Global Tax Survey: Beyond BEPS

Deloitte's 2021 global annual survey of multinationals

In early 2021, Deloitte conducted its eighth OECD Base Erosion and Profit Shifting (BEPS) survey to understand how large multinational organizations view the global tax landscape and how it has evolved.

In this latest survey, we were interested in the respondents' views on the topics that were high on their agenda in 2021, such as the impact of Covid-19, the Pillar 1 / Pillar 2 project and the 'digital taxation' debate, tax transparency, tax governance and US tax proposals, in addition to their views on the progress of BEPS related measures.

Tax governance remains high on the Board's agenda

Concern about the media coverage, 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 (74% of respondent groups are concerned). The COVID-19 pandemic is likely to further increase this level of interest – 79% of respondents share this expectation.

The overwhelming majority of Boards continue to be actively involved in tax governance (76%), although there have been varying trends, by country (e.g. 100% for the UK respondents but only 50% for respondents from Germany, Finland, and France).

Just over half of respondent organizations have implemented additional corporate policies and procedures in response to the increased scrutiny related to corporate taxation – there is a gradual decreasefrom 64% in 2019, likely reflecting the fact that many had already done so in prior years.

COVID-19 is expected to lead to tax raises and tax disputes

The COVID-19 pandemic resulted in large deficits for many governments,increasing the need for tax revenues to finance various support measures. There is a clear expectation of higher tax costs as a result of COVID-19 - more than half (58%) of the respondents expect tax increases or new taxes in their ultimate parent company's jurisdiction and just over a half of the respondents expect corporate tax liability of their group to increase over the medium term.

As governments seek ways to increase their tax revenues following the pandemic, it is expected that tax audits will become more rigorous as a result – 45% expect this to occur in theirultimate parent company's jurisdiction.

The need for tax revenues is likely to intensify leading to more tax disputes – 90% of the respondents expect this to occur, while 38% expect global tax cooperation to decrease as a result of COVID- 19.

Taxation of the digital economy remains a 'hot topic' for many

At the time the survey was conducted, in early 2021, 46% expected that there will be a global consensus on taxation of the digital economy that will lead to changes.

62% of respondents were concerned that a possible outcome of the OECD's Pillar 1/ Pillar 2 project will be an increase in their corporate tax liability.

Since the survey was conducted, significant progress has been made in reaching a high level consensus on the OECD Pillar 1/ Pillar 2 project, particularly with the recent statement used by the vast majority of countries participating in the Inclusive Framework, which has been endorsed by the G20 Finance Ministers. Given this momentum the level of optimism regarding progress of Pillar 1/ Pillar 2 project may have increased since the beginning of the year.

There is a strong momentum for changes to take place and an ambitious timetable has been set for implementation, even though some political issues need to be resolved and many crucial technical details remain to be determined and agreed upon. Legislative approval in each country is also required including approval by the US Congress.

Businesses are beginning to react to the increasing tax transparency requirements

There are a number of tax transparency initiatives globally and while these are mostly voluntary, many businesses are adopting such initiatives as their stakeholders begin to expect more tax transparency. The COVID-19 pandemic and the resulting governments' need for additional tax revenues has contributed to the increased public demand for tax transparency.

The adoption of tax transparency measures is still at an early stage - over 40% of the respondents intend to limit their reporting to what is required by the established financial standards. A third of the respondents expect to increase their level of voluntary tax transparency over the next year, which, for some of them, may be partly linked to existing commitments to report under Global Reporting Initiative (GRI) standards given the full introduction of GRI 207 from 1 January 2021.

45% intend to align their groups' external communication in relation to their tax performance with transparency standards, with GRI 207 being the most popular overall (15%). From the respondents, financialservices and energy & resources are the largest adopters of GRI 207 (25% and 27%, respectively) - as regulated sectors, these have long been subject to enhanced tax transparency regulations in certain jurisdictions.

Looking ahead

In the 8th year of the survey, the majority of the BEPS measures had been implemented and embedded into local laws, becoming 'business as usual' for many businesses. However, the amount of change in the tax world continues to remain high, with the focus on the OECD Pillar 1/ Pillar 2 project, as well as tax transparency. Environmental taxation, while not addressed in thissurvey, is an emerging 'hot topic' which is likely to become more prominent in the years to come.

While the world is slowly returning to some semblance of post-COVID-19 normality, countries' economies will recover at varying speed. Governments' measures to source additional tax revenues will need to be balanced with ensuring successful recovery of businesses. It is certain that more tax change is to be expected and businesses need to remain prepared.

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 2015 OECD BEPS Action Plan focused on 15 key areas. Action 1 of this plan, *Tax Challenges Arising from Digitalization*, was the origin of the current Pillar 1/ Pillar 2 project. A significant amount of work was done since then, including public consultations on Pillar 1 and Pillar 2 in late 2019, and release of Blueprints on Pillar 1/ Pillar 2 in October 2020, and subsequent public consultationson the Blueprints. July 2021 has seen the significant progress in reaching a global consensus on the principles, with 132 members of the OECD Inclusive Framework approving the Pillar 1/ Pillar 2 plan, which has been endorsed by the G20 Finance Ministers.

A number of other measures were adopted alongside BEPS in recent years, such as the introduction of the Automatic Exchange of Information (AEOI) and the Common Reporting Standard (CRS), the EU Anti-Tax Avoidance Directives (ATADs I & II), US Tax Reform and the recent tax transparency initiatives, such as the public country-by-country reporting in the EU.

COVID-19 has resulted in a multitude of temporary support measures across the globe which led to large government deficits and, consequently, the dilemma of financing these deficits without stifling the post-pandemic business recovery.

Climate change is also high on the agenda of many governments and is likely to contribute to shaping of domestic tax policies.

All of the above will contribute to the complexity of the ever-changing global tax landscape.

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

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