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Finding opportunity in the midst of uncertainty

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

In early 2020, Deloitte conducted its seventh OECD Base Erosion and Profit Shifting (BEPS) survey to understand how large multinational organizations view the global tax landscape and how it has evolved. Our survey covers various themes related to BEPS implementation worldwide and each year since 2014, amongst other questions, we have asked tax leaders about the increased media, political, and activist group interests in tax—and the expected impact on their organizations.

Throughout 2019, countries continued to implement the BEPS recommendations into their domestic laws. The ratification of the Multilateral Instrument (MLI) continued in 2019 and although only a few bilateral treaties were impacted in 2019, a higher number is impacted in 2020, with even more treaties to be affected from 2021 onward.

The impact of COVID-19

The survey was conducted before the impact of the COVID-19 crisis spread across the globe, thus the findings reflect the pre-pandemic views or plans of respondents. In recent months, many governments adopted various necessary measures to support businesses and individuals, which have contributed to dramatic increases in government deficits and corresponding increases in the levels of national debt. The closures imposed to contain the virus have, to a large degree, resulted in, what is likely, a global recession. All of these factors would have undoubtedly affected survey responses if conducted today.

It is likely that policy makers will be considering their options in a number of areas as countries enter the recovery stage. There is uncertainty about whether there will be a shift from global cooperation regarding BEPS to increased unilateral actions as a result of COVID-19. There is a risk that the increased needs of governments to address deficits stemming from the pandemic may result in even more tax disputes.

Also, for many corporate groups and tax administrations the crisis has accelerated the use of technology and migration towards digital platforms. Tax functions that have already made progress on their digitalization journey should be better placed to maintain core operations and add value.

Here are some key findings from our survey of 296 respondents from 38 countries, the largest respondent group being from the US (93), followed by Germany (29):

Tax governance remains high on the Board's agenda

Concern about the media, political and activist group interest in corporate taxation, and consequently, the involvement of C-suite and/or Board of Directors in organizations' tax strategies has remained consistently high over the years (71% for both questions addressing this in the survey), although there have been varying trends, by country.

Around 60% of organizations have implemented additional corporate policies and procedures in response to the increased scrutiny related to corporate taxation.

Following the COVID-19 crisis, the need for tax revenues will increase and governments will be looking for additional revenue sources. It is possible that the interest in corporate taxation of multinationals may increase.

Taxation of the digital economy remains a 'hot topic'

At the time the survey was conducted, 44% of respondents expect a global consensus on taxation of the digital economy that will lead to changes, and around a third (31%) of the total respondents have been actively engaged in the OECD's Pillar One/ Pillar Two project consultation.

More than half of respondents (62%) are concerned that the OECD's Pillar One / Pillar Two project may lead to an increase in their corporate tax liability.

As the global economy moves further towards digitalization, as a result of COVID-19 distancing measures, this focus will only increase. Many companies that were already providing digital services were able to thrive during the crisis. This adds pressure to reach global consensus in this area. Failure to reach a consensus could lead to uncoordinated unilateral actions, resulting in double-taxation and potential trade-wars, neither of which will encourage global investment and growth.

Cross-border coordination has room to improve

There is little confidence among the respondents (23%) that most tax administrations will interpret the changes to the Transfer Pricing Guidelines in a consistent manner.

57% of organizations are concerned about a lack of guidance from tax authorities around the world about the Principal Purpose Test (PPT).

The ability of tax authorities to achieve cross-border coordination and cooperation will be tested even more as countries seek to find ways to recover from the recession.

Businesses are slowly securing additional resources to deal with BEPS-related changes

Despite the unprecedented degree of change in the tax laws worldwide, only 32% of organizations have secured (or plan to secure) additional resources/headcount for their tax group as a result of the BEPS-related changes. Only a quarter of respondents (24%) have or intend to co-source or outsource some tax group functions as a result of the BEPS-related changes.

However, increased investment in tax-related technology appears more prominent: 47% have increased their investment in technology to cope with the volume of BEPS-related changes. As a result of the pandemic, it is likely that many companies are making increased investment in this area.

Looking ahead

The direct and indirect impact of the BEPS project and other tax reform initiatives will continue to be felt throughout 2020 to 2021 as more measures begin to take effect and become embedded into local laws. Tax governance will continue to be an area of focus and increased complexity, compliance, and reporting requirements will not lessen.

The repercussions of the COVID-19 crisis, while not captured in this survey, will undoubtedly be felt by many businesses and influence the way they respond to the BEPS-related changes. It remains to be seen how policy makers will deal with the fiscal challenges presented by the pandemic and how it will impact the BEPS project in the coming months and years. However, it is likely that more tax changes are on the horizon.

Understanding the global tax landscape

The BEPS initiative grew out of a perception that many multinationals were not paying their 'fair' share of tax and were taking advantage of arbitrage opportunities permitted under international tax laws. The G20 tasked the OECD with addressing this.

The result was the OECD BEPS Action Plan focused on 15 key areas, guided by the principles of coherence, substance and transparency. This consensus-based approach has expanded to include an Inclusive Framework of 137 countries. Some of the recommendations from the BEPS project are still in the process of being implemented.

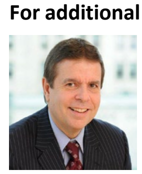
In addition to the BEPS project, in recent years we have seen other significant initiatives including the introduction of the Automatic Exchange of Information (AEOI) and the Common Reporting Standard (CRS), the EU Anti- Tax Avoidance Directives (ATADs 1 & 11), US Tax Reform and the Inclusive Framework's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

More recently, the pandemic has resulted in a number of new relieving tax measures around the world, with more new measures likely to come in the future, as countries start to address unprecedented deficits and levels of debt. To stay informed on these measures, visit Deloitte COVID-19 Tax & Financial Measures.

An inherent challenge arises between the need to reconcile individual countries' legitimate need to stay competitive and to raise revenue, with the need for multilateral consensus and cooperation, essential in the current environment.

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

For additional information, contact:



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