Consumer business leaders are concerned about the changing global tax environment. They seem to understand that, whether their business is digital, physical or a mix, current discussions at the OECD and international level will have a significant impact on their business models and profitability going forward. So why are so few consumer business organizations taking steps to mitigate their risks?

It's not due to lack of awareness. Our conversations with consumer business leaders suggest most are concerned about the ever-changing consumer expectations around fair tax payment. Nearly two-thirds say their boards are actively involved in their company's tax governance.

More likely, the problem is the uncertainty. Our survey data suggests few consumer business leaders expect current international discussions to result in a consistent approach to key issues such as Transfer Pricing or the taxation of the digital economy. Most anticipate their tax liabilities will increase in the wake of the OECD's Pillar One /Pillar Two projects, they just don't know by how much.

It is somewhat surprising, therefore, that just 31% of consumer business organizations say they are actively engaged in the OECD's project consultations. Our view is the best way to help influence and guide the outcomes of the project is to engage in the process, either directly or through other channels.

However, the data does suggest that consumer business tax functions are starting to prepare for the increased complexity that has resulted from the OECD's work. Some will secure more headcount. But the tax leaders in the consumer business are focused on investing into new technologies and outsourcing key functions in order to deal with the increased tax complexity resulting from the BEPS changes and free up their professionals to focus on more value-added activities. Based on responses collected from our survey, this industry spotlight explores how consumer business companies are responding to this continuously – changing environment.
Concerns about digital tax remain

The onset of the COVID-19 pandemic clearly accelerated the digitization of consumer channels. Yet, even before the crisis, consumer businesses were voicing concerns about the potential impacts of the OECD’s efforts around the taxation of the digital economy. Almost two-thirds (65%) of the consumer business respondents to our survey say they are concerned the outcome will result in an overall increase in their corporate tax liability.

Perhaps not surprisingly given recent efforts to push ahead with unilateral digital tax initiatives, consumer business executives also seem somewhat pessimistic about the potential for a unified approach on digital taxation. In fact, just 35% say they expect meaningful global consensus on the issues and only 31% say they are actively engaged in the process either directly or through other channels.

The survey data suggests that, while consumer business tax leaders know the outcomes of the Pillar One/Pillar Two consultations will have a big impact on their business, they also expect the landscape to be scattered.

Inconsistency leads to uncertainty

Consumer companies seem equally pessimistic about the potential for consistency around transfer pricing rules and guidelines. Less than one-in-five respondents say they expect tax administrations to interpret the change to the Transfer Pricing guidelines in a consistent manner. 62% of respondents say they are concerned about the lack of guidance from tax authorities around the application of the Principle Purpose Test (PPT).

In response, many organizations (42% of our respondents) are now anticipating higher withholding tax obligations and more than one-in-ten say they will start obtaining more bilateral Advance Pricing Agreements (APAs) with their tax authorities.

Fewer than 1-in-5 consumer business leaders think tax authorities are interpreting the OECD’s Transfer Pricing guidelines consistently

The uncertainty about the outcomes of these discussions has been heightened by the COVID-19 crisis, which forced many consumer companies to fundamentally rethink their operating models, supply chains and business structures. As consumer executives move to quickly pivot their organizations for the short-term, many understand that they also need to consider the mid-to-long-term impacts of international efforts such as the BEPS initiative and taxation of the digital economy.

Consumer businesses respond with automation and outsourcing

Recognizing the rising complexity of BEPS-related changes to the tax landscape, most consumer companies are now becoming much more strategic about their response. Many are turning to technology in the hope of digitizing (or, better, automating) their BEPS-related processes. In fact, consumer business respondents were almost 50% more likely to say they would be investing into new tax technology than they would into securing new headcount.
At the same time, 42% of respondents say they would look to co-sourcing or outsourcing some tax functions as a result of the BEPS-related changes. Deloitte's experience suggests this number would be higher if the same survey were to be run today; the COVID-19 crisis has rapidly enhanced the perceived value of outsourcing models, particularly amongst consumer business tax functions.

"In some cases, cost savings are driving the move towards outsourcing," adds Dr Astrid Bregenhorn-Kuhs, Global Tax & Legal, Consumer Business Leader. "But, at the same time, executives understand that tax is becoming more complicated and they want to be sure they are doing everything they can to reduce their risks. Working with a dedicated co-sourcing or outsourcing services partner gives them confidence that their processes are being managed properly."

"Rather than spending all their time continuously running ‘what-if’ scenarios, the leading consumer firms are focused on getting their data in shape so that – once the landscape settles – they have access to the type of real-time insights they will require."

Dr Astrid Bregenhorn-Kuhs, Deloitte Global Tax & Legal – Consumer Business Leader

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:

Dr Astrid Bregenhorn-Kuhs
Global Tax & Legal
Consumer Business Leader
Deloitte Tax LLP
abregenhornkuhs@deloitte.de

Albert Baker
Global Tax Policy Leader
Deloitte Canada
abaker@deloitte.ca

Or visit: https://www.deloitte.com/2020BEPSsurvey