



CTO Insights

Issue Spotlight – Across the line: Navigating global tax challenges

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Never before has the tax department played such an integral role in the success of the business. Chief tax officers (CTOs) are expected to align tax with business goals, drive strategic value, increase transparency, and improve the efficiency of tax operations. KPMG LLP's (KPMG) CTO Insights is designed to highlight top-of-mind issues for tax executives and ways CTOs are addressing these opportunities and challenges. We are confident that you will find the information in each issue of CTO Insights practical and actionable in demonstrating the value you and your department bring to your organization.

For multinational organizations that do business globally, tax compliance and planning are some of the most daunting challenges they face. Tax functions are under tremendous pressure to deliver detailed insights about the current business conditions in the jurisdictions where their organizations operate. They are also expected to help meet the changing tax and trade regulations worldwide, as well as seize opportunities and avoid pitfalls created by regulatory change.

In this edition of *CTO Insights – Issue Spotlight*, we highlight one of the major international tax challenges multinationals are grappling with today—engaging with international tax authorities—and shed light on how leading-edge tax functions are working with regulators to help their cross-border businesses thrive.

If base erosion and profit shifting (BEPS) and other global tax reform measures are top of mind in your tax function, you are not alone. As the Organisation for Economic Co-operation and Development (OECD) continues to push forward its global campaign to address government concerns about BEPS, new legislative and regulatory developments are continually emerging in various jurisdictions, international regulators are keeping a closer eye on cross-border transactions, and multinationals are beginning to transform their structures in response to, and anticipation of, overhauled tax rules.

One particularly difficult global tax challenge in the post-BEPS era is how tax leaders can effectively engage with tax authorities and policymakers.

Intent on both establishing a fair baseline for international tax and promoting growth and investment within their borders, some governments have recognized that they have more power if they band together; however, most companies have not realized that the same applies to them. Some tax executives are considering forming cross-border trade organizations to gain increased leverage in discussions with officials and influence policy as BEPS shakes out, but others are reluctant to engage with tax authorities at all, believing that doing so might invite unwanted attention. The skeptics have found that sometimes, simply asking questions increases audit risk—and the legal battles that ensue can be prolonged, expensive, and often unsatisfactory for both sides. This is especially true in countries that frequently shift their tax policies, creating significant compliance challenges for companies and opening the door to overreach by tax officials.

Multinationals are also struggling to understand the appropriate narrative to provide in annual country-by-country reports, which will be shared with each of the jurisdictions where they operate, as well as in new transfer-pricing master files that are required in many jurisdictions. Confidentiality is the question at hand. How much information will tax officials in foreign countries share, and with whom? Many tax leaders want to control their sensitive data and seek to reveal as little as possible while still achieving compliance.

There is also confusion and complexity produced by BEPS reform efforts. For example, many countries seek to change how digital business models are taxed to create a system that works better in today's digital age, in which nearly all companies do business online. But approaches differ from one region to the next. One potential measure out of the European Union would tax profits earned online

where the revenue was generated, even if the company does not have a physical operation there. Another approach would put an equalization tax on any digital income that previously avoided taxes in the market jurisdiction. The differences in approach is putting pressure on the OECD to move more quickly to develop a complete plan on taxing the digital space. For multinationals, one way to potentially respond to confusion around initiatives is to confront authorities with examples of the potentially irrational results that such policies might produce, making them aware of the unintended consequences they may have overlooked.

Perhaps the largest challenge is for multinationals that find themselves in direct conflict with tax authorities but don't feel the conflict is fair. There is a general feeling of uncertainty among some U.S.-based CTOs about tax authorities in certain jurisdictions and that some may overreach. But even if the U.S. company in a dispute feels it has a strong case and the potential refund could be substantial, the fight may not be worth it.

For further information

Explore the resources below for deeper insights on the topics in this edition of CTO Insights.



KPMG BEPS Web site

For resources and news on BEPS and its impact on multinational organizations worldwide.



Chief Tax Officer Insights – December 2017

Our latest issue discusses recent developments on global tax as well as other key issues facing the tax function.



BEPS Controversy

The question facing tax departments today is: are you ready? Read more about post-BEPS controversy readiness.

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Questions to consider

- How will your organization keep pace with the latest BEPS updates and requirements?
- How do you engage with international tax authorities? How can you change your approach to gain more control?
- How will you keep the sensitive information you report on your filings with foreign jurisdictions confidential?
- How do you approach conflicts with tax authorities in foreign jurisdictions?

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The information in *CTO Insights* is based on discussions between KPMG professionals and CTOs at their clients as well as with government contacts.

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