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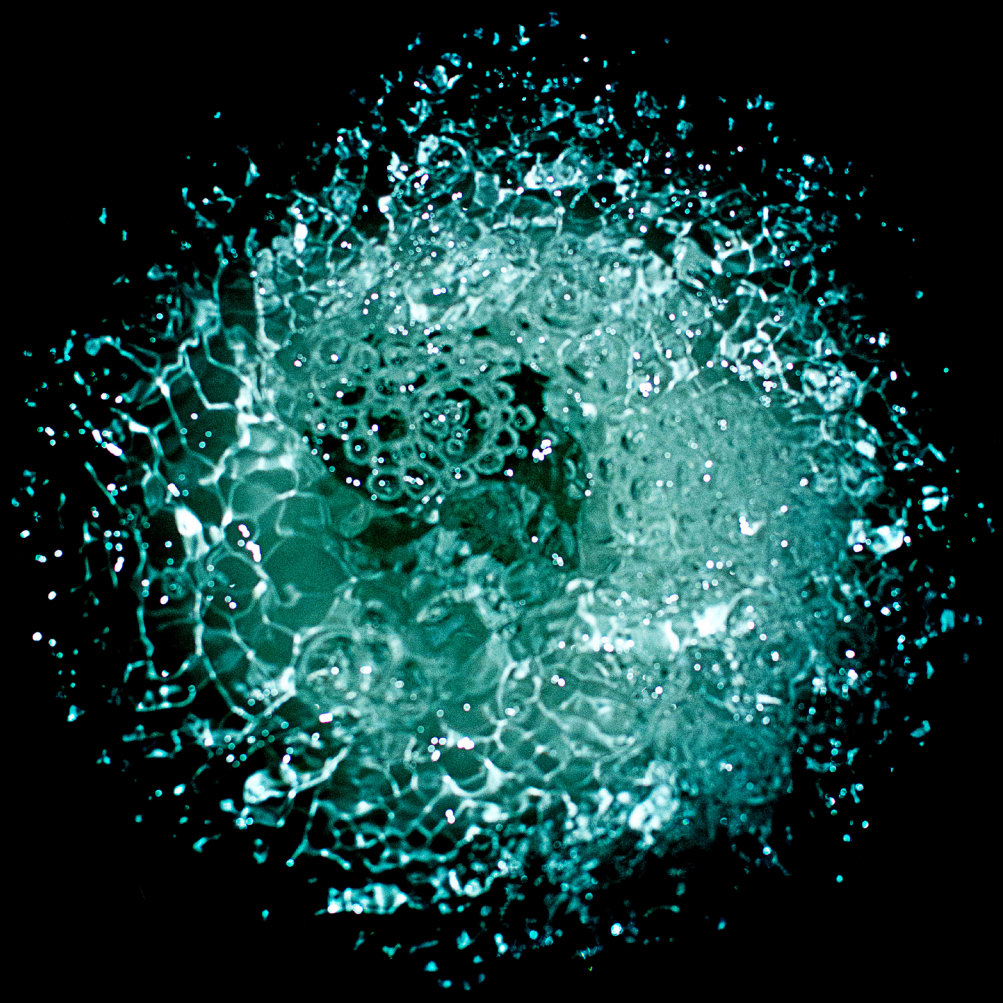

The BIG question:
How should changing global tax regulations impact—and even change —the business?

The “global tax reset” is spurring leaders at multinational companies to reassess not just how they approach tax issues – but is also transforming how they conduct their business.

Real changes required

If you think the big changes unfolding in the world of global taxation affect only the corporate tax organization within a multinational corporation, think again. The "global tax reset"—the environment of altered tax rules and public expectations spurred on by initiatives such as the OECD's Base Erosion and Profit Shifting (BEPS) project—is causing tax leaders and other executives at multinational corporations to reassess their organizations' approach not just to tax, but to how they choose to conduct business. We're not talking about subtle changes here and this isn't just about tax. It's about business transformation, because although tax planning may create a competitive advantage for corporations that operate on a global platform, effective tax planning requires real changes in business operations.

We believe the first step toward reckoning with these big issues is to ask smart questions. This short guide is designed to tee up the questions you and your team should be asking (and answering) in the face of tectonic shifts in the global tax landscape. These aren't the only questions you should be asking—but they're a good start.

What's the point?

Transformation is a big topic—one that encompasses business processes, regulations, the workforce, technology, external stakeholders, and more. It's also a topic that comes with big questions. The Deloitte Business Insights and Guidance (BIG) on Transformation series seeks to help leaders rapidly understand the issues at play—one big question at a time.

The big question right now: How should changing global tax rules impact—and even change—the business?

Still have questions after reading this piece? We can help. We're big on transformation. Contact us to get the conversation started.

How are we managing requirements for increased transparency?

Most corporate tax organizations weren't built with transparency in mind—it wasn't really an issue for a function that would normally have operated behind the scenes in many organizations. But that's changing, with a greater focus on reporting requirements than ever before, matched by increased public scrutiny. Today, more companies are being required to share more tax information than ever before—with regulators, with shareholders, and with the public at large.

This is a sea change for tax organizations and the businesses they serve. And it's unfolding on a timeline largely dictated by regulatory changes—not by the companies themselves. With filing requirements coming into effect now, it's important for companies to stay a step ahead, preparing for the increased transparency that is already here, and expanding. Forward-thinking tax leaders can anticipate which data is likely to lead to more questions—insights that could fundamentally shape how they choose to share information, how to prepare the organization to respond, and more.

How will our cross-border supply and demand chains be affected?

Do you have to move big parts of your business at all? Maybe not. But many countries will soon make owning in-country inventory alone a taxable presence, and plenty others will follow in similar fashion. Specifically, for those who own inventory in-country, tax exemptions for merely owning inventory are disappearing—leaving slower-moving companies disadvantaged. So just how important is that work in process inventory held at the factory or the finished goods inventory owned in a regional warehouse? Given the potential tax cost, it may be far more important now than it was previously. As a result, it may be time to consider whether to relocate the inventory elsewhere—which will in turn lead to operational, accounting and information system changes.

There is also much at stake for non-inventory-owning companies. If your company has a fixed place of business in a country, whether it holds inventory or not, that increasingly qualifies as a taxable presence. For example, this means that if an employee has a desk at a foreign factory, the company potentially has a taxable presence under local rules. For global companies, it is a reality that with the execution of local rules driven by the BEPS initiative, tax leaders are recognizing that their company's taxable presence has increased exponentially simply as a result of quickly unfolding updates to tax rules around the world.

Where and how should our intellectual property (IP) be owned and developed?

The recent uptick in interest in transfer pricing, particularly in reference to IP assets, should come as no surprise when you consider that major tax initiatives such as BEPS have placed IP taxation in the crosshairs. Consider a company that for business reasons has carefully aligned the ownership of its most valuable IP assets in a legal domain supported by a requisite number of employees and charged the rest of the company to access that IP. This model may be quite familiar to leaders working in a large global company that relies heavily on its IP. For tax purposes, BEPS dramatically increases the requirements to claiming ownership of this valuable IP in the selected domain. BEPS is requiring an increase in the attendant number of employees responsible for managing, developing, enhancing, maintaining, protecting, and exploiting the IP (the "DEMPE" functions) in order to claim ownership of the IP for tax purposes.

The implications are clear: To achieve the intended tax efficiencies involving corporate structure with operations located in a low-tax domain, companies may need to move DEMPE functions to countries where the IP is owned. This in turn may lead to significant operational and human capital changes in the organization.

Own the disruption

Whether in the form of the global tax reset or something else entirely, disruption should be viewed as much more than a threat—it's a chance to extend your competitive advantage and potentially introduce important changes that would have otherwise earned a permanent spot on the to-do list. In this case, tax planning changes can serve as the catalyst for critical improvements to the business. Along the way, improvements may include realization of intended significant tax benefits as well. Isn't that worth it?

Want to know more?

Want more answers to big questions about transformation? Contact us to get the conversation started.

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