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Fit for Transparency

Mastering the tax transparency age – a challenge for corporations

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Fit for tax transparency

The global debate around the tax transparency of multinational companies has gained momentum in recent years. Numerous ***tax transparency initiatives*** have been launched by national, multinational and international regulatory bodies – and there are yet more to come.

This means that now, but ***even more so in the future,*** companies must be prepared to have their tax data published, if not voluntarily, then when forced to do so by the regulators. Because in addition to more stringent requirements concerning the transparency of content, for example those set down in the ***OECD BEPS Country-by-Country Reporting*** Initiative (CbCR), the ***exchange of tax information*** allows authorities to exchange country-specific tax data of multinational companies on a global scale.

Cases of leading multinational companies have shown that incomplete information regarding a company's tax matters can easily lead to misinterpretations and can create serious ***reputational issues.*** Paying taxes is therefore no longer just a legal compliance matter, but also a question of ethics and reputation.

Still it is questionable whether the data required by the regulatory bodies provides the full picture regarding a company's tax contribution, as most ***current initiatives only focus on profit tax.*** This, however, only reflects about one-third of the actual total taxes borne by a company.

In contrast, PwC's ***Total Tax Contribution*** (TTC) methodology follows a holistic approach and takes into account all tax payments a company makes to the government. Properly collecting and monitoring tax data based on the TTC approach presents the ***opportunity*** for a multinational company ***to proactively communicate its true tax contribution*** to society and demonstrate that it's paying its fair share of tax.

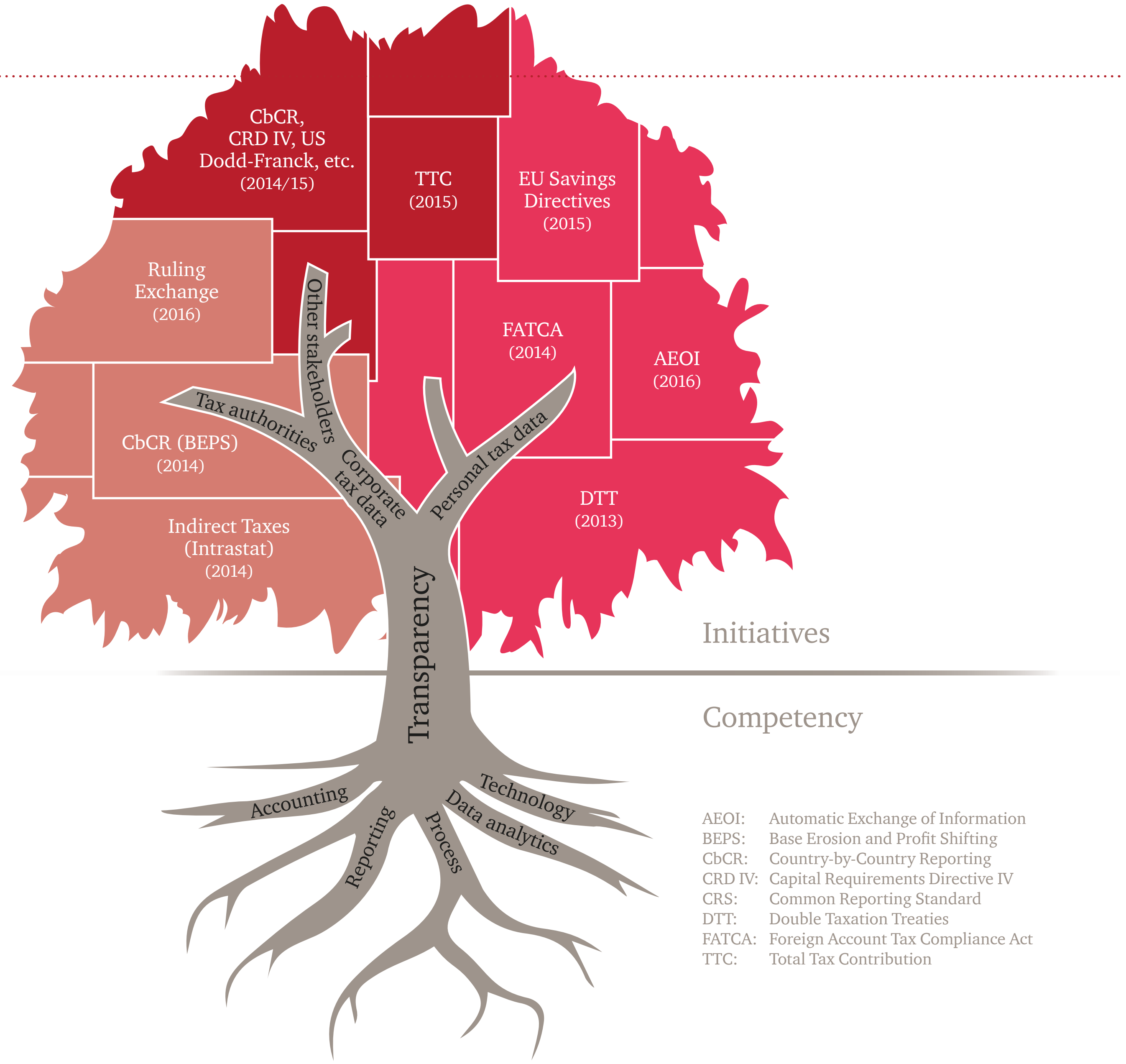
Irrespective of the methodology or approach chosen, any multinational company is advised to define its tax ***transparency strategy*** sooner rather than later.

Transparency demands

Various initiatives and regulations on transparency are currently being discussed. Initiators include international organisations, NGOs and individual countries and target a wide range of recipients. Since the initiatives concern both corporations and individuals, all taxpayers will need to understand a variety of complex regulations to ensure compliance.

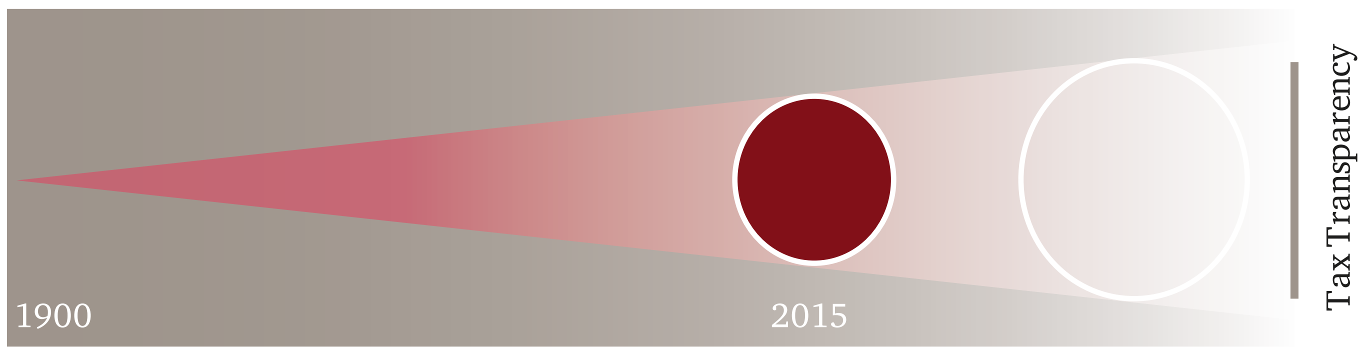
One of the main challenges will be gathering and processing the data needed to present the required information. This will be true for mandatory regulations such as CbCR, as well as for voluntary initiatives such as TTC.

Various initiatives have been launched to encourage or oblige companies to adopt a more transparent and detailed way of reporting and of disclosing payments to government.



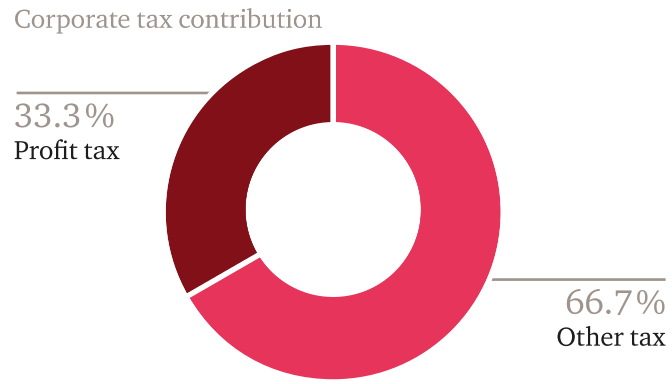
Evolution of transparency

The increasing globalisation of business in recent decades has led to a noticeable surge in calls for the exchange of tax information. The corresponding legislation has been implemented and is being constantly extended. Various tax initiatives and legislation designed to increase the information available to authorities and the public are currently being debated. Transparency is spreading.



The focus of current initiatives is reduced to profit tax, which reflect only a third of the overall taxes borne by corporations.

The problem is that because the new initiatives only focus on profit tax, they give an incomplete picture. The increasing amount of data that will need to be collected in the near future based on **OECD BEPS** inspired legislation will be shared more easily between countries based on new rules about the **exchange of tax information.**



OECD BEPS Country-by-Country Reporting

The OECD's BEPS Action Plan will provide countries with instruments to help them align taxation rights and economic activity. Specifically, guidance under Action 13 applies to the implementation of transfer pricing documentation and CbCR as well as a related government-to-government exchange mechanism.

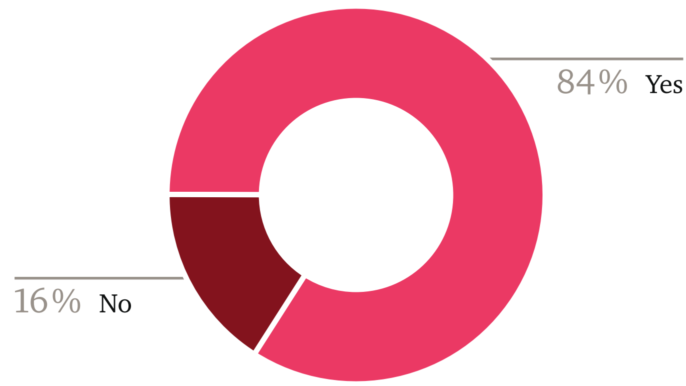
The CbCR implementation package includes a three-tier standardised approach to transfer pricing documentation. The three tiers are:

- a master file of information relevant for all group members of a multinational entity (MNE)
- a local file referring specifically to material transactions made by the local taxpayer
- a CbCR for large MNEs of information relating to the global allocation of their group income and taxes paid, as well as other economic information, according to a common template.

Data gathering and processing will become a challenge. According to a PwC survey from 2014, 84% of Swiss multinational companies expect to require new systems capability to comply with these reporting standards.

Questions related to Country-by-Country Reporting propositions

Do you think that new systems capability will be required to comply with CbCR standards?

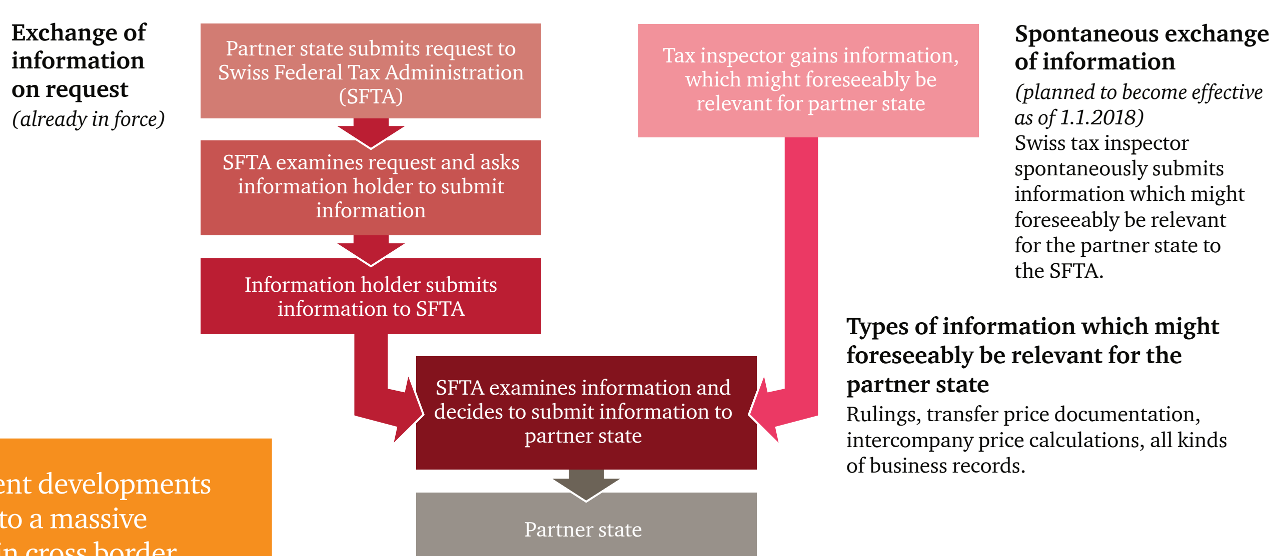


84% of Swiss MNEs expect to require new systems capability to comply with the proposed Country-by-Country Reporting standards.

Exchange of tax information

It's not just tax initiatives and new regulations that are being established. We're also seeing considerable development in the area of information exchange between tax authorities and countries. As a consequence these developments will lead to truly internationally transparent tax payers.

The exchange of tax information falls into two categories: the exchange of information on request and the spontaneous exchange of information. The new rules allow tax authorities to transmit information – such as tax rulings, transfer price documentation, intercompany price calculations, country-by-country reporting documents, and pretty much any other kind of business records – to the extent that it's deemed relevant for tax authorities in other countries.



The current developments will lead to a massive increase in cross border exchange of tax payers' data.

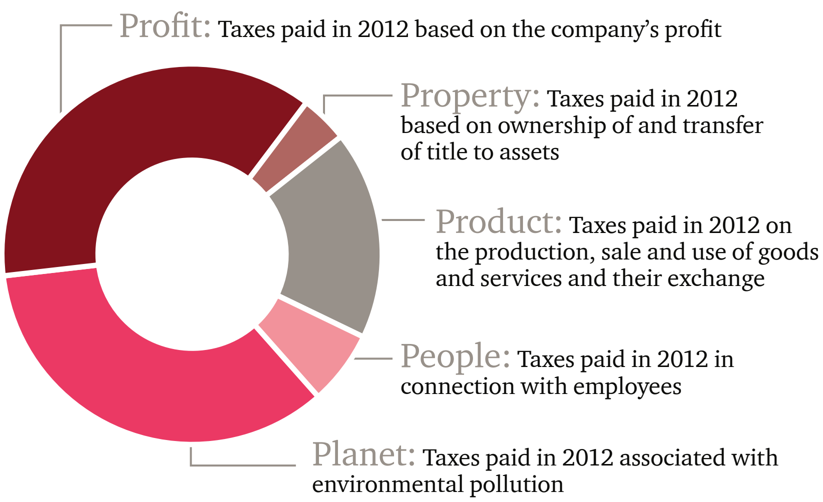
Total Tax Contribution

TTC is a methodology that allows corporations to present their true financial contribution to society.

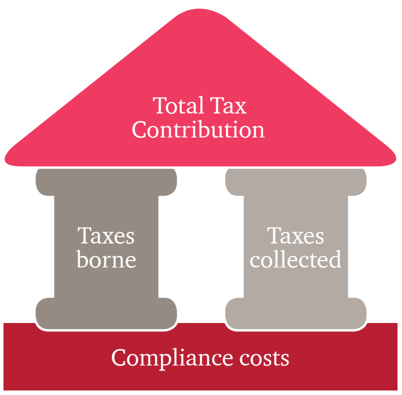
The concept of Total Tax Contribution (TTC) constitutes a holistic approach to taxes, and is a useful extension of the mandatory OECD BEPS Country-by-Country Reporting (CbCR). The model was developed by PwC with the aim of creating greater transparency and therefore a better understanding of companies' tax contribution to the financing of the state. It creates the basis for a fair discussion with both the tax authorities and the public about the economic importance of companies.

The TTC concept is used around the globe and distinguishes between taxes borne and taxes collected. Taxes borne are payments which a company bears itself and which impact after-tax profit, e.g. corporate income tax, capital tax and non-recoverable VAT. Taxes collected, on the other hand, are payments which a company collects from third parties and remits to the state, such as employee social security contributions, withholding tax and VAT. They have no impact on the financial results of a company, but the company bears the resulting administrative cost and the risk of error.

The compliance costs include all internal and external costs which are incurred by a company for the administration of taxes borne and taxes collected.



Profit taxes represent only about one-third of the overall taxes paid in Switzerland in 2012.



Action points: tax transparency strategy

1. Identify the entities affected.
2. Identify challenges that may arise in relation to data collection, such as availability and accuracy of data, and determine appropriate measures to tackle.
3. Analyse the collected data, assess its potential impact, and implement rectifying measures, if necessary.
4. Determine how, when, and where to disclose the data.

The experts at PwC will help you identify and assess your needs to clear your road to transparency.

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