Deloitte.

OECD's Base Erosion and Profit Shifting (BEPS) initiative
Summary results of second annual multinational survey

May 2015

In 2014, Deloitte conducted its first "OECD Base Erosion and Profit Shifting (BEPS) survey" to gauge the views of multinational companies regarding the increased media, political and activist group interests in "responsible tax" and BEPS, and the expected resulting impact on their organizations. Nearly 600 Deloitte member firm clients and contacts responded to that first survey.

In early 2015, a follow-up survey was conducted to understand how clients' views on the tax landscape have evolved. Since last year's survey, the OECD released seven new deliverables in September 2014 along with several draft reports under its BEPS Action Plan. There has been a continued interest in tax by media organizations, NGOs, and politicians. Some countries have adopted unilateral legislative changes and/or pursued tax assessments, in adherence to BEPS principles.

Tax is increasingly recognized as a significant strategic business issue that can impact an organization's competitiveness and its brand. For multinationals, identifying risks and opportunities from these developments is critical and will require an assessment of impact, weighing of options, regular monitoring, and development of a strategic plan, including a communications strategy.

Key findings

"Results show a growing concern over increased tax compliance"

Key finding: Significant change is fully expected

The survey results show that companies expect change. The Action Plan will fundamentally change the international tax landscape. It is highly likely to have a significant impact on many businesses and may take time to implement. It is vital that business is fully prepared for the demands ahead and addresses areas likely to be affected as soon as possible.

Key finding: Major impact on compliance burden

Over 90% of respondents (compared to 86% last year) are anticipating that their corporate tax compliance burden will substantially increase as a result of additional reporting from the BEPS recommendations, such as country-by-country reporting and transfer pricing reporting.

Key finding: Concern over of the consequences of unilateral action

55% of respondents are anticipating significant unilateral legislative changes to protect the tax base that is not coordinated with what other countries are doing and over 75% of respondents are anticipating double taxation will occur as a result of BEPS.

Key finding: Practical impact already being felt and expected to continue

Over 90% of respondents agree that tax structures are under greater scrutiny by tax administrations than a year ago. This is an increase of over 20% from last year's survey.

In addition, over 50% of respondents are anticipating significant legislative and treaty changes in their country as a result of the BEPS initiative, which is a significant increase from last year. 74% agree or strongly agree that reputational risks are of much greater concern when executing cross-border tax planning.

58% agree or strongly agree that the BEPS project will have greater impact on their organization than they originally thought, based on the OECD's work on BEPS so far.

Business is far more cognizant of the political atmosphere surrounding tax, and coupled with the increased momentum of the BEPS project and countries' commitment to implementing its measures, businesses are working toward meaningful analysis of what the BEPS measures will mean for them.

Key finding: Inconsistency of implementation a key hurdle to achieving cooperation

Respondents agreed that one of the main hurdles of the project will be achieving consistency across the countries and regulating how burdensome the reporting element will become. Some mentioned the competing interests among the countries and that there is a perception that BEPS, if adopted by all, will create winners and losers. There was a belief that countries that stand to lose revenue from BEPS measures are likely to opt out. There was also reticence that some key countries would sign up to a multilateral treaty instrument.

There is a perception that reaching agreement and consensus on actual policies will be difficult, and thereby, may increase the risk of unilateral action.

Summary

The BEPS Action Plan is still ongoing and will be for some time yet. The OECD is determined to meet all of the deadlines set and will continue to put out detailed suites of proposals.

The global landscape of BEPS, unilateral action by countries and increased international tax audits, are resulting in a global tax reset.

Business needs to start preparing for the journey now. This is the biggest challenge in the tax arena in a generation and very few can avoid the reach of BEPS.

Identifying the risks and opportunities that the current developments bring is critical and requires regular monitoring and review of an organization's position and options. As the strategic goals and operations of a business change over time, so should the tax strategies adopted to support them.

Background to BEPS

The BEPS initiatives grew out of a perception that many multinationals were not paying their 'fair' share of tax and were taking advantage of the arbitrage opportunities afforded by outmoded principles of international taxation designed for a pre digital age. The G20 tasked the OECD with addressing this.

The result Is the OECD BEPS Action Plan focused on 15 key areas and guided by the principles of coherence, substance and transparency. These are currently being debated and developed into the cornerstones of a new global tax architecture that it is hoped will be backed by international consensus.

One of the key challenges is the need to reconcile individual countries' legitimate need to stay competitive and to raise revenue (through the medium of tax based investment incentives and domestic legislation) with the need for multilateral consistency that is essential if the objective of removing arbitrage opportunities is to be met.

Additional information and contacts

For further information, please visit the BEPS page on Deloitte.com or contact Albert Baker, Deloitte Global Leader – Tax Policy.