regimes into the age of the interconnected global economy and, importantly, to create a more equitable environment which taxes profits in the country where the value is added.

The makeup of a typical Life Sciences company – with its partnerships to improve research and development productivity; merger and acquisition activity in search for new growth; complex supply chains; intellectual property development and expansion into emerging markets – means these new tax rules will have major repercussions for the sector.

In November 2014, Deloitte UK's Centre for Health Solutions published its report, 'Healthcare and Life Sciences Predictions 2020: A bold future?'*, comprising ten provocative predictions about the key challenges facing the industry. It is deliberately challenging about the future world, drawing on an observation of trends, events and small but bold steps that if accelerated through to the year 2020 and beyond, paint a picture of a world that is very different from today.

Given the changing world of tax and the significance to our sector, this paper takes each of the predictions set out in the original report and explores what they mean for tax. We also form our own tax prediction to illustrate what the future of tax could look like in the 2020 world.

We hope the insights provided will create a rich dialogue and welcome your feedback.

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*www.deloitte.co.uk/predictions2020

The global tax landscape in 2020
A focus on new value drivers

Tax prediction

The value drivers of large corporates in 2020 are significantly different from 2015, with technology and data playing an increasingly important role in creating value for life sciences businesses. Tax authorities are lowering headline tax rates and introducing new tax incentives to encourage large corporates to locate value creating activity in their countries. Effective tax strategies continue to be closely aligned to business change. At the same time, large corporates are taking great care to prepare rigorous transfer pricing documentation to manage the increasing number of tax audits they are facing.

News snippets from 2020

Deloitte's sixth annual 'BEPS' (Base Erosion and Profit Shifting) survey shows that the number one tax priority of the C-Suite linked to the BEPS agenda is dealing with the increasing number of tax audits.

ABC Plc, a UK-based pharmaceutical company, last night won an industry award for tax transparency as a result of voluntarily disclosing additional information in connection with its country-by-country tax reporting.

XYZ tax authority announce that they are recruiting 200 new team members to support the increasing workload created by cross border tax disputes.

The 2020 Head of Tax perspective

John, Head of Tax at a large multinational medical devices company, has led an overhaul of the tax department and it is now fully integrated into the Global Business Services function.

John has invested heavily in IT Systems to fully automate the tax compliance and reporting processes. John is a member of the main Board and the tax department is viewed throughout the organisation as a strategic business partner.

2020 tax incentives

The government and tax authority of XYZ country is introducing a new tax incentive linked to data analytics activity to encourage corporates to undertake these activities in XYZ. Income related to qualifying activity will be subject to tax at 10%.

Note: all elements on this page are from a perspective of 2020 and are fictional

Evidence in 2015
The global tax reset is underway

"Tax is no longer a 'back-room' issue, limited to business and tax authority relationships. For many, it is an issue that is front of house, one that can impact an organisation's competitiveness but also its brand and broader approach to corporate social responsibility. The way tax is managed needs to be transparent and clear in an environment with increased scrutiny and international tax audits."

James Wright, Healthcare and Life Sciences UK Tax lead

The OECD's Base Erosion and Profits Shifting Project

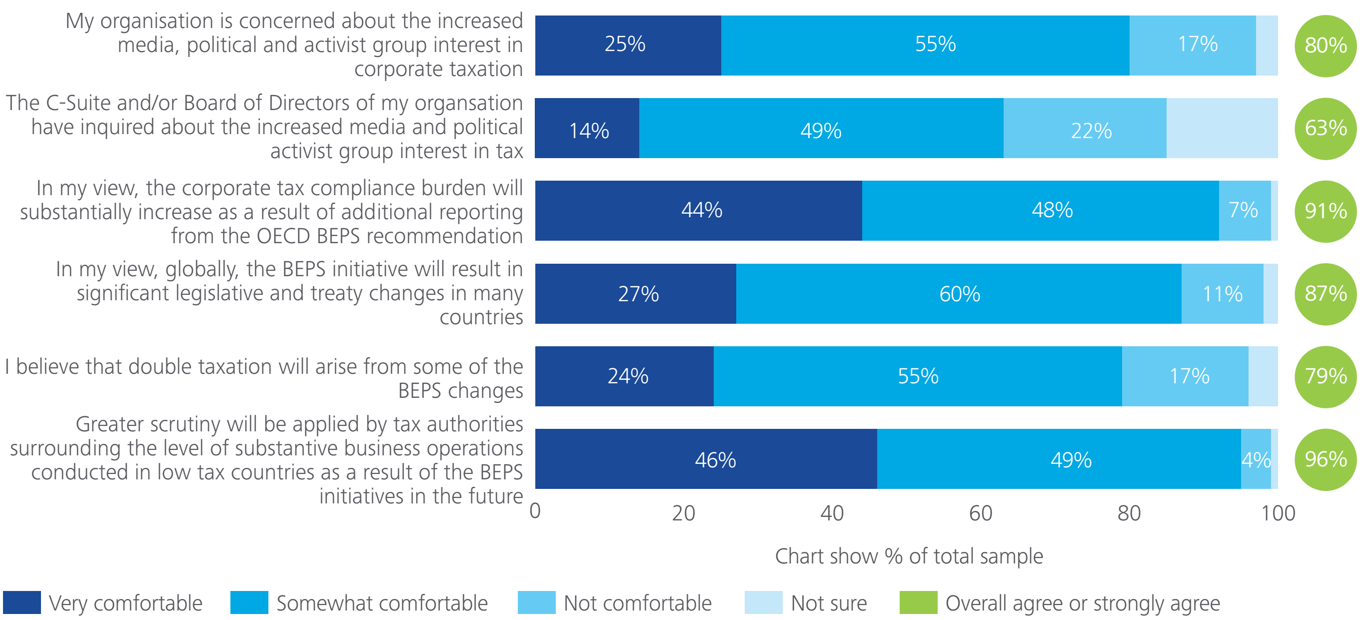
Recent years have witnessed considerable public interest in many countries over apparently low tax bills paid by certain companies. The existing principles of international taxation were designed decades ago before the globalisation of business and the digital economy.

As a result, in July 2013, G20 asked the OECD to set up a project to look at this perceived tax avoidance (Base Erosion and Profit Shifting ('BEPS')) by multinationals on a more global basis. The resultant 'Action Plan' sets out 15 actions to address BEPS in a comprehensive and coordinated way. This Action Plan is expected to result in fundamental changes to the basis of international taxation.

The global landscape of BEPS, as well as unilateral action by countries and increased international tax audits, is resulting in a 'Global Tax Reset'.

See more at www.beps.tax.

Views from multinationals on BEPS and the Global Tax Reset



Source: Deloitte 2015 OECD BEPS Survey

Ten industry Predictions for 2020 — Tax impact

External environment shaping predictions

	Ten industry Predictions for 2020	Tax impact
1	Health consumers in 2020 Informed and demanding patients are now partners in their own healthcare	Profits related to new and changing intangibles is a key focus for tax
2	Healthcare delivery systems in 2020 The era of digitised medicine – new business models drive new ideas	Companies centralise new value creating activities in countries with competitive tax regimes
3	Wearables and mHealth applications in 2020 Measuring quality of life not just clinical indicators	Insights derived from data are a critical value driver for tax purposes
4	Big Data in 2020 Health data is pervasive – requiring new tools and provider models	New tax incentives introduced for data related activities
5	Regulatory compliance and patient safety in 2020 Regulations reflect the convergence of technology and science	Increased costs in funding regulatory compliance is considered part of a company's tax strategy

Internal industry performance shaping predictions

	Ten industry Predictions for 2020	Tax impact
6	Research and Development in 2020 The networked laboratory – partnerships and big data amidst new scrutiny	Tax outcome of R&D related activity is increasingly important in commercial negotiations
7	The pharmaceutical commercial model in 2020 Local is important but with a shift from volume to value	Different functions drive value, but the value creating activities continue to be centralised in low taxation countries
8	The pharmaceutical enterprise configuration – the back office in 2020 Single global organisation responsible for insight enablement	The tax function acts as a strategic business partner
9	New business models in emerging markets in 2020 Still emerging but full of creativity for the world	Increasing profits in emerging markets pushes up Effective Tax Rates
10	Impact of behaviours on corporate reputation in 2020 A new dawn of trust	Companies seeking a responsible approach to the management of taxes

2020 Health consumers in 2020

Prediction

Informed and demanding patients are now partners in their own healthcare

Individuals are better informed about their genetic profile, the diseases they have and might have, and the availability of healthcare. Expectations of healthcare and better outcomes for themselves and loved ones are at their highest. The 'quantified self' has embraced prevention and is devoting time, energy and money to staying healthy. When ill, patients demand specific treatments; they are also willing, in part, to pay. Patients are true consumers, they understand they have options and use information and data about themselves and providers to get the best treatment at a time, place and cost convenient to them.

The 2020 world

- Healthcare organisations now engage with patients through social media, regularly gauging their needs and driving them to appropriate products and services for their budget and healthcare requirements.
- Online patient communities have grown exponentially and are rich sources of crowd-sourced data, with rating systems for drugs and healthcare provision.
- Advanced analytics on patient chatter in these communities gather health information, providing a better understanding of which treatments deliver the best outcomes, allowing real time tailoring of pharmaceutical messages and services. They also provide early alerts on diseases, such as influenza.
- Businesses and governments work with communities of patients, hospitals and payers to identify best practice and cost-effective treatments.
- New provider and industry models, including mutuals and other forms of collaboration and cooperation, help decrease costs and improve care.

Tax impact

Profits related to new and changing intangibles is a key focus for tax

Tax authorities increasingly focus on what profit should be attributed to intangibles and tax payers produce detailed transfer pricing documentation. This supports how profits should be allocated between the various legal entities that contribute to the development, enhancement, maintenance, protection and exploitation of those intangibles.

Tax focus in 2020

Creation of new value drivers

- Systems have been enhanced to manage the increasing interactions with patients and the role of social media and online activity.
- Increasing use of analytics has generated insight from patient data to create value for the business.
- From a tax perspective, groups identify that these new intangibles (and others) are being created, and assess who is contributing to the value creation and how much profit should be attributed to these new intangibles.

Funding investment

- Companies have invested in new systems and technology to keep up with industry developments. Such expenditure on new technologies are funded, where possible, through tax efficient intercompany financing and treasury arrangements.

New business models

- As new forms of partnerships and collaboration become increasingly common, groups structure their arrangements with third parties in a tax efficient manner.

2020 Healthcare delivery systems in 2020

Prediction

The era of digitised medicine – new business models drive new ideas

The home is where much of the medical care takes place. It is no longer confined to clinicians in the clinic or hospital. The ubiquity of digital communication means that many doctor-patient contacts are now virtual and deliver care to the patient in their home. Specialist hospital treatment is reserved for trauma and emergency surgery; local day care organisations deal with most elective surgery, while chronic and long-term conditions are managed in the community. Care is provided via accountable care (type) organisations for a defined patient population, which take on the population risk. New funding models include year-of-care tariffs, pooled budgets, capitation or personal health budgets.

The 2020 world

- Web-based portals that enable regulatory compliant (and reimbursable) video interactions between patient and clinician are now supported by a wide array of web-integrated wireless monitoring devices.
- Healthcare productivity has been revolutionised including reducing travelling and waiting times, and inconvenience by providing routine contacts through telemedicine-enabled clinical e-visits, supported by digital diagnostic tools which facilitate physical examinations at a distance.
- Robotic or robotically enhanced surgery is commonplace, utilising robotically enhanced surgery platforms to access detailed radiological information while allowing the surgeon enhanced visualisation of the surgery with his/her 3D goggles.
- Key technologies have become established: For example, 3D printing of medical devices and organs; 'scar-less' surgery with entry via the oesophagus rather than skin incisions; and nerve cell transplants that improve the functionality of heart-failure, stroke, and paralysis patients.

Tax impact

Companies centralise new value creating activities in countries with competitive tax regimes

The provision of virtual healthcare solutions to patients causes companies to centralise certain activities. The competitiveness of a country's tax regime is an important consideration for companies when deciding where to centralise new value creating activities.

Tax focus in 2020

Investment in technology

- Companies have invested significantly in new technologies to support the increasing trend of healthcare being delivered to patients in their homes.
- Headline corporate and indirect (e.g. VAT) tax rates and tax incentives are now an important consideration for companies when assessing where this investment should take place.
- The provision of virtual healthcare has lead to certain activities being centralised. Companies continually review their business models to assess how they engage with customers and what intercompany arrangements are required.

New products and healthcare delivery models

- New medical devices have been made available, and now play an even greater role in delivering healthcare solutions.
- Companies review the allocation of profit across the value chain as products become more effective.
- As the cost to governments of delivering healthcare has increased, public / private partnerships have become more commonplace. Finding direct and indirect tax efficiencies in these arrangements has given more sophisticated companies the edge in winning and delivering such work.

2020 Wearables and mHealth applications in 2020

Prediction

Measuring quality of life not just clinical indicators

Wearables shape the quality of life of today's consumer, capturing and tracking how people live with and manage their condition. Consumers and providers integrate information from multiple devices seamlessly to create a comprehensive view of the individual. Wearables are now adopted widely (beyond keep-fit and health fanatics) and specialist medical (bio-sensing) wearables are affordable. The new clinician/patient partnership is based on improved awareness, self-management and prevention strategies, replacing the paternalistic approach of old.

The 2020 world

- The tipping point for broad adoption of wearables has been reached – wearables are used voluntarily and are recommended as part of prevention and wellness protocols.
- The next generation of wearable devices are interoperable, integrated, engaging and outcomes focussed. The technology has become much cheaper and more sophisticated and the data quality has improved.
- Wearables now continuously monitor a broad range of physiology – from posture to brain activity.
- Extensive use in clinical trials allows tracking of quality of life, not just efficacy and safety.
- Treatment plans now include 'wearables' as a prescription – monitoring the sickest patients and helping to better control healthcare costs.
- Wearables have made the home an extension of the hospital, allowing those who have received care to rapidly transition home.
- Biosensing devices are as much the realm of start ups as non-traditional health companies, creating a big new industry, with the winners still emerging.

Tax impact

Insights derived from data are a critical value driver for tax purposes

The value generated through intangibles related to data is hard to estimate. Increasingly tax payers seek to agree advance pricing agreements with tax authorities to avoid lengthy transfer pricing disputes connected with the value of data related intangibles.

Tax focus in 2020

Investment in new technology

- Companies have invested significantly in new hardware and software technologies in relation to wearables.
- Headline corporate and indirect (e.g. VAT) tax rates and tax incentives are now an important consideration for companies when assessing where this investment should take place.
- Lower VAT and GST rates often apply to pharmaceutical and healthcare products, based on 'traditional' views of what such products entail. Companies have found it challenging to persuade governments that new 'wearable' technology, for example, should also benefit from such rates based on the wider social 'good' they promote.

Creation of new intangibles

- The data gathered through wearables has been used to create and enhance business insight. This data and insight is shared across groups and new intangibles are created which are hard to value.

M&A activity

- As the number of companies investing in biosensing devices has increased, large corporates continue to acquire new products through M&A activity.
- As new players emerge in the market, new business models form to facilitate collaboration between large healthcare and life sciences companies and technology companies.

2020 Big Data in 2020

Prediction

Health data is pervasive – requiring new tools and provider models

For many countries healthcare data has become a national infrastructure priority and attracts significant funding (similar to the building of highways in the US in the 1950s). As a result, patients themselves, clinicians and healthcare officials use healthcare data to transform diagnosis and treatment to improve outcomes and healthcare productivity. Pharmaceutical companies now collaborate fully with patients and healthcare systems using data to develop better treatments, launch them faster and price according to improvement in health outcomes.

The 2020 world

- Healthcare systems recognise the value of existing and new data sources (for example, Electronic Health Records, patient provided data) and have created governance to allow data access and sharing, formed data partnerships and are changing how care is delivered on the basis of data insights.
- Use of healthcare data becomes a measure of national economic development.
- Pharmaceutical companies have built, bought and hired new capabilities (data management/analytics) and partnerships (with payers and hospital systems) to use Big Data across the value chain from discovery to value pricing. Data has blurred boundaries between traditional research and development and commercial functions.
- New data driven competitors disrupt the research & development (R&D) model with a focus on data and outcomes as opposed to the science only.
- Genetic testing is accepted as actionable information.

Tax impact

New tax incentives introduced for data related activities

As generating insight from data becomes an increasingly important value driver, tax authorities introduce new tax incentives to encourage multinational companies to undertake relevant data related activities in their countries.

Tax focus in 2020

Accessing data

- Healthcare companies have entered into new partnerships and collaborations with technology companies, and companies have attempted to minimise tax risk in structuring these arrangements.
- Taking account of how these new arrangements and business activities are structured encourages questions as to whether, from a tax perspective, companies can still regard themselves as healthcare providers, and what the tax implications of any different 'status' might be.

Creating insight from data

- Healthcare companies have invested heavily to create insight from data. This is creating new functions and risks that need to be managed and considered from a tax perspective.

2020 Regulatory compliance in 2020

Prediction

Regulations reflect the convergence of technology and science

Building on the regulatory frameworks from the 2000s, new regulations now encourage innovation through the convergence of science and technology. The pre-eminent regulatory agencies around the world have adapted to new realities as disruptive technologies challenge the traditional methods and processes used to assess the quality, safety and efficacy of prescribed medicine. In 2014 the science of the drug was the epicentre of most regulatory processes, but today regulators have adopted a far more data-driven approach based on patient outcomes.

The 2020 world

- The US Food and Drug Administration (FDA) and European Medicines Agency (EMA), achieve alignment and global reach, including hub and spoke models, with other countries flexing guidance as appropriate.
- While retaining national sovereignty countries leverage each others findings and regulatory frameworks in support of greater transparency.
- Regulators have invested in new capabilities to manage data and technology regulations.
- Frameworks for use of Big Data, wearables, social media and biosimilars are established, with additional controls to protect patients and physicians. Faster approval processes are making health product and drug developers and investors less risk averse.
- From drug approval to reimbursement and interaction with stakeholders, companies face rising costs of regulatory compliance, which have given rise to new infrastructures shared between industry and regulators.
- Adaptive licencing and models for real time trials are established and commonly used in 2020.
- The rise of the 'quantified-self', genomics, social media, and the exponential growth of on-line patient communities, have shifted attention of regulators to monitoring performance in the real world.
- Common technical standards have been established across the globe to ensure drug quality, reduce redundant manufacturing plant inspections, and help companies manage increasingly long supply chains.
- Direct to consumer distribution has become more prevalent with increase in market share for private health monitoring apps/devices.

Tax impact

Increased costs in funding regulatory compliance is considered part of a company's tax strategy

Regulatory compliance is a significant value driver and groups consider the costs of funding the activities and the value derived therefrom as part of their tax strategy.

Tax focus in 2020

Creation of new value drivers

- Companies have invested heavily in large teams to manage regulatory compliance. As governments co-operate internationally, companies seek to increasingly centralise these activities to manage the rising costs of compliance.
- Companies continually review their supply chains to manage the increasing regulatory compliance burden and tax departments understand the value that these activities create.
- More complex and longer supply chains, combined with greater regulatory scrutiny across borders, means that companies have faced greater challenges in maintaining global trade efficiency, including the indirect tax requirements associated with this.

2020 Research and development in 2020

Prediction

The networked laboratory – partnerships and big data amidst new scrutiny

In 2020, research and development (R&D) has few boundaries; the R&D model is networked, built around academic and other partnerships. The share of 'in-house only' discoveries is at an all time low. R&D activities are widely distributed, with pharmaceutical companies co-ordinating and integrating at the centre. The focus is on understanding disease biology and genetics; current standards and cost of care; and treatment pathways. Networked R&D combines pharmaceuticals and technology with increased patient engagement to prevent and treat disease. Company R&D strategies compete on returns from high value, low volume, western markets and lower value, high volume emerging markets.

The 2020 world

- Pharmaceutical companies collaborate with stakeholders earlier in the R&D cycle and access the best R&D earlier.
- Technology has changed the nature of R&D – with diagnostic biomarkers used in real time monitoring via wearable devices, and the convergence of technology and biology blurring the boundary between medical devices, continuous diagnostics and augmentation.
- 'Investigator-less clinical trials' – in which clinical trial sites are replaced by local clinics, remote monitoring and virtual clinician visits – have resulted in a significant reduction in the cost of clinical trials and the generation of more meaningful data through continuous monitoring.
- DNA sequencing now costs less than USD 50 per genetic profile, allowing extensive screening and effective targeting of trial patients and personalisation of drugs and interventions.
- Patients search out trials to participate in, forcing pharmaceutical companies to compete for patients, especially in well characterised, small patient group trials.
- Regulators are now comfortable with step-wise launches and focus on safety, efficacy and quality of life.

Tax impact

Tax outcome of R&D related activity is increasingly important in commercial negotiations

Many tax authorities introduce, or enhance, tax incentive regimes for R&D activity in their country. With increasing collaborations, both within organisations and between third parties, the qualifying criteria for tax incentives are a strategic focus area and the tax outcome of R&D related activity forms an important part of commercial negotiations.

Tax focus in 2020

R&D incentives

- As the R&D investment model evolves, companies are having to continually assess whether their activities qualify for established R&D incentives.
- Companies have assessed and implemented new business models to help access R&D tax incentives and the economic impact of tax incentives has been shared through contractual arrangements.

Increased patient engagement

- Companies have adapted their transfer pricing models to reflect how they are interacting with patients and the increasing importance that local patients play in providing data to generate business insight.

2020 The pharmaceutical commercial model in 2020

Prediction

Local is important but with a shift from volume to value

Formularies and procurement processes create a ‘winner takes all’ for the best in class drugs. The salesforce model of the 2000s no longer exists – replaced by a more customer facing model using medical educators and orchestrators of clinician dialogues. Pharmaceutical companies now use reinforcing multi-channel marketing to ensure clinicians have access to information when and where they want. New outcome-based, commercial and contracting models routinely integrate pharmaceutical companies in clinical service delivery. These changes have shaped the commercial model around diseases rather than geographies. Tailored therapy area strategies are led by market access first and sales and marketing second. Local data and service partnerships share the risks of outcomes, ensuring clinicians and pharmaceutical companies have the same interests in population outcomes and more effective use of healthcare budgets.

The 2020 world

- A global Customer Relationship Management (CRM) infrastructure and understanding of physician preferences allows tailoring of multi-channel information that is meaningful to clinicians.
- Campaigns are globally executed, local face-to-face contact through salesforces/educators is much reduced.
- Pharmaceutical companies participate ‘beyond-the-pill’ in local healthcare with local general managers and their teams now focused on managing the risks and local services.
- Big Data partnerships create real world population registries permitting indication and outcome based pricing and population-based funding models.
- Integrated payer/provider business models (accountable care type organisations) are the norm.

Tax impact

Different functions drive value, but value creating activities continue to be centralised in low taxation countries

Organisations continue to focus on where to locate key central functions, such as the global customer relationship management infrastructure, and how to attribute profits to the significant value that central functions drive.

Tax focus in 2020

Business model change

- As the business model changes and new functions are centralised, new activities are undertaken in local markets, and companies review their transfer pricing models to assess what intercompany transactions are required and how they should be priced.
- Managing global employment taxes for an increasing mobile workforce is significantly more complex, as activities are centralised and personnel are relocated.
- The scope, complexity and quantum of indirect taxes continue to rise globally. Companies ensure that the impact of business models and transfer pricing changes are understood from an indirect tax perspective so that the associated financial and operational effectiveness of the model is maintained.

New third party collaborations

- As companies enter into new Big Data partnerships and other third party collaborations to share the risk of outcomes, they think about how such arrangements should be structured from a tax perspective.

2020 The back office in 2020

Prediction

Single, global organisation responsible for insight enablement

Global Business Services (GBS) is the standard delivery model for all back office functions. Covering Finance, HR, Procurement, Real Estate, IT and Customer Contact, it is the information engine that enables insight across the value chain. GBS is responsible for end-to-end process governance, managed globally across a network of integrated shared service centres and Centres of Excellence (COEs). It comprises, rich technology and analytics capabilities, leading talent development and process management and performance protocols. The back office is now the nerve centre of the business, enabling pharmaceutical companies to become truly insight driven. GBS is seen as a strategic partner playing a central role in driving the right cost and resource allocation decisions across the enterprise.

The 2020 world

- GBS is measured on the value it creates and the risk it contains. All of the paper is gone. A central control centre monitors core, extended and outsourced process performance, exceptions and service levels. Processes are completely web, workflow and self-serve enabled.
- GBS has moved beyond the transactional and has become the analytics factory for the enterprise. It consistently provides the business with the essential facts and new information they need to make effective decisions even in the face of extreme complexity.
- GBS underpins the real world evidence agenda with full accountability for insight generation through its deep capabilities in advanced analytics.
- GBS has simplified the compliance landscape through its enablement of end-to-end processes. Global, real-time compliance is now the norm.

Tax impact

The tax function acts as a strategic business partner

The GBS function in 2020 incorporates many higher value functions than before and the tax function is seen as a strategic business partner.

Tax focus in 2020

Business model change

- The development of the new GBS model has required significant investment and business change. Companies have assessed the local tax deductibility of the restructuring costs and how to fund the new investment in a tax efficient manner.
- The GBS model creates significant value for the business, for example by generating business insight through data analytics. Groups have identified what intercompany transactions are needed in relation to the GBS and the Centres of Excellence and how these services should be remunerated.

Role of the tax function

- As GBS functions evolve, the role of the tax function has developed to enable it to perform as a strategic business partner.

2020

New business models in emerging markets in 2020

Prediction

Still emerging, but full of creativity for the world

While the traditional pharmaceutical markets in the US, Japan and Western Europe remain the main markets for drug companies, new markets requiring new business models are gaining pace. The focus on Brazil, Russia, India and China (BRIC) is now being challenged by new emerging markets in Latin America, Vietnam, Indonesia and Africa. These are proving an even bigger surprise, incubating new business models and leading in the development of new drugs. The pharmaceutical industry has responded to the various healthcare delivery models being adopted by different emerging countries and are tailoring their strategies accordingly. The focus is on access, affordability and outcomes – with an emphasis on local and being more than just the pill.

The 2020 world

- Insights and learnings from emerging markets have led to the emergence of new business models, creating a step change in the operating and commercial models of traditional markets.
- New markets in Africa and Asia have emerged – where formerly only generics companies played.
- Indonesia and Nigeria are leading the way in addressing the sheer size, geographical spread and inherent challenges of young populations with high levels of unmet need, prevalence of infectious diseases and poverty.
- Management teams are diverse and routinely include locals from emerging markets.
- Pharmaceutical companies have established dual brands, for certain emerging markets, allowing more locally tailored pricing models, while preventing parallel trade.
- Diabetes and specific cancers are now the foremost healthcare issues in these emerging economies, challenging all stakeholders to develop solutions.
- Translational medicine, including gene sequencing, has allowed emerging markets to leap-frog the West in some elements of research. With Brazil and China the main sources of drug innovation, providing a major contribution to the solutions for ageing and co-morbid populations globally.

Tax impact

Increasing profits in emerging markets pushes up Effective Tax Rates

Emerging markets represent an increasingly large proportion of profits for some healthcare and life sciences groups. Effective Tax Rates for groups which have a high proportion of profits in emerging markets have increased and cash repatriation from emerging markets is a key focus area.

Tax focus in 2020

Local activity in emerging markets

- As healthcare and life sciences groups create more value through activities in local countries they have reviewed their transfer pricing models to ensure that local countries are appropriately rewarded for the activities that they undertake.
- The availability of Country-by-Country reporting information and other transfer pricing documentation to local tax authorities in emerging markets means that tax payers carefully manage their transfer pricing position in emerging markets.
- As activities in emerging markets increase and profits in those countries also increase, companies consider how to manage cash repatriation and group treasury requirements in a tax efficient manner.
- Emerging markets have developed more onerous indirect tax regimes, with a higher propensity for irrecoverable indirect taxes to arise. More sophisticated companies are familiar with the means of managing such dynamics through effective tax authority engagement and supply chain management.

Brand management

- Healthcare and life sciences groups have identified the intercompany transactions and pricing strategies required to manage the dual brand strategies.

2020 Impact of behaviours on corporate reputation in 2020

Prediction

A new dawn of trust

The pharmaceutical industry has made real inroads in repairing the negative corporate reputation that has plagued it over the last few decades. Tackling corporate reputation has been a top priority for all pharmaceutical companies, though for most, full rehabilitation will require a few more years. Successes have been where the pharmaceutical companies have become more inclusive and actively seek to understand and meet the needs of their stakeholders. Equally important has been the impact of the industry's campaign to demonstrate more transparency in its approach to drug development and pricing.

The 2020 world

- Over the past five years, most companies have found a way to balance corporate responsibility with financial reward and now demonstrate this in a set of measures reported in their annual reports.
- Corporate brands are now more prominent and trusted, and a differentiator in attracting both partners for R&D and patients for trials.
- New research confirms that the corporate reputation of the industry and an individual pharmaceutical company is inextricably linked to the quality of the relationships built with patient groups. Corporate brands are used nearly exclusively – from healthcare and R&D partnerships, to patient apps and social media.
- Closer contact with patients and clinicians through engaging with pharmaceutical company branded clinical services has improved awareness and reputations.

Tax impact

Companies seeking a responsible approach to the management of taxes

Organisations ensure that they follow a responsible tax agenda, which is articulated in a stakeholder endorsed tax policy and tax strategy.

Tax focus in 2020

Brand management

- Groups continue to invest in managing their brands and consider which entities are involved in activities connected with their brands, and how those activities are remunerated.

Responsible tax agenda

- Tax is an increasingly important area for brand reputation and influences relationships with key stakeholders, particularly government departments, shareholders and the general public.
- A proactive and positive response to the new tax environment, driven by BEPS requirements, is a defining factor in helping to grow companies' reputations with their consumers and the general public. A responsible tax strategy has itself become a value driver for businesses.

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