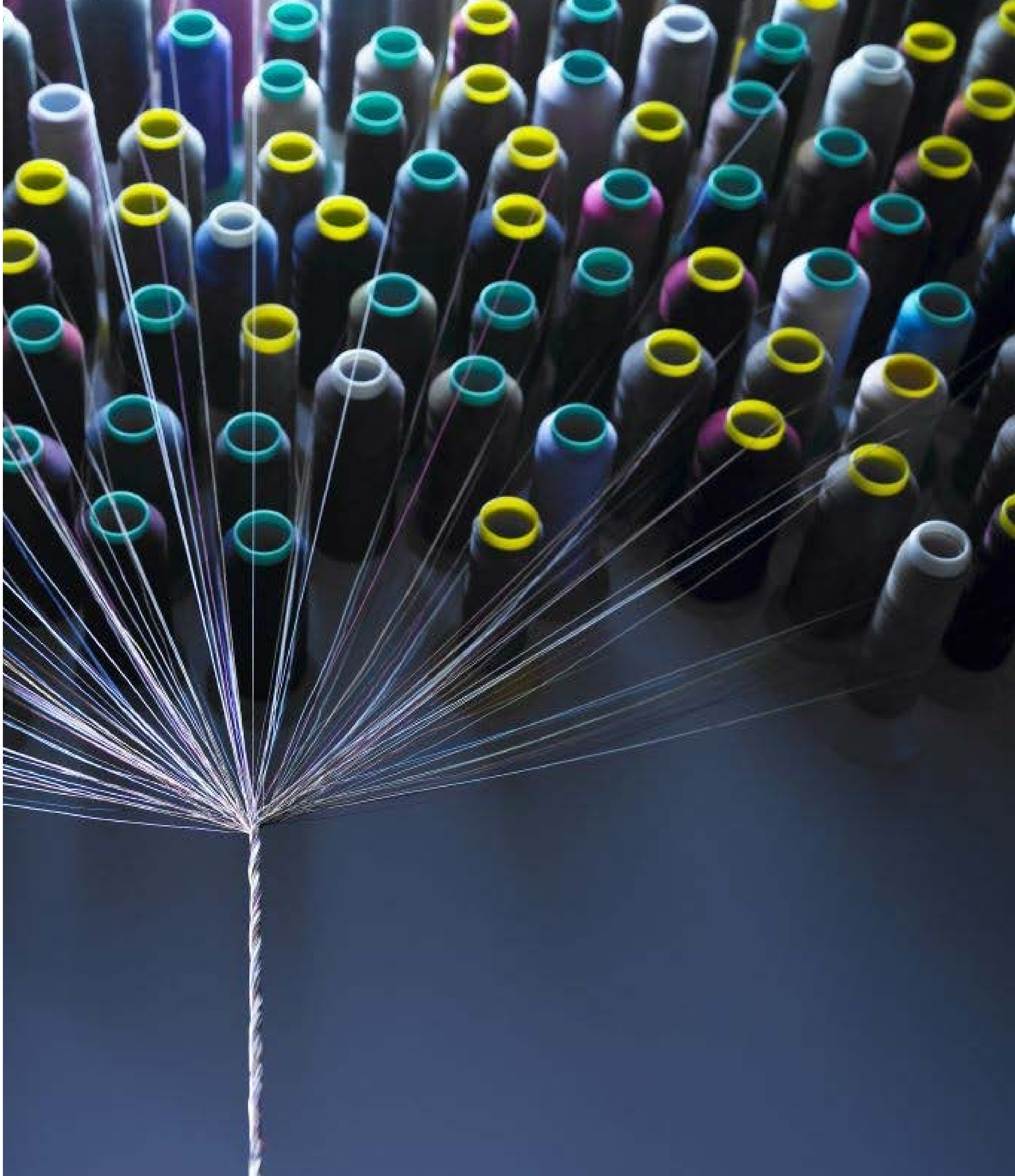
European Tax Survey 2014

Benchmarking report: Luxembourg vs Europe



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Introduction

The 2014 Deloitte European Tax Survey was conducted in Autumn 2014 against the backdrop of an external environment that continues to be challenging. While growth, albeit slow, has returned to a number of European countries, the euro area remains a source of weakness. The European Central Bank (ECB) has so far avoided the Quantitative Easing embraced by the US, Japan and UK, fearing that it may provide a disincentive for the most indebted nations to balance their books.

The ECB is in favour of more growth-boosting structural reform in Europe, but reform can take years to have full effect. In the meantime, the OECD, at the behest of the G20, launched an Action Plan on Base Erosion and Profit Shifting (BEPS) in 2013 to update international tax principles for modern trading patterns and to reflect the importance of integrity and fairness in the international tax system.

In order to understand the impact of these changes and the potential impact on the tax department of today (as viewed by tax professionals across Europe), Deloitte has undertaken its second annual European Tax Survey.

814 organisations completed the questionnaire. Surveys were sent electronically and could be completed anonymously. The survey period was September-October 2014.

As used in this communication, Deloitte means Deloitte Touche Tohmatsu Limited and its member firms.

Study design and methodology

- Online survey – 36 questions
- Collaboration Member firms Europe
- 814 respondents (57 for Luxembourg) tax professionals took part
- 25 countries invited to take part:

- Austria
- Belgium
- Bulgaria
- Bosnia & Herzegovina
- Croatia
- Cyprus
- Czech Republic
- Denmark
- Finland
- France
- Germany
- Greece
- Hungary
- Ireland
- Italy
- Luxembourg
- Netherlands
- Portugal
- Slovakia
- Slovenia
- Spain
- Sweden
- Switzerland
- Turkey
- United Kingdom

Key findings

- The Netherlands and the UK were seen as the most favourable of the large jurisdictions from a tax perspective
- Italy was seen as the most challenging of the seven large European economies from a tax perspective, followed by France and Russia
- Luxembourg was seen as the most favourable smaller economy
- The tax professionals surveyed valued stability and a simplified tax system most highly. The most commonly selected reasons for tax uncertainty were frequent changes to tax legislation and interactions with tax authorities
- Nearly 30% of respondents said that a predictable and collaborative tax authority would contribute to their country's competitiveness.
- Approximately 70% of respondents had experienced a tax audit in the preceding three years, down from 75% the year before, and 34% said they would litigate for a better outcome if they thought the investigation was unsatisfactory
- More than half of respondents thought there had been increased levels of discussion and scrutiny around corporate tax strategy, especially from shareholders. The west of Europe thought that tax was more in the spotlight than did the respondents in the east of Europe. In response to the increase in scrutiny, respondents said it is important to ensure there is buy-in to formal group strategy, that they would develop additional disclosure around tax in financial statements, and adopt a different approach to tax planning.

Key findings

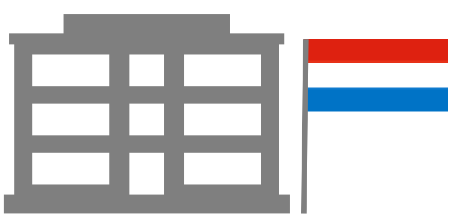
- With the OECD progressing with their BEPS Action Plan, it was surprising that only half of respondents thought it was important to their tax department. 65% thought it was not important to their leadership, and 69% had not started planning for the likely impact.
- From those who had started planning for the BEPS impact, half had taken steps to ensure they meet the new compliance requirements of transfer pricing documentation, and 11% for hybrids. There was, however, acknowledgement that tax strategy will be affected by BEPS, and it would probably increase the cost of compliance.
- The Effective Tax Rate was not the most important measure of success for tax professionals – compliance (e.g. filing tax returns on time), and close collaboration with the business and its strategy were far more important as measures of success.
- As pressure points, changes in tax legislation appeared to be the most burdensome to respondents
- 70% of respondents said they spent most of their time interacting with other parts of the business, and 64% said they occupy their time with general management. While technical roles may form part of the team, communication skill and focus needed by tax professionals are now much broader.
- About half of respondents had a shared service centre available for support, and around two thirds used it for some or all of their compliance work.

Detailed findings

Measures of success and concerns

When thinking of what success looks like for you, which of the following are most important?

	Luxembourg			Europe		
	Low	Medium	High	Low	Medium	High
Low Effective Tax Rate	8%	44%	48%	9%	48%	43%
Tax returns and compliance filed on time	2%	28%	70%	3%	25%	72%
Good relationship with the tax authority	9%	30%	60%	5%	42%	53%
Close integration with the business and its strategy	4%	21%	75%	5%	27%	68%
Certainty around tax liabilities	2%	34%	64%	2%	19%	71%



Luxembourg responses were on par with the European responses – compliance is still key to success. Low Effective Tax Rate is again less important as a measure of success (48% of respondents from Luxembourg rated it highly). The tax professionals surveyed said that certainty around tax liabilities was the most important success factor, followed by close integration with the business and its strategy, and certainty around tax liabilities

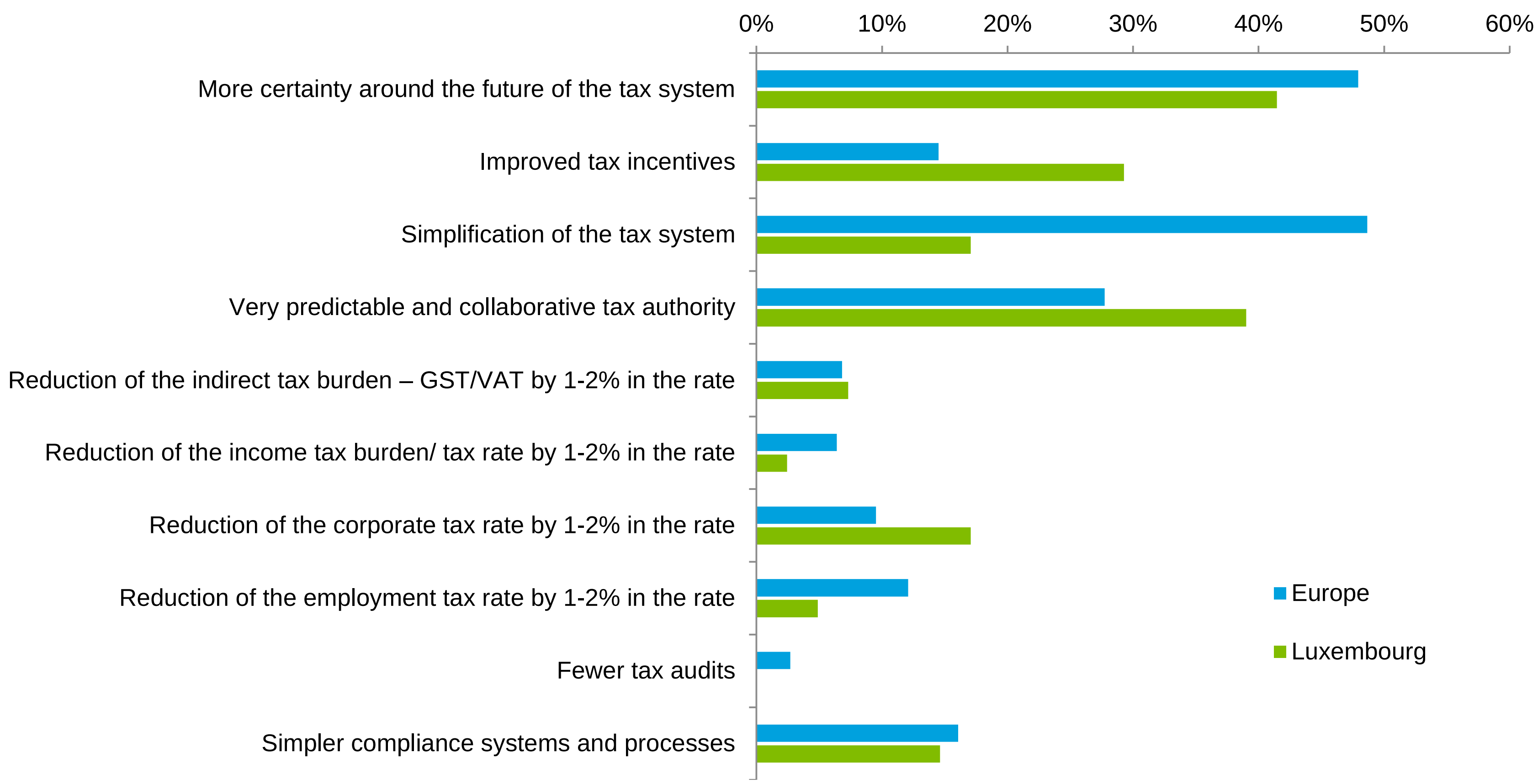
Which tax risks and uncertainties concern you most, weigh on your mind or keep you awake at night?

	Luxembourg			Europe		
	Low	Medium	High	Low	Medium	High
Compliance	13%	53%	34%	28%	43%	29%
Increased tax authority scrutiny	9%	55%	36%	14%	49%	38%
Governance	8%	49%	43%	16%	55%	29%
Tax resources	26%	55%	19%	30%	48%	22%
Technology and systems	36%	32%	32%	29%	46%	26%
Change of tax regulation	4%	40%	57%	6%	43%	51%

The key factor keeping tax professionals in Luxembourg awake was changes in tax regulation – at 57% this was higher than the 51% European average. Governance was also a concern, more so than for the rest of Europe.

How to improve a country’s competitiveness

Results for **Luxembourg deviated significantly on a number of measures from those of the European respondents**.
While the most important change for Luxembourg is also more certainty around **the future of the tax system**, the second most important change was **a very predictable and collaborative tax authority**.
Simplifying the tax system was much less important for those in Luxembourg than for the European respondents, but improved tax incentives carried far greater importance than for their European peers.



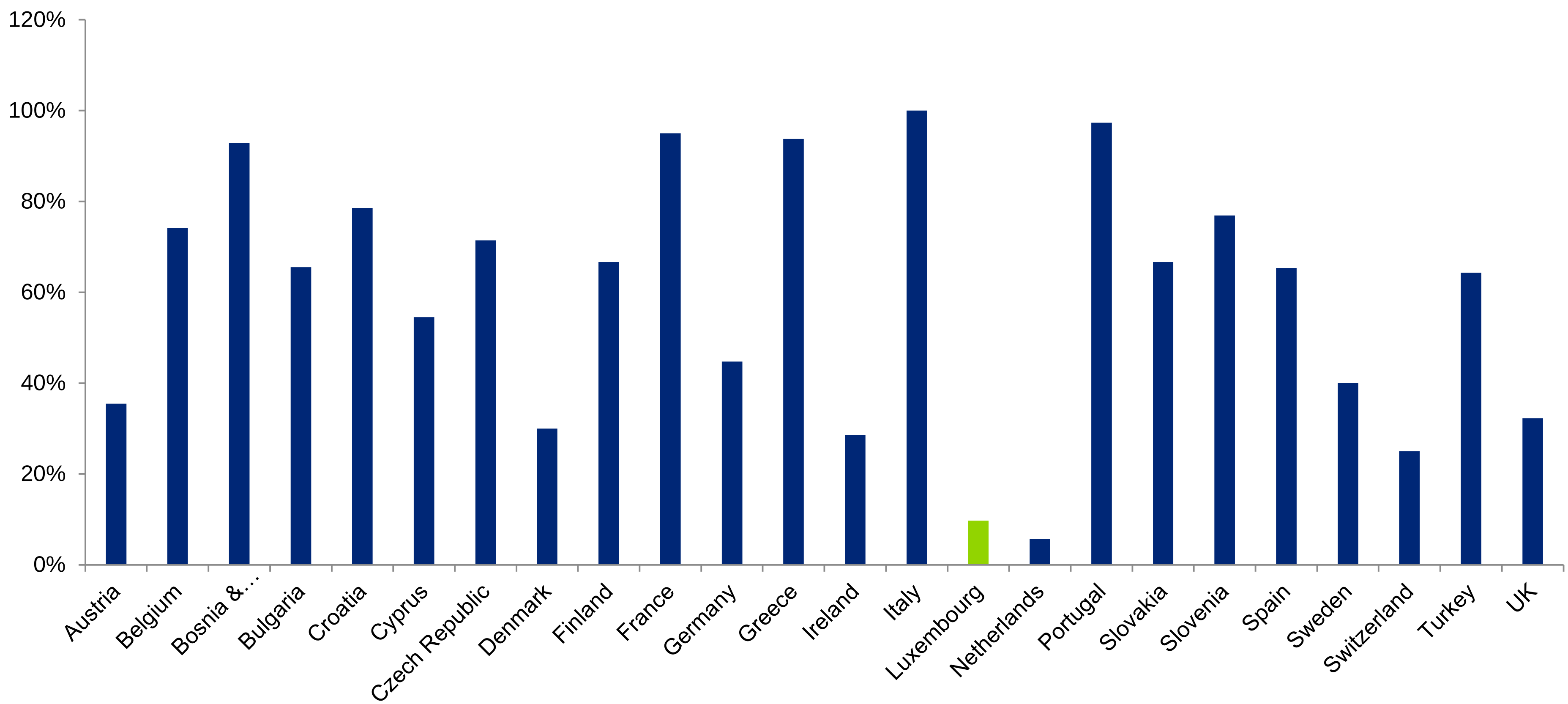
Tax uncertainty

Tax uncertainty
Luxembourg much lower than average

Europe: 54% felt there was a high degree of tax uncertainty in their country.

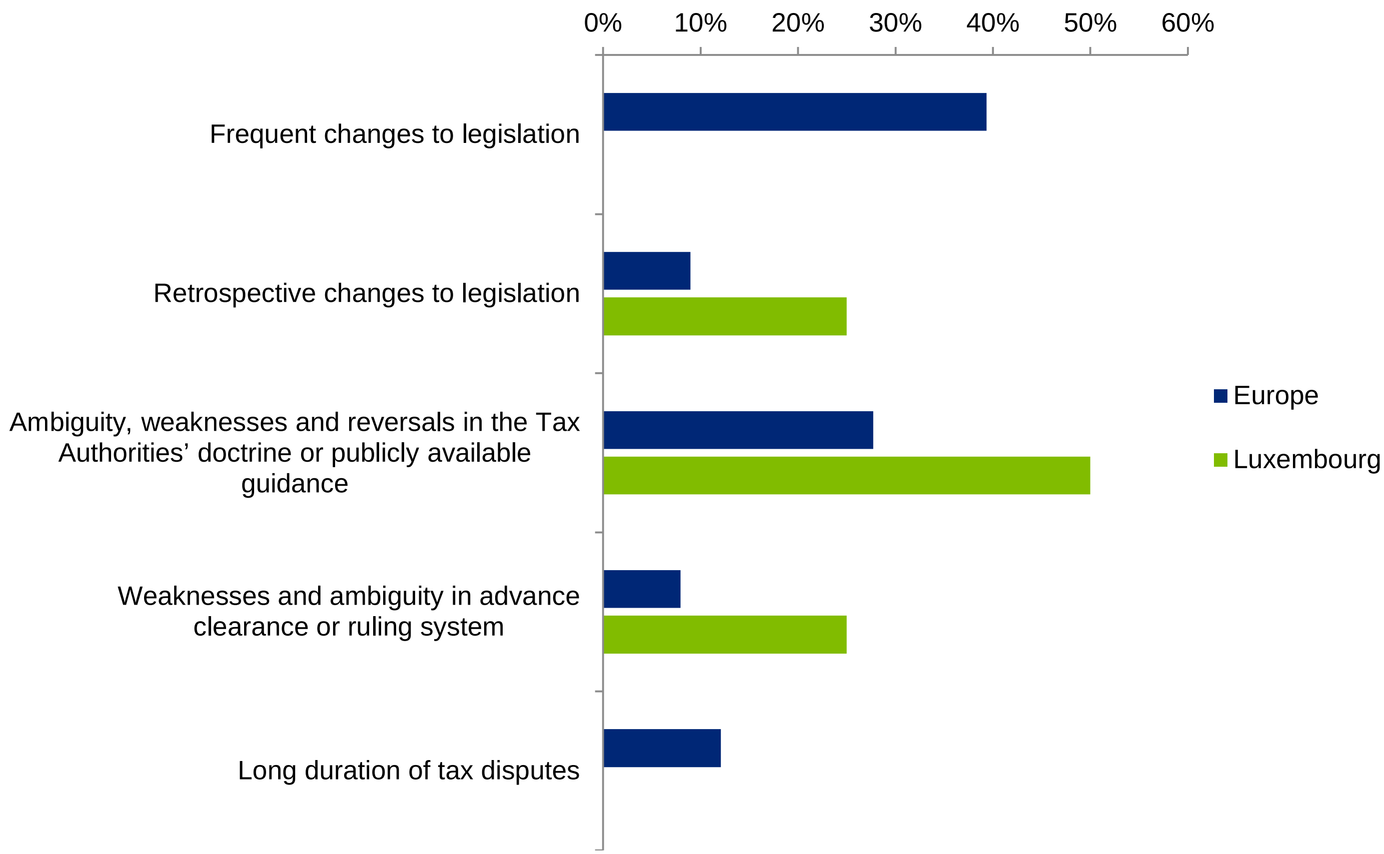
The levels of tax uncertainty in Luxembourg (10%) was only lower in the Netherlands (6%).

Percentage of respondents saying there is a high degree of uncertainty in their country



Causes of tax uncertainty – frequent changes to legislation still the main cause

Of all reasons selected, changes to legislation was selected by three quarters of respondents, and more than half selected ambiguity, weaknesses and reversals in the tax authority's doctrine or publicly available guidance.



Attractive and challenging jurisdictions

Most favourable European economies for businesses to operate in, in terms of tax

Ranked from 1 to 5, where a rank of 1 is **most favourable**. The following represents the average rank for each large European economy

Europe	Luxembourg
Netherlands (2.9)	UK (3.4)
UK (3.1)	Netherlands (3.4)
Germany (3.6)	France (3.9)

Ranked from 1 to 5, where a rank of 1 is **most challenging**. The following represents the average rank for each large European economy)

Europe	Luxembourg
Italy (3.3)	Germany (3.4)
France (3.5)	France (3.9)
Russia (3.6)	Italy (3.9)

Respondents were asked to select the smaller economies they found **most favourable**. The following represents the % of respondents (who answered the question) selecting the smaller economies. This question was answered by only 26% of respondents, the figures below are expressed as a percentage of those who did answer.

Europe	Luxembourg
Luxembourg (19.8%)	Luxembourg (70.0%)
Switzerland (10.4%)	Belgium , Ireland (5.0%)
Ireland (6.8%)	

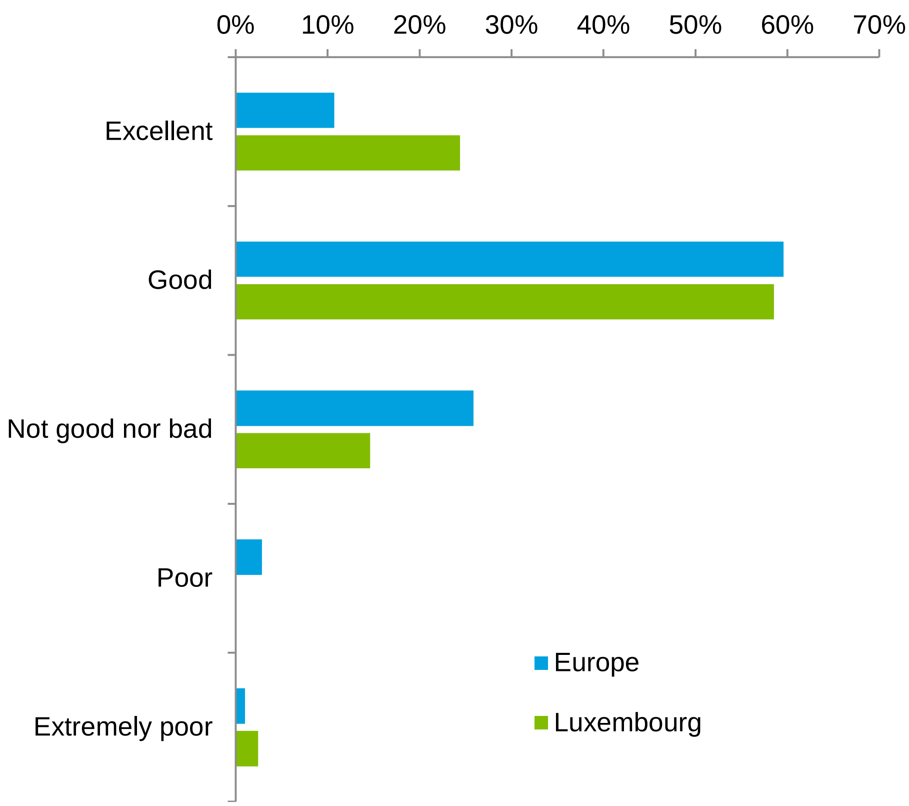
Respondents were asked to select the smaller economies they found **most challenging**. The following represents the % of respondents (who answered the question) selecting the smaller economies. This question was answered by only 26% of respondents, the figures below are expressed as a percentage of those who did answer.

Europe	Luxembourg
Poland (7.7%)	Belgium (25%)
Ukraine (5.9%)	Poland (10%)
Turkey (5.3%)	

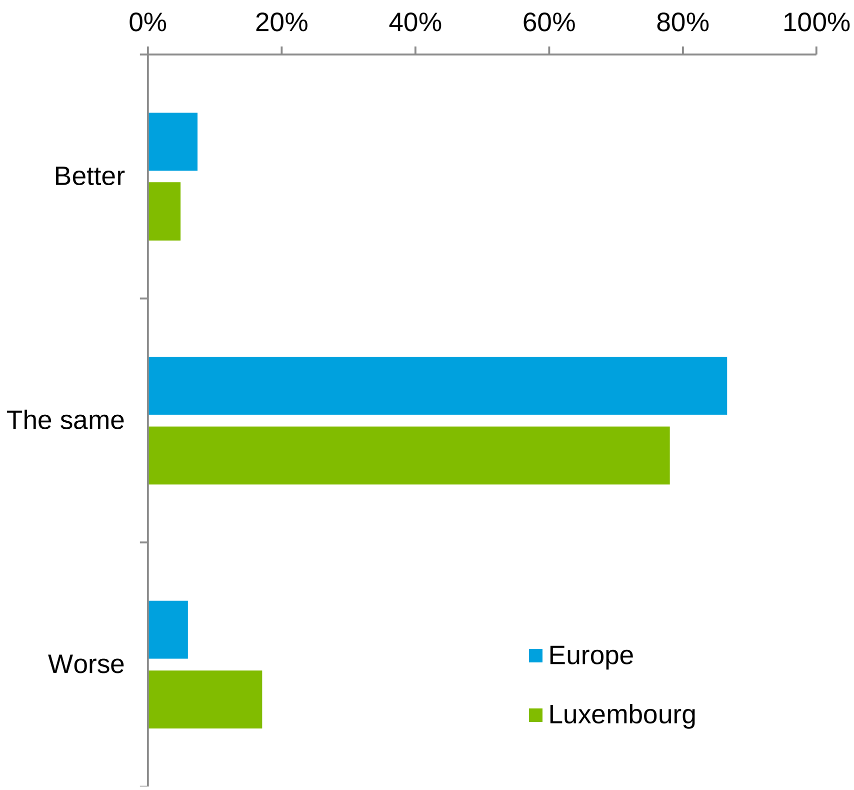
Tax authority relationships

Overall, respondents have good relationships with the tax authorities

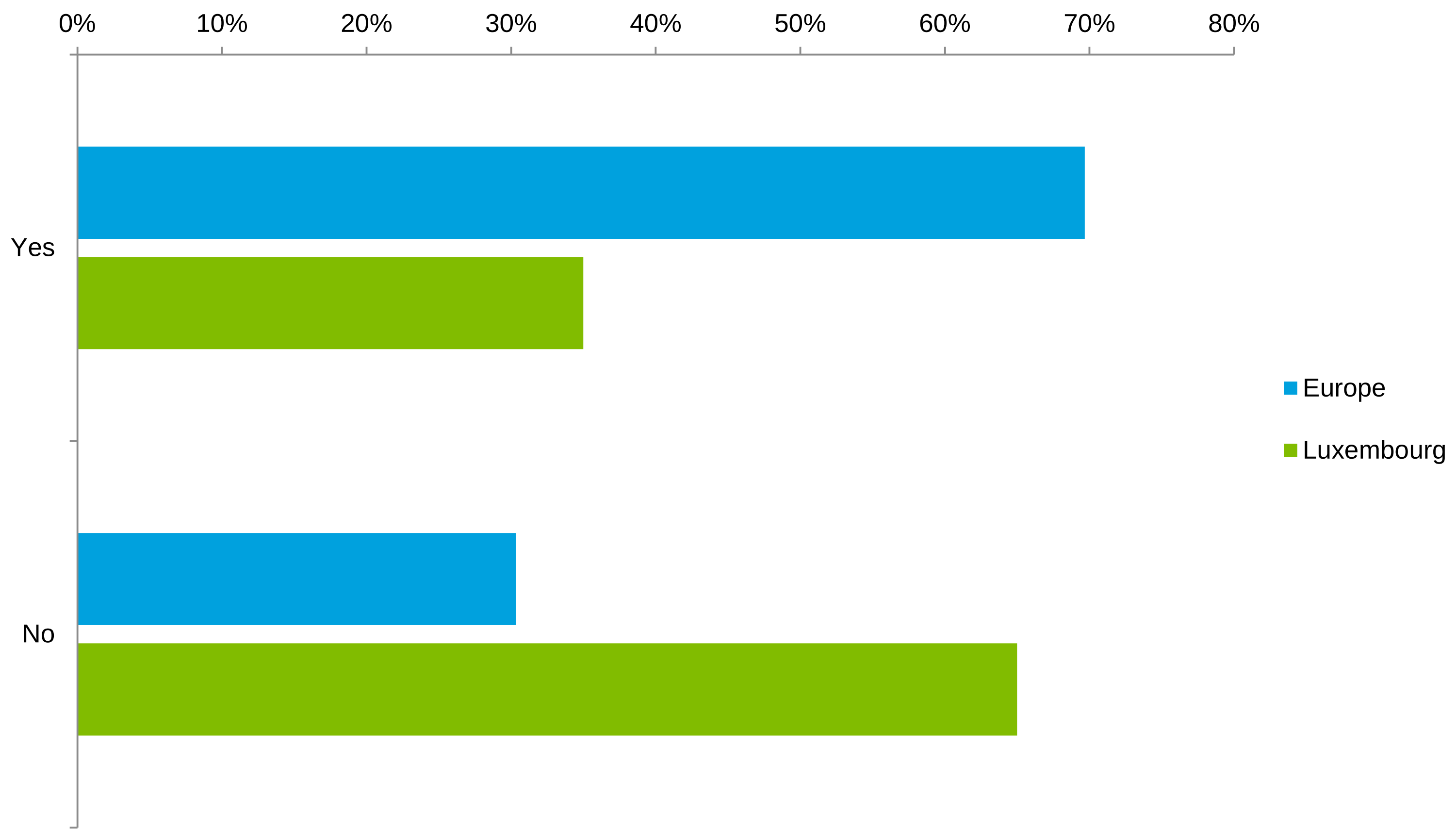
How would you describe your company's relationship with your local tax authority?



How is your relationship with your tax authority compared with a year ago?



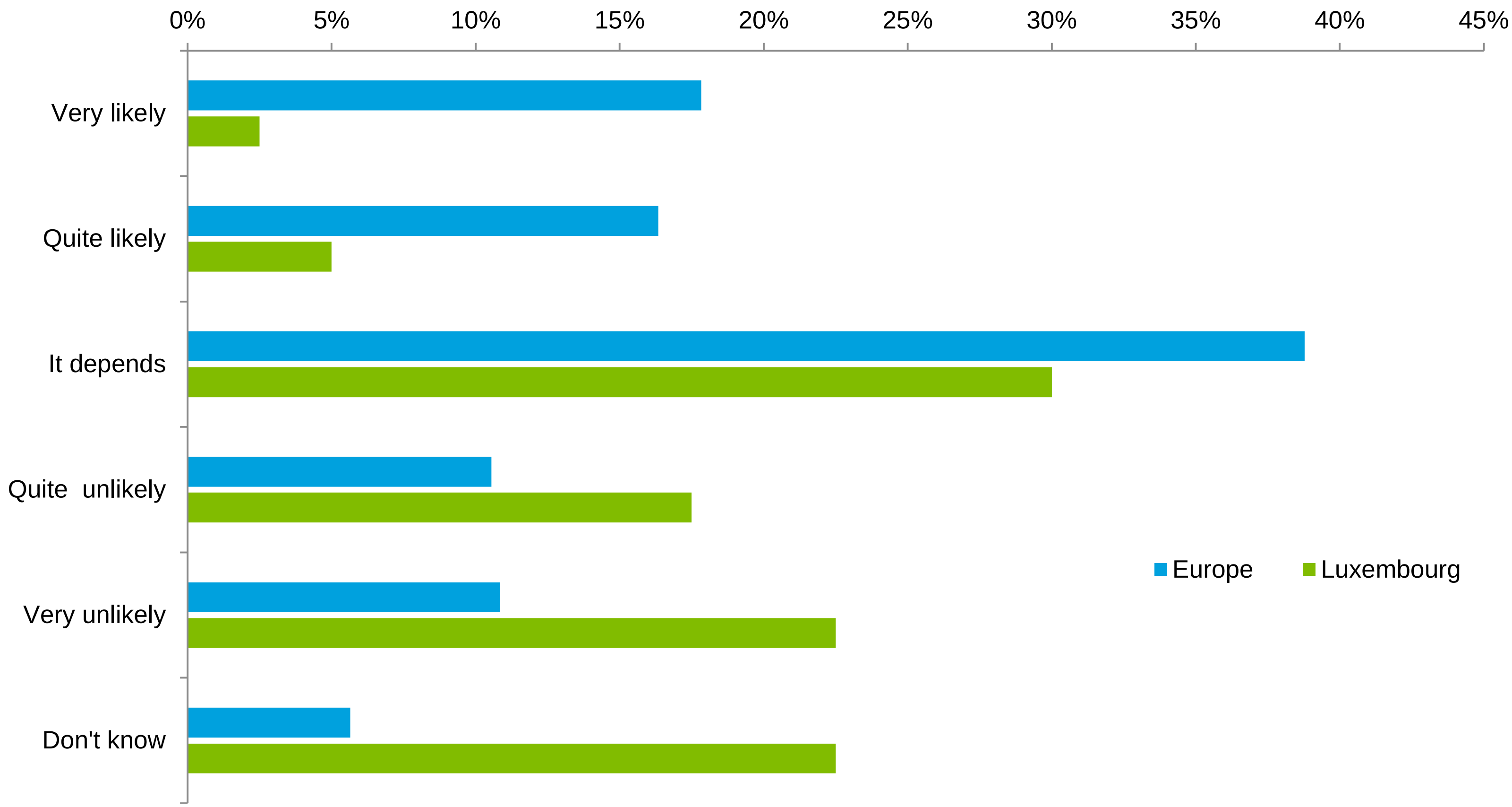
Has your company been audited by a tax administration in the last three years?



35% of Luxembourg respondents have been audited in the last three years
This is much lower than the European average of 67.7%. Tax authorities are focusing on corporate income taxes and indirect tax across Europe.

Likelihood of litigation

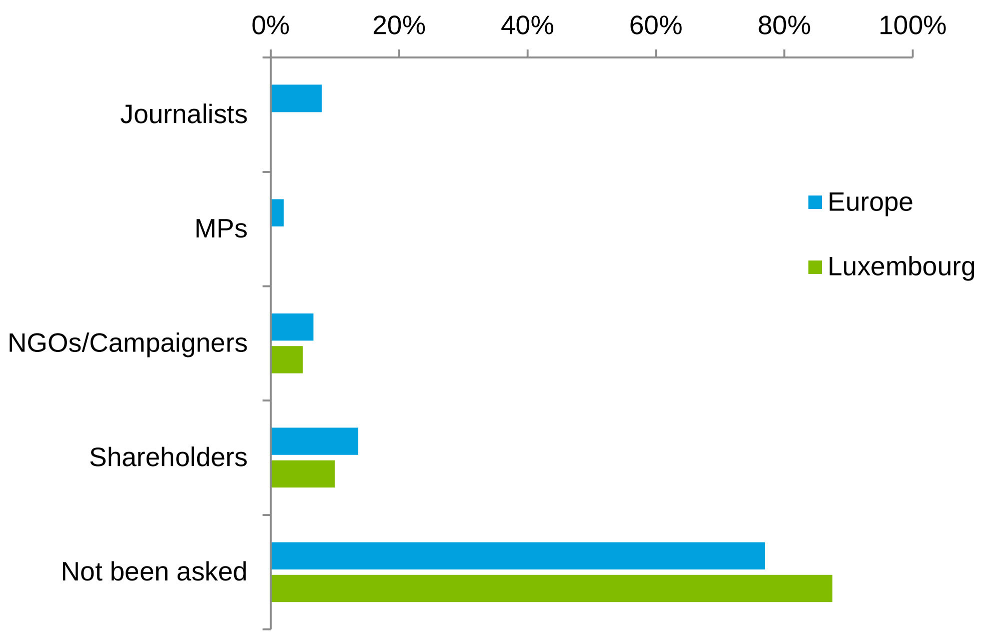
More than a third of all respondents are prepared to litigate. Respondents from Luxembourg were less litigious, with 40% stating it is unlikely they would litigate for a better outcome.



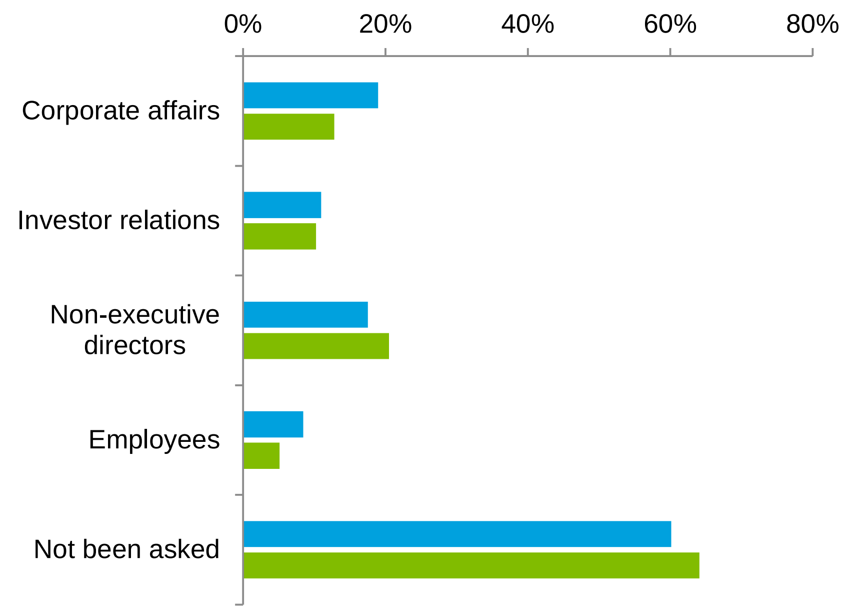
Tax in the spotlight

Tax strategy disclaimed to stakeholders

Over the past 12 months, have you been asked to justify your tax strategy by the following external stakeholders?



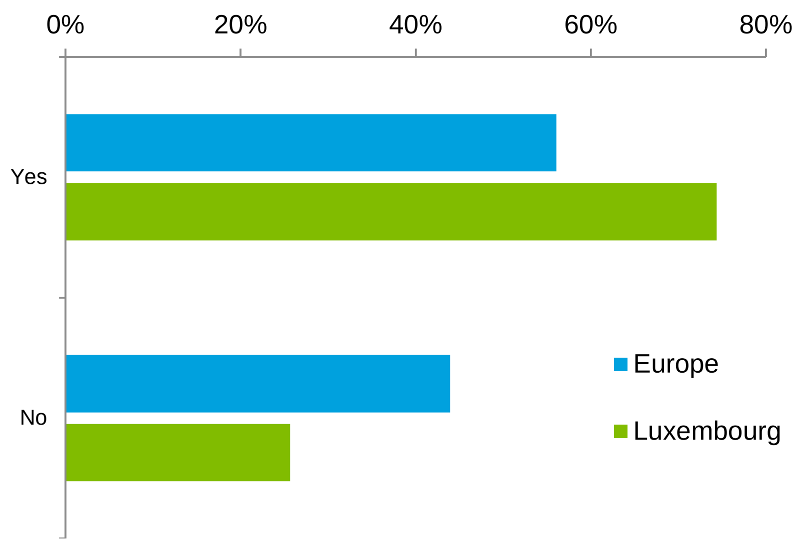
Over the past 12 months, have you been asked to justify your tax strategy to the following internal stakeholders?

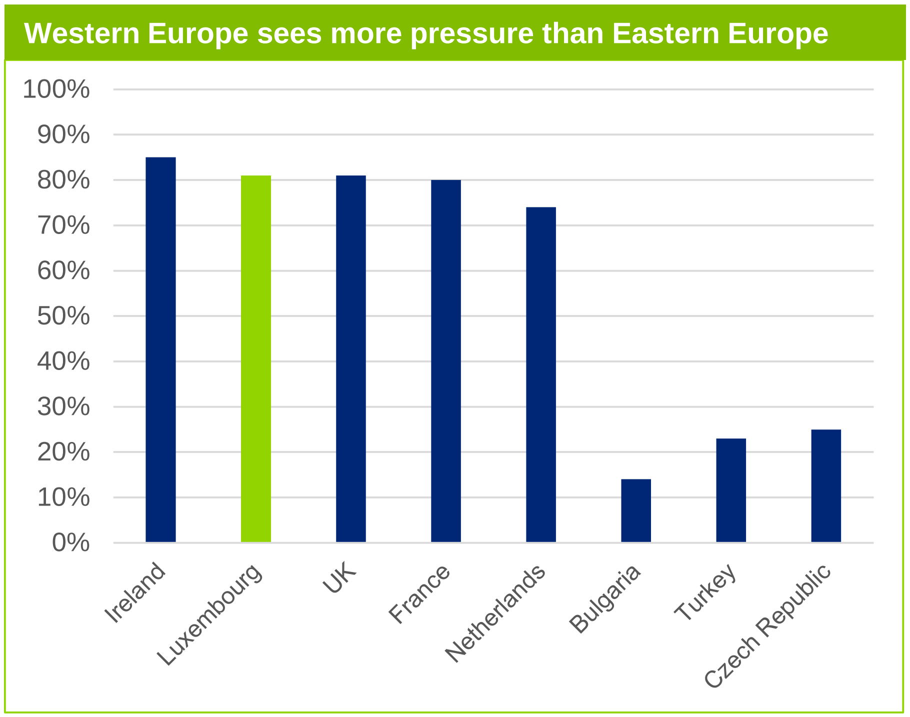


The majority of respondents had not been asked to justify their organisation's tax strategy to stakeholders

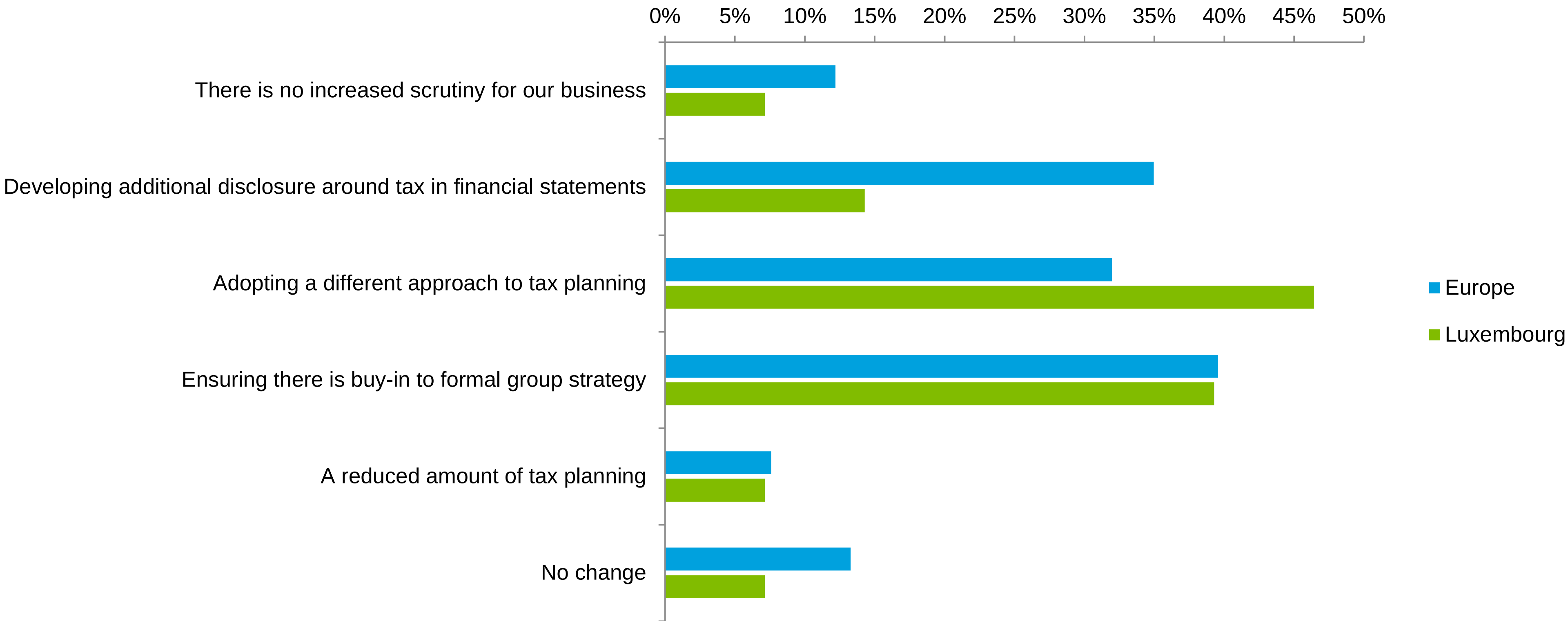
Increased levels of discussion and scrutiny around corporate tax strategy at the moment compared with, say, a year ago

Compared to a year ago, do you think there is generally an increased level of discussion and scrutiny around corporate tax strategy at the moment?





How are you responding to the increased scrutiny around the tax strategy of organisations?



61% of respondents have their tax strategy signed off by the board. In Luxembourg, the figure was 74%, it was 71% for the UK and 80% for Spain.

The impact of BEPS

BEPS is more important to the tax department than to the organisation's leadership

	Tax department		Organisation's leadership	
	Europe	Lux	Europe	Lux
Not important at all	17.1%	10.3%	20.7%	12.8%
Not very important	31.5%	44.8%	44.4%	35.9%
Important	38.3%	20.7%	29.9%	46.2%
Very important	13.1%	24.1%	5.1%	5.1%

BEPS

Luxembourg respondents thought their leadership were more aware of the importance of the potential impact the OECD's BEPS programme may have than the average in Europe (51% thought it was important to their leadership, compared with 35% of overall responses).

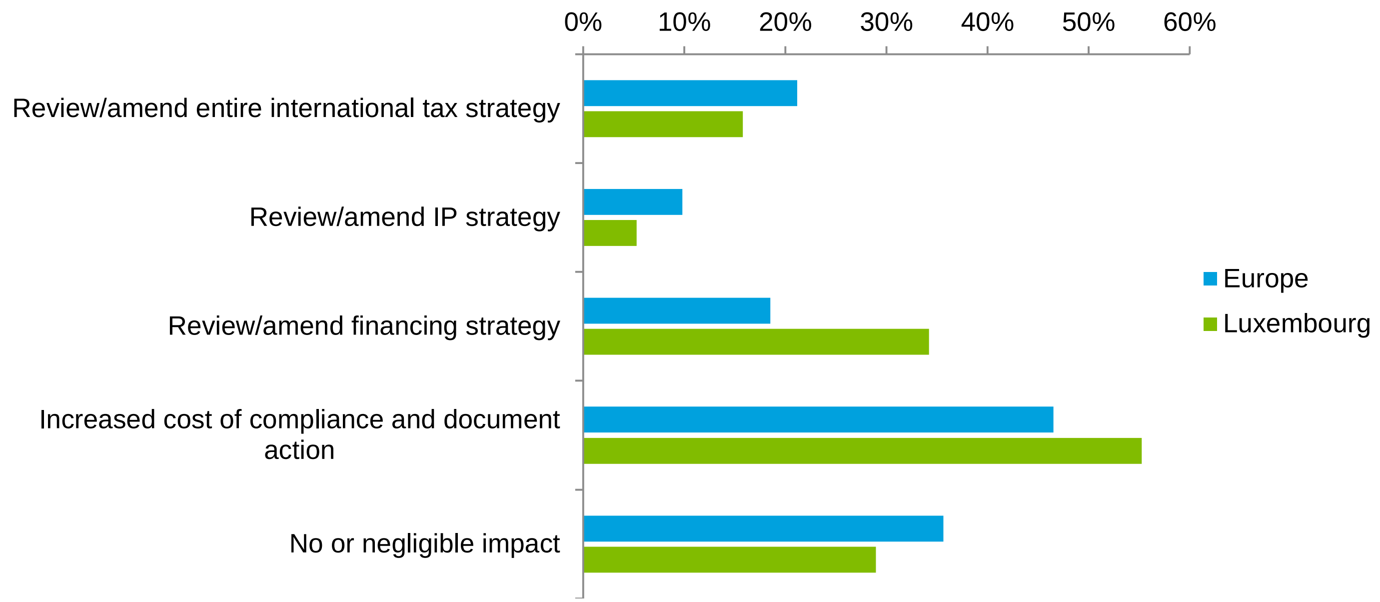
Similar levels of preparation has been done by Luxembourg respondents as for European respondents as a whole – only 31% of Europeans have started preparing for the impact, and 33% of Luxembourg respondents.

For which Actions of the BEPS plan have you made provision for ?

	Europe	Luxembourg
Hybrids	11.2%	0%
Transfer pricing of intangibles	8.1%	0%
Transfer pricing documentation	49.7%	55%
Permanent establishments	4.6%	9%
Base erosion via interest and other financial payments	9.6%	36%

Those who have started considering the impact of BEPS, the majority are preparing for transfer pricing documentation

How do you think your organisation's tax strategy will be affected by BEPS?



Respondents generally thought that BEPS will increase the cost of compliance and document action (55% of Luxembourg respondents thought so compared with 47% of overall respondents). The second biggest impact will be a review of the financing strategy (34% of Luxembourg respondents vs. 19% of overall).

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