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Global Tax Reset – BEPS & Indirect Tax

What is the Indirect Tax impact to your organization? Where should you focus?

Take action?
- Consider taking action
- Take action
- Priority action

Key Areas of Consideration

Changes to domestic laws as a result of the Organization for Economic Cooperation and Development's (OECD) Base Erosion and Profit Shifting ("BEPS") project will have a significant impact on multinationals and their cross-border trading activities. Changes to core corporate income tax and transfer pricing principles have been well publicized. However, the impact of BEPS on indirect taxation, is less well-defined.

The impact of BEPS on indirect taxation, however, is less well-defined. In particular, changes to transfer pricing and permanent establishment (PE) rules may cause some businesses to re-evaluate their business strategies and supply chain models, which in turn have significant VAT and customs duty implications. The key BEPS considerations likely to have an indirect tax impact on multinationals are as follows:

- Implementation of the "destination principle" for cross-border supplies of services and intangibles, with value added tax (VAT) collected via the reverse charge (for B2B) or vendor registration requirements (for B2C);
- A lower Permanent Establishment threshold that may lead to the restructuring of supply chains and business models, which in turn may create local VAT and customs compliance requirements, cash-flow implications, unexpected VAT costs, and non-resident importer status issues;
- New transfer pricing requirements meaning changes to pre-existing intra-group pricing and more frequent retroactive adjustments, which will effect the nature, degree, and value of inter-company transactions for Customs duty and VAT purposes.
- International collaboration and information sharing between tax authorities, resulting in increased scrutiny and tax audits.
- Changes to transfer pricing methods and structuring, which may impact customs valuation compliance and, potentially, the amount of customs duty owed on related party imports.

Indirect Tax Impacts

Click on each topic for more information

Supply Chain & Business Model
- Changes to supply chains with overseas commissionaire entities and limited risk distribution
- Arrangements with overseas toll manufacturing

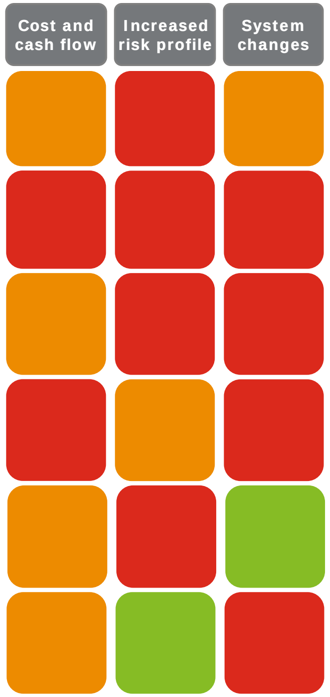
Permanent Establishment
- Changes to existing legal relationships and transaction flows
- Different indirect tax compliance obligations

Digital Economy
- Increased VAT registrations and reporting obligations
- Global VAT footprint requiring document retention and audit trails

Customs Value
- Become compliant on customs valuation in a fast moving supply chain by aligning with transfer pricing impacts
- Changes in ERP & duty management system set up

Operational Transfer Pricing
- Increase in the amount and complexity of cross-border intercompany transactions
- Transformation of multinational's financial compliance and reporting functions

Technology & Automation
- Creation of a digital corridor between ERP systems, financial systems, and the tax authorities
- Increased use of technology for audit purposes and increased control through digital means



Next steps

Identify
Review the indirect tax and customs impacts associated with the BEPS initiative

Measure
Quantify the potential impact of proposed reforms for Indirect Tax costs, cash-flow and risk profile purposes.

Action
Prioritize and recognize action items based upon anticipated timeline and commercial impact.

Communicate
Communicate with key stakeholders, sharing possible restructuring options to address impacts and mitigate risk.

Global Tax Reset – BEPS & Indirect Tax

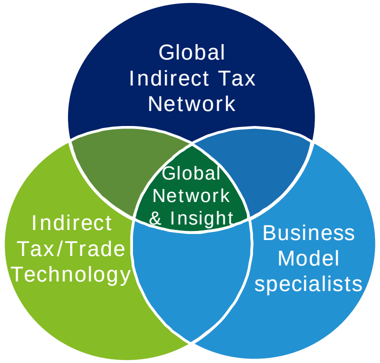
Indirect Tax Support and Insight

Global Network & Insight

Deloitte's global network of professionals with multi-disciplinary expertise including tax consulting, tax compliance, process management, and ERP customization results in a standardized global approach to deliver efficient and consistent results.

The 'Data Analytics' and 'Indirect Tax Review SMART' technology solutions employ innovative, user-friendly, web-based diagnostic technology to perform a preliminary global analysis which graphically visualizes import, export, and VAT/GST risks and opportunities, and identifies initial recommended actions.

This assists management teams with identifying and implementing progressive compliance solutions and allows for business performance benchmarking across global entities.

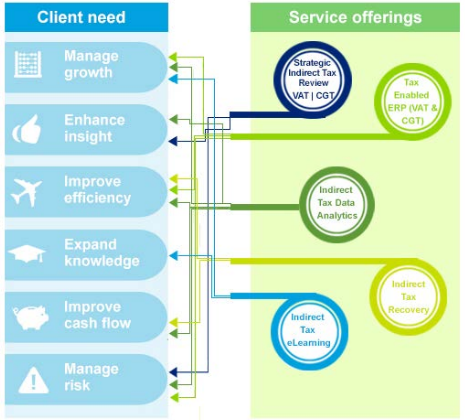


Automation

Deloitte has invested in technologies that help clients to identify and measure the indirect tax and customs duty impact on their organization.

With Tax technical, technology, and industry experience, Deloitte helps organizations meet the challenges of complex, global business and tax operations and transactions by embedding technology to create opportunities for improved insight, data alignment, efficiencies, and transparency.

In the framework of BEPS, where companies will re-evaluate their business strategy and supply chain models, Deloitte can provide tax (technology) and customs valuation impact analyses. Furthermore, Deloitte can support companies with integrating the BEPS requirements within their Enterprise systems.



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Now is the time for organizations to re-evaluate their strategy and choices to make sure they have a sustainable indirect tax and trade model given BEPS and the changing global tax landscape.

In the **near term**, organizations may need to modify structures in response to changes that have already been enacted.

Once strategies are set, Deloitte's business model optimization specialists can help analyze and implement a model that can be sustainable **long term** and create greater value for the organization.

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Business Models Supply Chains & Indirect Tax

Perspective ⇉ everything

Companies worldwide are actively analyzing the potential impact of the Organization for Economic Cooperation and Development's (OECD) Base Erosion and Profit Shifting (BEPS) project on their business models and supply chains. Indirect taxes should form part of any BEPS impact assessment and consider both compliance implications and financial and operational effectiveness.

What is the issue?

- When analyzing business models, BEPS brings particular indirect tax challenges, some of which cover novel and untested principles. For example:
  - Whether the new definition of permanent establishment for corporate income tax purposes changes the local VAT registration or compliance position;
  - The place of supply rules, particularly those on the supply of electronic services;
  - VAT thresholds (e.g. on the low value importation of goods);
  - Customs values and duty liabilities, including the potential loss of duty reliefs as a result of transfer pricing changes.
- Every business model analysis should include an indirect tax impact analysis in order to understand:
  - Financial and operational effectiveness and unexpected costs;
  - The ability to efficiently move goods across international borders;
  - The risk of indirect tax audits and assessments;
  - Potential time spent by indirect tax functions managing a "creaking" supply chain.

An indirect tax analysis should be part of any business model analysis

Who is impacted?

- Common operating structures that are particularly affected by BEPS from an indirect tax perspective include those with the following characteristics:
  - Principal entity arrangements with overseas commissionaires;
  - Principal entity arrangements with limited risk distributors;
  - Principal entity arrangements with overseas toll manufacturing operations, whether or not contracted out to a third party;
  - Arrangements that involve an entity holding inventory in another country for onward sale or delivery;
  - Arrangements with overseas principals that supply digitized content to consumers in third countries;
  - Arrangements involving the use of duty planning regimes or trade preference programs;
  - Arrangements involving the use of First Sale for Export customs valuation.

Many "conventional" international business models are affected by BEPS

Why now?

- Indirect taxes worldwide are growing in scope and complexity and this trend is likely to continue.
- The broader indirect tax effects of BEPS still remain unclear, so it is important to consider the indirect tax implications early when reviewing a business model in order to identify and manage risk, and to manage compliance.
- Effective upfront planning raises the awareness of potential challenges in time to develop an effective management strategy.

With indirect taxes growing in scope and complexity, and related party customs values increasingly scrutinized by customs authorities, it is important that indirect tax be considered early when evaluating business models

Why Deloitte?

- Tax advisors from multiple disciplines need to collaborate when advising multinationals on the implications of BEPS.
- Deloitte's international teams of indirect tax, international tax, and transfer pricing professionals work closely together cross-border to deliver a holistic, standardized, and efficient approach to clients.
- Deloitte participates in discussions with senior policymakers in international forums, such as OECD technical advisory groups and similar bodies, to explore the potential impact of BEPS measures from an indirect tax perspective and, on a no names basis, to share the views of clients.

Deloitte has indirect tax specialists experienced in handling the complexity of business model changes

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BEPS Action 7: the Indirect Tax Implications of Permanent and Fixed Establishments

Perspective ⇉ everything

Base Erosion and Profit Shifting (BEPS) Action 7 will lead to the crystallization of new corporate tax Permanent Establishments (PE's) for some businesses. Deloitte can advise clients on how these developments may interact with importer status, the concept of a VAT fixed establishment (FE) in Europe and VAT registration liabilities more generally on a global scale.

What is the issue?

- BEPS Action 7 aims to prevent the artificial avoidance of a PE status and is expected to lower the threshold for a PE from a corporate tax perspective.
- It remains unclear whether a new corporate tax PE will automatically have an indirect tax affect. However, whilst the OECD report on Action 7 reinforces the independence of VAT registrations from the existence of a PE for corporate tax purposes, in some countries a PE for corporate tax purposes can be linked to an FE for VAT purposes - even when the typical factors indicating an FE are absent.
- To the extent BEPS leads to the creation of a PE, there is a risk that VAT registrations also will become necessary, bringing the associated administrative burdens as well. The creation of a PE may also impact who can be the importer.

BEPS Action 7 may lead to more VAT registrations for businesses, a change in the place of supply of certain goods and services, and a change in qualified importer

Who is impacted?

- Businesses affected by BEPS Action 7 include those that:
  - Operate commissionaire structures;
  - Use specific activity exemptions, such as warehousing, purchasing, and preparatory and auxiliary activities; and/or
  - Fragment activities between group companies.
- Business customers of these businesses may find that they have to pay VAT to the supplier at the point of sale rather than self-account for VAT. Consumers may find that the amount of VAT charged is changed.

Businesses affected by Action 7 from a corporate tax perspective may also need to consider the VAT implications

Why now?

- Many businesses are analyzing how BEPS Action 7 will impact them from a corporate tax perspective and how operating structures may need to change.
- The indirect tax impact is no less important than the corporate tax impact.
- Businesses will need to plan and prepare for any additional VAT and customs compliance obligations that may arise in jurisdictions where a PE may be created.
- Actions may also be available to mitigate PE risks, but this needs to be managed carefully.

In some countries, the existence of a PE results in a strong presumption of the existence of an FE. It is important for businesses to consider whether they are affected by such presumptions before countries implement Action 7

Why Deloitte?

- Deloitte has a breadth and depth of knowledge and experience worldwide in considering the risks and implications of a VAT FE and/or VAT registration liability, as well as the risks and requirements of importers. Deloitte has assisted clients of all sizes with:
  - Advising on the interaction between PEs and FEs, VAT registration liabilities, and importer status;
  - Assisting with the identification and management of associated risks;
  - Advising on the strategic and commercial implications for parties in a supply chain of one or more parties having indirect tax obligations or risks; and
  - Assisting with tax registrations and ongoing compliance.

Deloitte can provide practical technical advice at a local level and can coordinate advice from multiple jurisdictions

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The Indirect Taxation of Digital Services – An Evolving Landscape

Perspective ⥱ everything

Deloitte can assist clients in understanding the indirect tax and broader commercial implications associated with the move by many jurisdictions to tax the supply of digital and similar services in the country where the individual consumer is located (previously such supplies have been taxed where the supplier is located).

What is the issue?

- Two recent OECD papers have supported the need for the taxation of services (principally those supplied via digital means) at the place of consumption, i.e., where the consumer is. The EU has been amongst the first to adopt this approach.
- This treatment has significant implications for the multinationals affected including:
  - **Commercial considerations** - How will the need to account for local taxes impact pricing? How will a customer's location be determined?
  - **Compliance requirements** - What services will be within the scope of the local tax? Is there a need to register and account for local tax? If so, how will returns be prepared and submitted?
  - **Systems considerations** – How can ERP systems be developed to correctly report and account for any tax due?

The global changes taking place to the taxation of digital services will not only have tax implications, but also wider commercial and systems implications

Who is impacted?

- Businesses making supplies to EU non-business customers, telecoms, and broadcasting and electronic service providers. The extent to which such services fall within the scope of EU rules is relatively clearly defined.
- Businesses making supplies to non-EU customers. Although there is less uniformity, impacted businesses include:
  - App developers, and content and software providers;
  - Music and video-on-demand providers;
  - e-book publishers;
  - Online gaming providers;
  - Distance learning providers.

In some countries, the changes impact both B2B and B2C providers. The impacted services differ by country, making it difficult for businesses to apply a one-size-fits-all approach

Why now?

- 28 EU Member States and a few countries outside of the EU have introduced requirements for businesses to register locally and account for VAT/other indirect taxes on sales to local customers. A number of other jurisdictions either have announced an intention to, or are likely to, introduce similar legislative measures.
- Early attention to processes and procedures required to manage these changes will help avoid significant disruptions to day-to-day activities and to indirect tax compliance.
- There are potentially significant financial and reputational risks associated with non-compliance.

At present, whilst a number of countries (in the EU at least) require registration with respect to supplies of digital services, this is not widespread elsewhere. More countries are expected to follow suit soon, and businesses should be prepared for this.

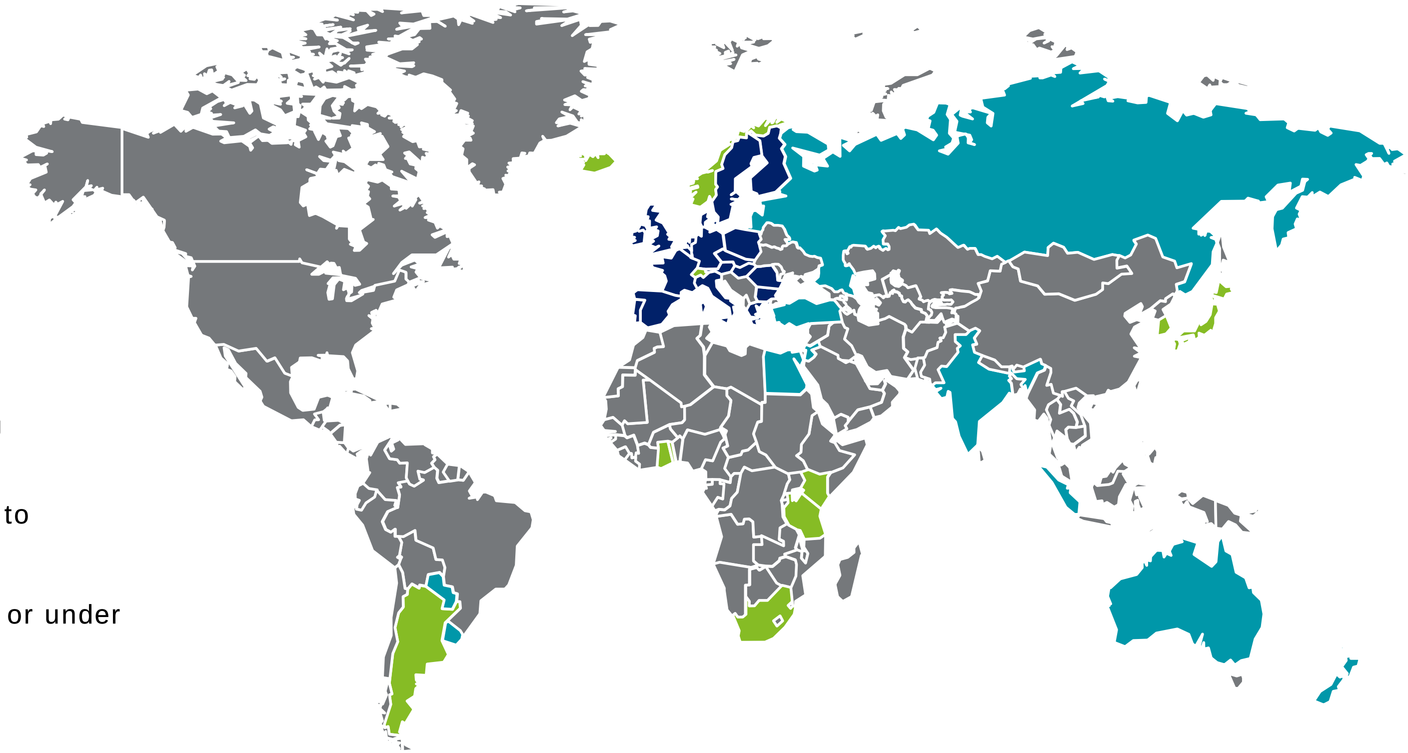
Why Deloitte?

- Deloitte has advised many global businesses on the impact of place of digital supply changes, including:
  - Advising on local country requirements;
  - Assisting with tax registrations and on-going compliance;
  - Preparing ruling requests to advise on the nature of services within the scope of a local tax regime;
  - Advising on pricing implications of the loss of revenue resulting from required tax accounting;
  - Assisting with configuration requirements for ERP systems required to handle local tax and accounting requirements; and
  - Advising on issues and risks in countries where registrations may already be required.

Deloitte's indirect tax professionals can provide local country support and insights

The Indirect Taxation of Digital Services – An Evolving Landscape

The global position on place of supply for digital services (March 2016)



Rules in place in EU Member States

Legislation in place to tax digital services

Legislation pending or under consideration

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Customs and Global Trade – Supply Chains & Business Models

Perspective ⥱ everything

Companies worldwide are actively analyzing the potential impact of Base Erosion and Profit Shifting (BEPS) on their business models and supply chains. A customs and global trade (CGT) analysis should be included in such BEPS analyses to manage compliance as well as financial and operational effectiveness.

What is the issue?

- When analyzing business models, BEPS brings particular, and in some cases new, CGT challenges, including:
  - Who may holding licenses for CGT structures and quality programs;
  - The place of establishment and access to customs data;
  - The acceptability of customs values based on pre-BEPS transfer prices;
  - The digital economy, which involves fast moving, high volume, low value goods;
  - The ability to act as a non-resident importer/exporter;
  - Managing customs values impacted by more frequent transfer price adjustments.
- Every business model analysis should include a CGT impact analysis to help understand:
  - financial and operational effectiveness, and unexpected costs;
  - the ability to efficiently move goods across international borders;
  - the risk of CGT audits and assessments;
  - the avoidance of non-compliant supply chain that results in higher duty payments.

A CGT analysis should be part of any business model analysis

Who is impacted?

- Multinationals that are particularly affected by BEPS from a CGT perspective include those with the following characteristics:
  - Principal entity arrangements with overseas commissionaires;
  - Principal entity arrangements with limited risk distributors;
  - Principal entity arrangements with overseas toll manufacturing operations, whether or not contracted out to a third party;
  - Operational arrangements that involve an entity holding inventory in another country for onward sale or delivery;
  - Supply arrangements involving the use of duty planning regimes or trade preference programs; and
  - Supply arrangements involving the use of First Sale for Export customs valuation.

Many "conventional" international business models are affected by BEPS

Why now?

- There is a worldwide trend of tax authorities focusing attention on generating taxation revenue from indirect taxes and away from corporate income taxes.
- CGT regulations are growing in scope, complexity, and quantum due to global trade agreements, sanctions, and other trade measures.
- The broader CGT effect of BEPS remains unclear, so it is important to consider CGT implications early when reviewing a business model in order to identify and manage risk, and to manage compliance.
- Effective upfront planning raises the awareness of potential challenges in time to develop an effective management strategy.

With CGT requirements growing in scope and complexity, and related party customs values increasingly scrutinized by customs authorities, it is important that CGT be considered early when evaluating business models

Why Deloitte?

- Tax advisors from multiple disciplines need to collaborate when advising multinationals on the implications of BEPS.
- Deloitte's global teams of CGT, international tax, and transfer pricing professionals work closely together cross-border to deliver a holistic, standardized, and efficient approach to clients.
- Deloitte participates in discussions with senior policymakers in international forum, such as the European Commission and World Customs Organization technical advisory groups, to explore the potential impact of BEPS measures from a CGT perspective and, on a no names basis, to share the views of clients.

Deloitte has CGT specialists experienced in handling the complexity of business model changes

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Operational Transfer Pricing: interaction with Indirect Taxes

Perspective ≒ everything

Operational Transfer Pricing (TP) is about aligning the price of intercompany transactions (goods, services, intangibles/royalties, loans) in a way that is consistent with a multinational's documented TP policy. Deloitte is able to advise clients on the indirect tax issues that these activities can generate and suggest ways they can be addressed.

What is the issue?

- Active management of the pricing of intercompany transactions can lead to regular pricing adjustments (for example debit/credit notes, variable service costs etc.). The implementation of these adjustments will often trigger indirect tax reporting requirements such as adjustments to customs declarations, VAT return entries or foreign VAT on cross-border service fees.
- For services, the appropriate VAT and customs value of intangibles and royalties can be challenging. Further, it is crucial to understand the impact of inter-company loans on VAT recoverability.
- Documentation needs to meet local country invoicing requirements and credit notes may need to refer to the underlying invoices. Often, these corrections fall outside automated processes, and manual booking and tax code determination is required.

Remediation and/or implementation activities implicit in an Operational Transfer Pricing exercise will inevitably impact any transactional based taxes

Who is impacted?

- Operational Transfer Pricing can impact any multinational and may be of particular relevance to those with the following characteristics:
  - Recent or planned change of business model or supply chain;
  - Recent or planned ERP or financial system implementation;
  - Issues in recent TP audits;
  - Recent or planned transfer of functions to a Shared Service Center;
  - Recent or planned acquisition; and
  - Significant time spent on negotiating intercompany prices between entities.

Businesses affected by any of the above may benefit from an Operational Transfer Pricing exercise that takes account of indirect taxes

Why now?

- Intercompany pricing is increasingly scrutinized by tax authorities in local tax audits, by customs authorities who review the use of transfer prices as a basis for customs values and by management who assess TP prices to help objectively assess performance of group companies.
- Many companies are facing internal changes that can be disruptive for their internal controls on intercompany prices, such as:
  - Increasing volumes and complexity of cross-border intercompany transactions; and
  - Transformation of financial compliance and reporting functions.

Operational Transfer Pricing exercises which do not take into account indirect taxes may lead to lost opportunities or increased exposures

Why Deloitte?

- Deloitte has an Operational Transfer Pricing framework that integrates multidisciplinary resources and technology specialists to help drive solutions from a multiple stakeholder's perspective and assist clients of all sizes.
- Deloitte's indirect tax professionals understand what Operational Transfer Pricing is about and work effectively as an integral part of these teams around the world.

As part of a multidisciplinary team Deloitte's indirect tax professionals have a practical business point of view.

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Indirect Tax Technology and Automation

Perspective ≒ everything

The Economic Cooperation and Development's 's (OECD) Base Erosion and Profit Shifting (BEPS) project will increasingly affect governments, tax authorities and multinationals need to automate. There is a trend towards digital corridors between taxpayers and tax authorities, towards transparency and to stakeholders demanding insight into a company's tax position on a global basis - all of which may require the increased use of technology.

What is the issue?

- Authorities in OECD countries are increasingly using tax technology to increase control and create transparency so that stakeholders can have better insight into the total tax mix and where multinationals are paying which taxes. There is a move towards not just country–by-country, but also tax-by tax reporting.
- Multinationals will need to understand these developments and manage the digital corridor that will be created between their ERP and other financial systems and the tax authorities. By 2020, indirect tax compliance is expected to have transformed into a direct data feed from multinationals to tax authorities who will increasingly compare this data and apply benchmarking and data analytics to identify risks and inconsistencies.
- BEPS Action 1 envisages an increased use of technology for tax audit purposes and increased control through digital means.
- Multinational companies will need to be ready to manage their indirect tax function in a world of automated digital exchange.

Who is impacted?

- Businesses impacted by an increased need to automate their indirect tax function include those with:
  - A growing volume of international trade and resultant indirect tax function and footprint;
  - Operations in countries that require direct, real time digital insight into their indirect tax position;
  - Electronic filing of indirect tax returns and import/export declarations; and/or
  - Operations in countries where digital tax audits already or will soon exist.

Why now?

- Solutions in ERP systems have matured rapidly, and companies can use these to modernize manual processes and manage growing volumes, numbers, and complex transactions.
- Automating the indirect tax function globally not only supports new regulatory needs, but also creates new insights and increases efficiencies freeing professionals to focus on more value added tasks.
- Tax departments that do not have a vision for their compliance transformation will be in no position to meet the challenge of increased tax authority automation and use of digital corridors.

Digital indirect tax compliance, digital audits and some form of automation already exist in places. Businesses should prepare for this to become widespread and make sure the tax function aligns with other automation initiatives.

Why Deloitte?

- Deloitte offers innovative solutions, such as data analytics and interactive dashboards, that provide valuable insight and facilitate the management of indirect tax on a global basis in a digital fashion.
- Deloitte has significant experience in indirect tax automation and is able to advise, implement, and assist in selection of automated solutions, as well as the use of tax engines and data analytics.
- Deloitte has assisted clients of all sizes with:
  - Assistance and coordination of indirect tax automation in ERP systems (e.g. Oracle R12 & Oracle GTM, SAP, SAP GTS, and SAP S/4HANA);
  - Advising on the selection of automated tax solutions (e.g., Thomson Reuters, Vertex, Avalara, and other hosted and integrated global trade management solutions;
  - Automated VAT compliance through VAT Smart;
  - Implementing integrated tax data analytics solutions (VAT, customs, and transfer pricing and proven methodologies combining indirect tax intelligent content and IT deployment.