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# 2016 GLOBAL BEPS READINESS SURVEY REPORT

A CLEAR PERSPECTIVE, FROM EVERY ANGLE

# EXECUTIVE SUMMARY



The world’s tax authorities are rapidly moving toward implementation of the OECD Base Erosion and Profit Shifting (BEPS) project recommendations, which represent the latest set of global regulations that are meant to address tax avoidance.

Countries are beginning to implement legislation and other guidance to align their cross-border tax and transfer pricing documentation rules with the OECD’s BEPS framework. As of 1 June 2016, 35 countries have issued rules to implement the country-by-country (CbC) reporting minimum standards from the BEPS Action 13 recommendations, or announced their intent to do so in the near term. In addition, all EU member states are now required to implement CbC reporting requirements under the EU Directive on Administrative Cooperation as recently amended. In total, 39 countries have signed the OECD’s Multilateral Competent Authority Agreement for the automatic exchange of CbC reporting information since the OECD issued it in January 2016.

For the second consecutive year, Thomson Reuters and TP Week sought to determine corporations’ compliance with the BEPS recommendations. We surveyed 207 corporate executives and tax and transfer pricing directors across dozens of countries and industries. The results depict that the level of preparedness of companies that conduct business globally has increased; however, many still lack adequate resources to achieve compliance.

In general, tax departments are better prepared to comply with the OECD BEPS recommendations compared to just one year ago, and are increasingly confident with respect to their information technology systems. Most respondents report having taken proactive steps to address implementation of the recommendations. These shifts represent real progress for those corporations – progress that will not only achieve better compliance, but that

will also improve the efficiency and operation of their entire organisation.

Still, challenges remain. Companies report that more resources will be required for BEPS compliance, and they are concerned about audit exposure. Whether a tax department is spending more time on BEPS compliance, as they have reported in the UK and Europe, or lacks the resources necessary to adequately respond to the recommendations, as they report experiencing in the United States, the primary need seems to be greater efficiency.

The time to act is now. Under Action 13 of the BEPS Action Plan, multinationals with annual consolidated group revenue of at least €750 million (or, generally, the equivalent in local currency) are required to compile a CbC reporting template for fiscal years beginning on or after 1 January 2016, with submissions to tax authorities beginning on 1 January 2017. This means that tax authorities will begin exchanging the first CbC reports as early as 2018 – creating unprecedented visibility into companies’ tax and operational footprints.

The way that the OECD BEPS project will change tax reporting is fundamentally historic. There has never been such an ambitious, coordinated global effort to show that multinational enterprises are in compliance with both the letter of the law as well as its intent, and to ensure that profits are tied to the creation of value. As a result, tax teams will need to work closely with their corporate departments (i.e., Finance, Risk and IT) to meet these new requirements.

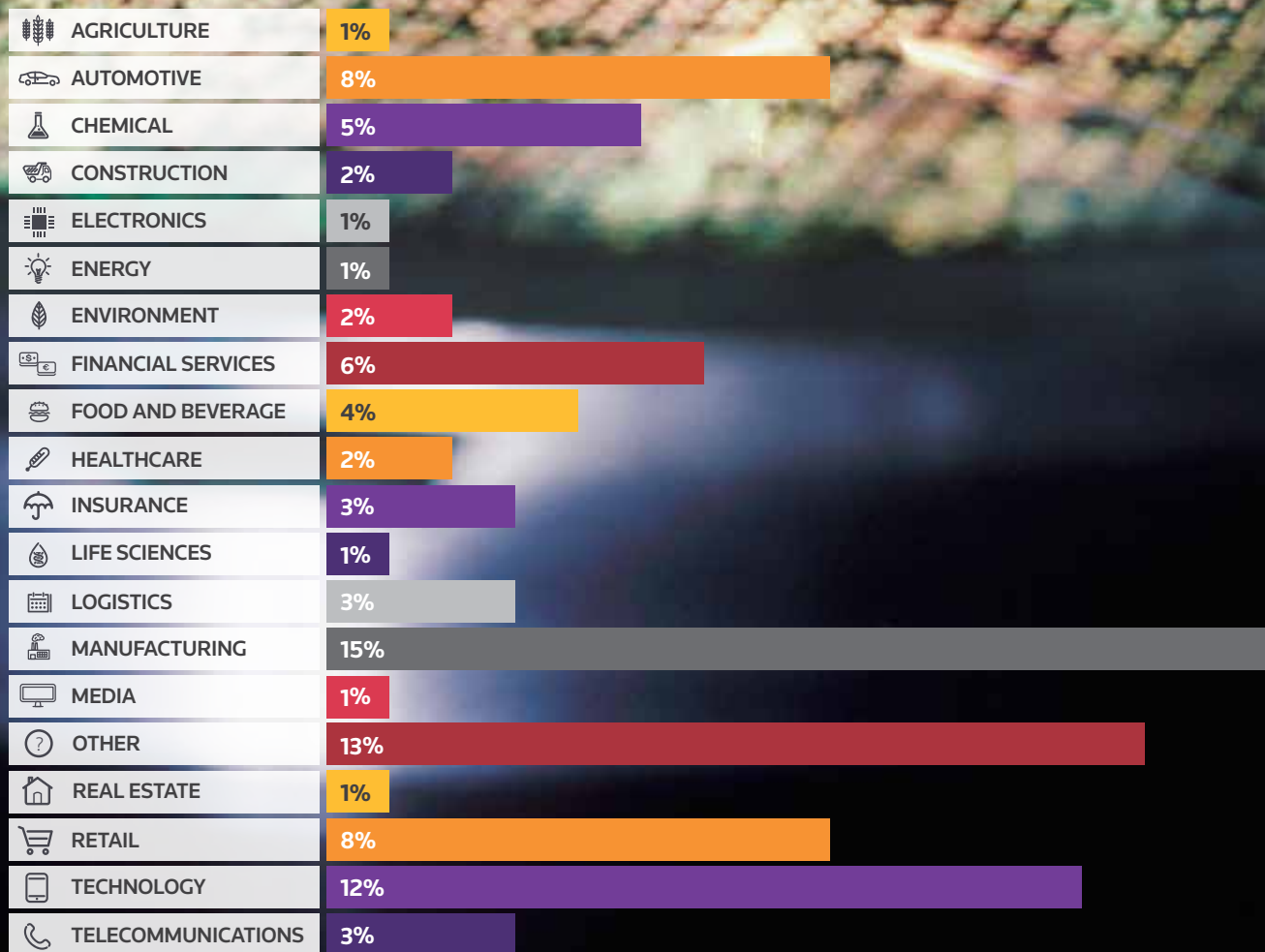
Best regards,

Brian Peccarelli  
President, Tax & Accounting  
Thomson Reuters

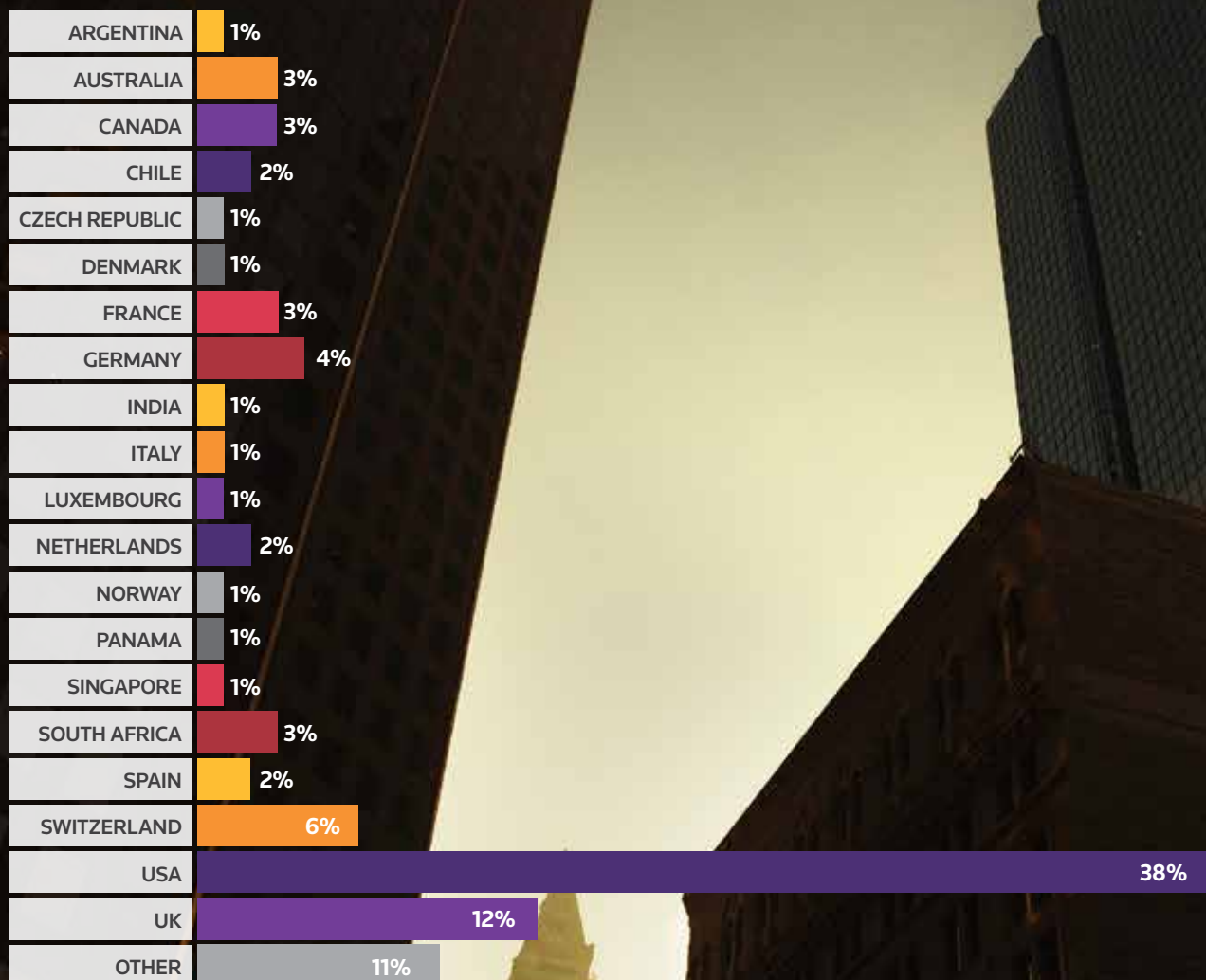


# RESPONDENT BREAKOUT

## INDUSTRIES



# COUNTRIES





# BEPS PREPAREDNESS

WHAT HAS BEST DESCRIBED YOUR APPROACH IN RESPONDING TO BEPS?

**66%**

Proactively taking steps based on the BEPS recommendations

**22%**

Waiting for countries to implement

**7%**

Waiting for all action points in the project to be finalised before you act

**3%**

Waiting for peers to make a move

**3%**

Not doing anything at all



# BEPS PREPAREDNESS

## OVERALL APPROACH TO BEPS

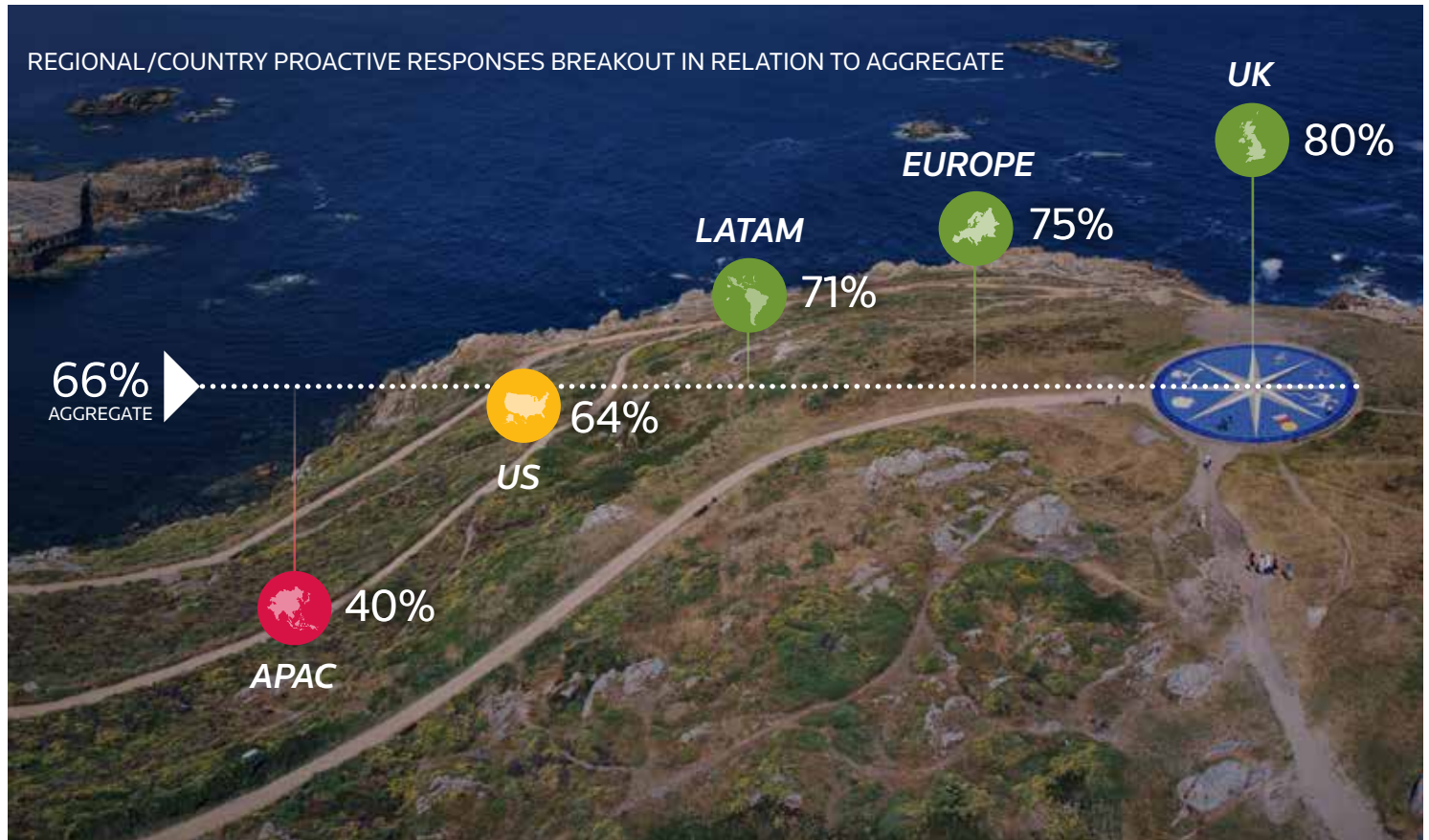
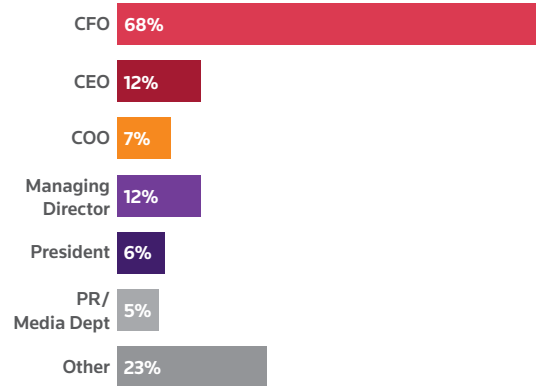
At an executive level, the survey finds that implementing compliance initiatives related to BEPS is indeed a C-Suite issue. 68% of respondents said that their company's CFO is involved, along with the tax department.

At an operational level, two-thirds of respondents said they are proactively taking steps based on the OECD BEPS recommendations. Preparedness is up from last year, when just 54% of respondents said they were proactively preparing for BEPS implementation.

There are multiple reasons for this increase. Some companies are evaluating the tools they currently have and the processes they currently use, and are looking to bring new technology or services into the mix. Some have retained consulting firms that have expertise with BEPS compliance. Others, primarily multinationals based in Europe, are conducting BEPS transfer pricing reporting "trial runs" to determine their level of preparedness.

Approximately one in three respondents are still waiting: either for countries to implement the OECD BEPS recommendations (22%), for follow-up work on certain BEPS action points to be finalised (3%), or for their peers to do something (7%). Only three percent of respondents are simply doing nothing at all.

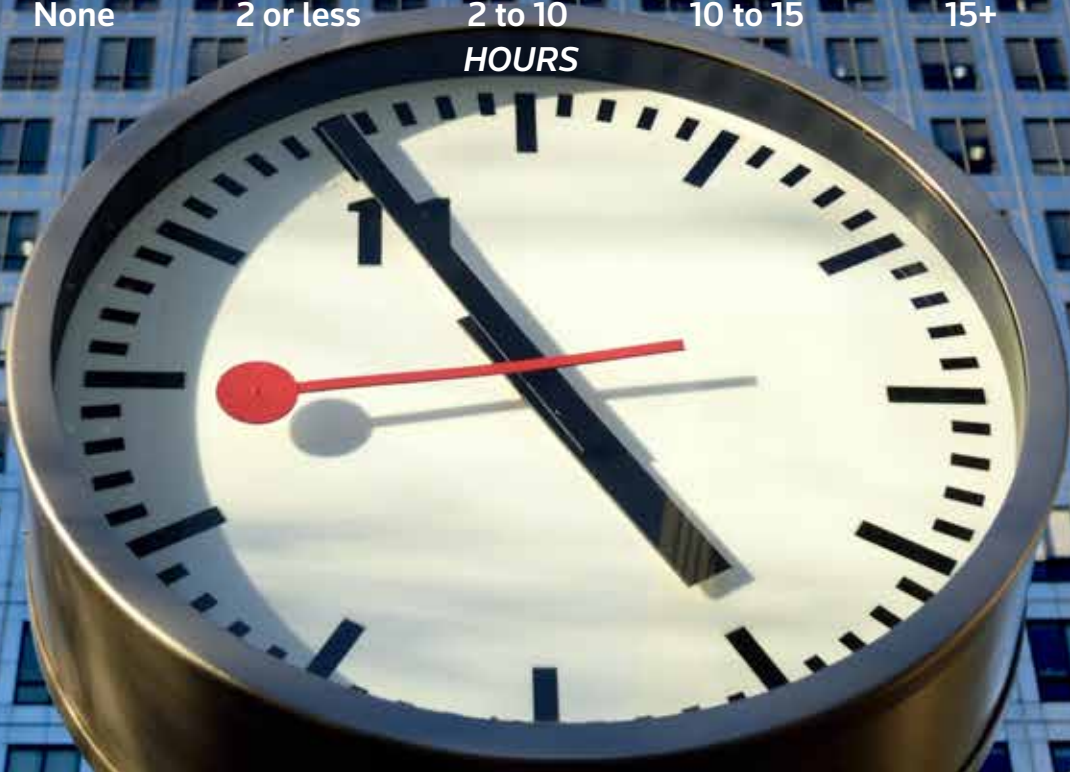
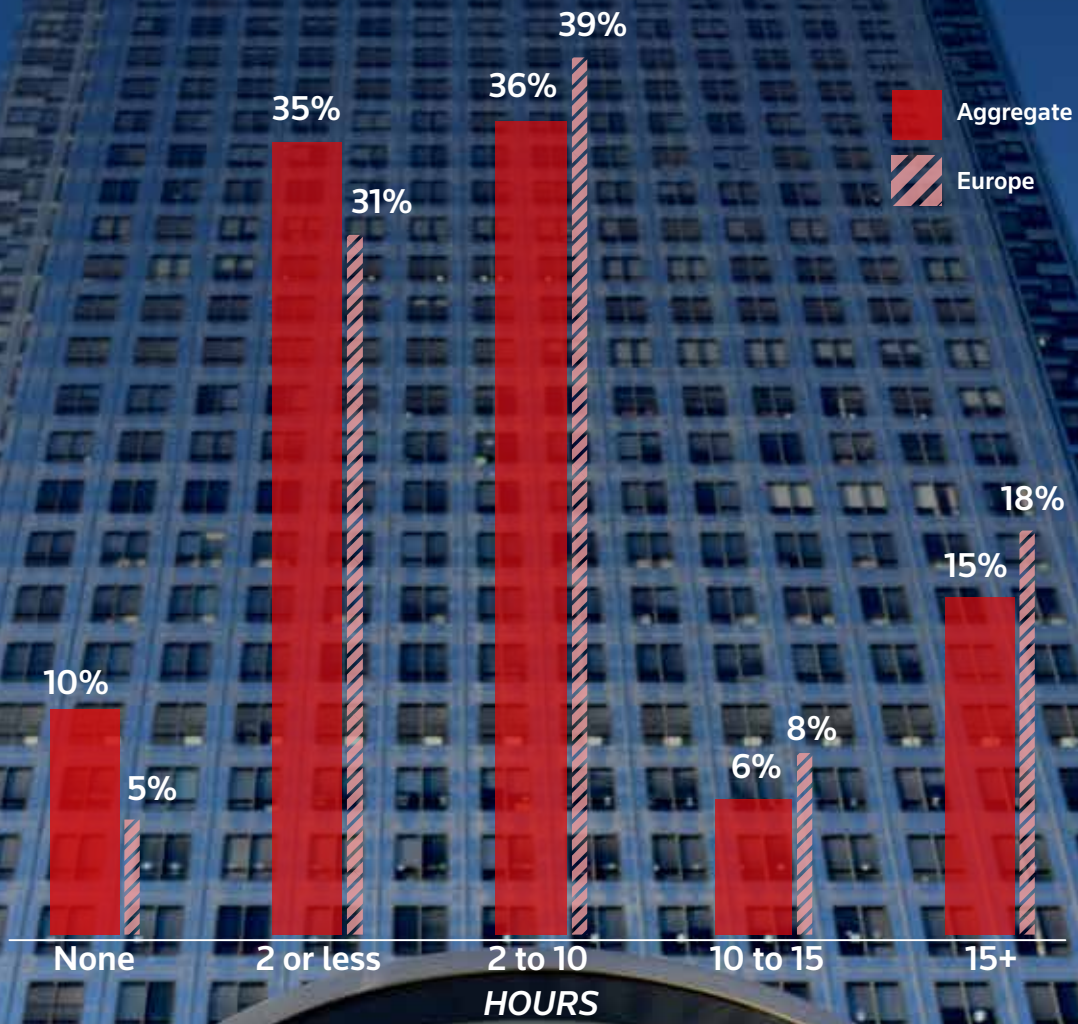
Who, outside of the tax department, has been involved in managing BEPS implementation?





# BEPS PREPAREDNESS

HOW MUCH TIME PER WEEK DO YOU NOW SPEND ON BEPS PREPARATION?



# BEPS PREPAREDNESS

## RESOURCE ALLOCATION

Respondents are spending more time on BEPS compliance now than they were last year. While 60% of respondents reported spending zero to two hours per week on BEPS in 2015, that number has dropped to 45% in 2016.

Still, many organisations have not dedicated significant time to BEPS compliance. The 2016 survey results show that 36% of departments are spending between two and 10 hours per week complying with BEPS implementation, and only 15% spend more than 15 hours per week on it.

Europeans spend more time than other regions focusing on BEPS compliance. This is likely because most BEPS implementation to date has occurred in

Europe: as of June 2016, 22 of the 39 countries that have agreed to follow the OECD's framework for the automatic exchange of CbC reports are in the EU.

Respondents from the UK report spending *the most* time on BEPS compliance preparation, with 28% spending more than 15 hours per week. The US lags behind, with half of respondents saying their tax departments spend fewer than two hours per week.

Should the US not permit the elective filing of CbC reports for tax year 2016, more than twice as many respondents (44%) said they would file in each relevant jurisdiction that implements the reporting requirements than said they would not (20%). (The remainder said this scenario did not apply.)

# 50%

OF US RESPONDENTS SPENDING **FEWER THAN TWO HOURS PER WEEK** ON BEPS



0-2

2-10

10-15

15+

HOURS PER WEEK

# 28%

OF UK RESPONDENTS SPENDING **MORE THAN 15 HOURS PER WEEK** ON BEPS

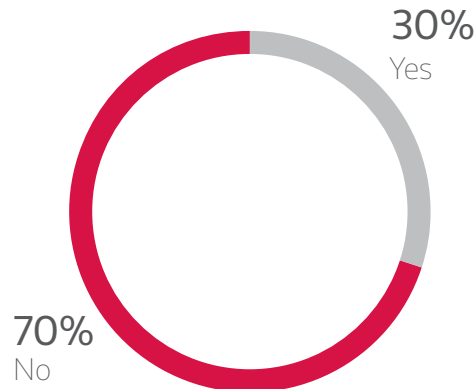


## REPORTING PRACTICES

Most respondents (57%) said the OECD's BEPS recommendations have had no material impact on their accounting and financial reporting practices. A majority of US respondents, 54%, say they intend to use US GAAP to compile CbC reporting data, while 44% of respondents in Europe say they will use IFRS.

Just 30% of respondents have referred to BEPS in communication with shareholders. BEPS implementation will cause more companies to centralise transfer pricing data, which has historically occurred on a regional basis. Once that data is centralised, it has the potential to be more predictive, either for companies to produce more accurate forecasts or for sophisticated investors to incorporate into their financial models.

HAVE BEPS MATTERS BEEN EXPLICITLY REFERRED TO IN COMMUNICATIONS WITH SHAREHOLDERS?

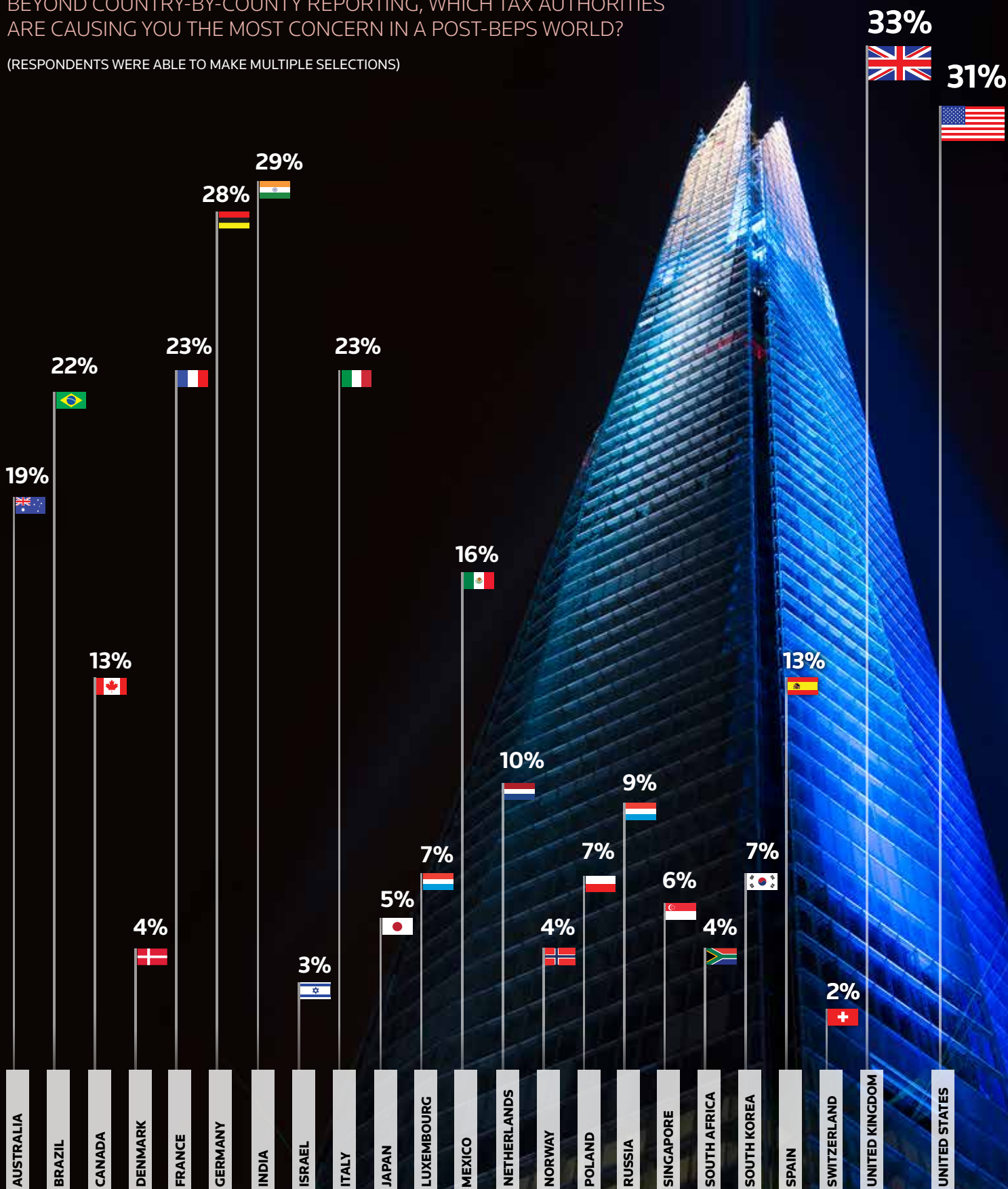




# TOP BEPS CONCERNS

BEYOND COUNTRY-BY-COUNTRY REPORTING, WHICH TAX AUTHORITIES ARE CAUSING YOU THE MOST CONCERN IN A POST-BEPS WORLD?

(RESPONDENTS WERE ABLE TO MAKE MULTIPLE SELECTIONS)



# TOP BEPS CONCERNS

## TRANSFER PRICING

By a wide margin, most respondents (83%) said that the BEPS Action 13 recommendations on transfer pricing documentation have created the biggest change in their tax department.

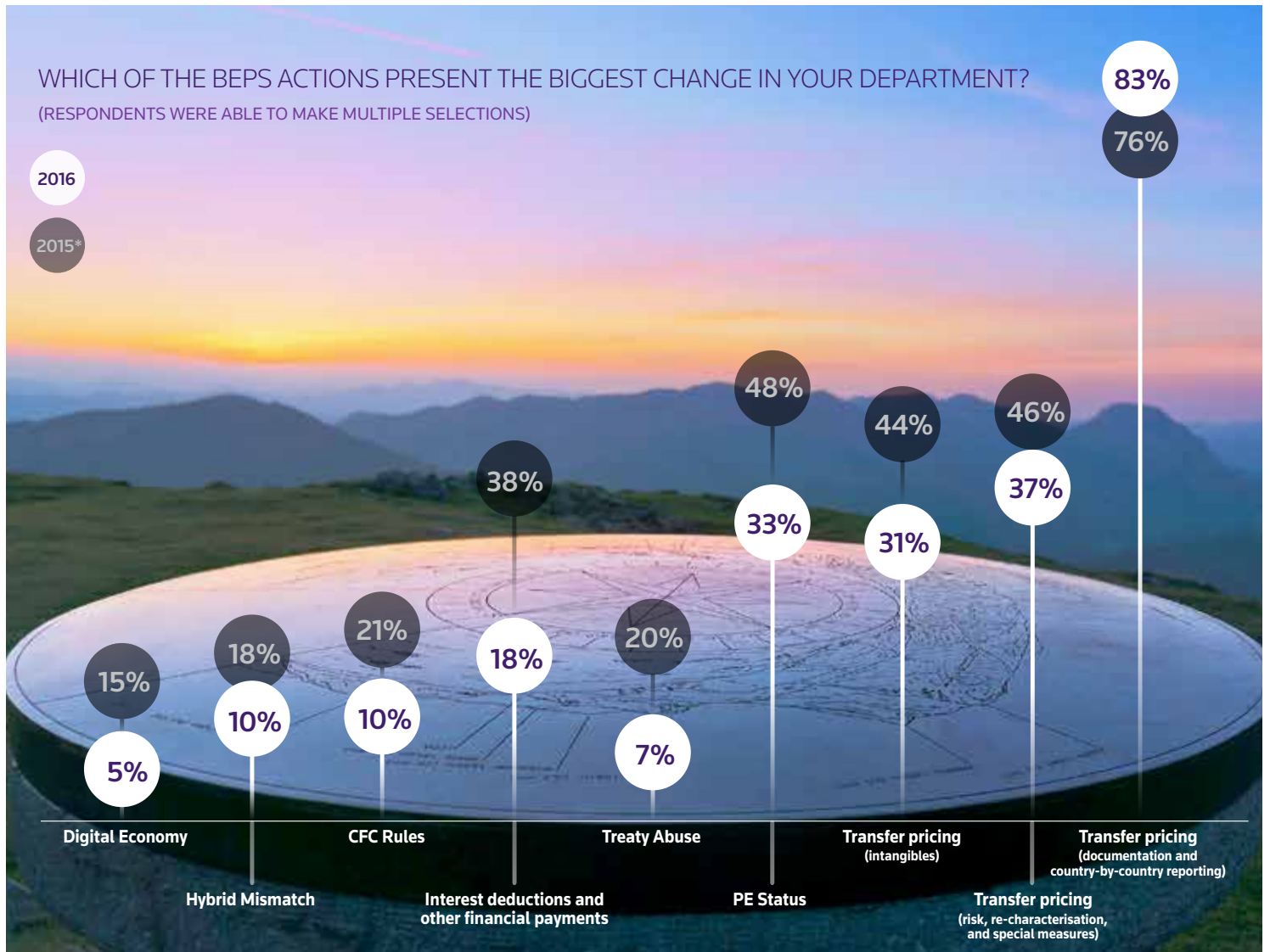
Last year, 76% of respondents listed transfer pricing documentation as their most immediate concern. Taken together, these results show that last year's greatest concern became this year's primary trigger for corporate tax change. This confirms that companies are heading towards compliance with the BEPS Action 13 recommendations.

Transparency and accessibility of transfer pricing information is the new normal for global companies, and respondents seem to understand the vastness of its impact.



# 83%

of respondents report **Transfer Pricing (documentation & country-by-country reporting)** as the biggest departmental change among all of the BEPS actions, **an increase of 7 percentage points from last year.**



\*2015: WHICH OF THE BEPS ACTIONS PRESENT THE MOST CONCERN FOR YOUR COMPANY AT THIS TIME?



# TOP BEPS CONCERNS

HAS YOUR COMPANY PROVIDED MORE RESOURCES TO HELP YOUR DEPARTMENT COOPERATE WITH BEPS IMPLEMENTATION?

48%  
Not yet

18%  
Yes

34%  
No



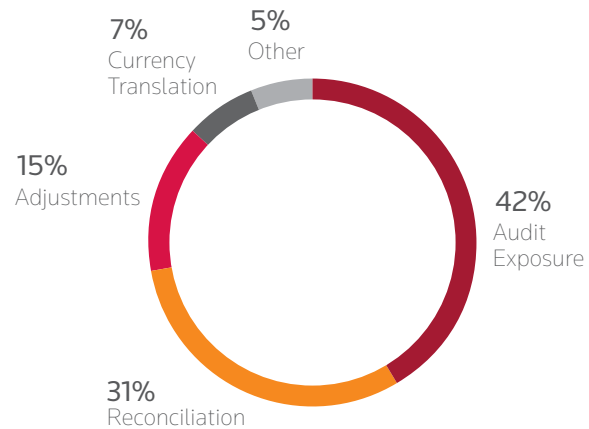
# TOP BEPS CONCERNS

## AUDIT RISK

Respondents listed audit exposure as their biggest issue resulting from BEPS Action 13 compliance (42%), followed by reconciliation (31%), adjustments (15%) and currency translation (7%).

At the same time, only 18% of respondents said that their company has provided more resources to help them cooperate with BEPS implementation. Beyond tax department employees' time, resources allocated for BEPS can include capital, access to outside consultants, access to people in departments other than tax or technological assets. The takeaway is clear: lacking additional resources, tax departments should prioritise efficiency wherever and however they can in order to plan for audit exposure moving forward.

## WHAT DO YOU THINK WILL BE THE BIGGEST ISSUE RESULTING FROM ACTION 13 COMPLIANCE?



## WHAT CHANGES HAS THIS MEANT TO YOUR TAX DEPARTMENT?

(RESPONDENTS WERE ABLE TO MAKE MULTIPLE SELECTIONS)



## CHANGES FOR TAX DEPARTMENTS

BEPS will almost certainly make most tax departments busier. 86% of respondents said that the BEPS Actions will cause their tax departments to dedicate more time to that area.

This, combined with the datapoint that finds tax departments are not receiving additional resources, means they'll be challenged to do more work with the same amount of staff, budget, outside support and technology.



## OPEN-ENDED RESPONSES

What further changes do you anticipate in your department to manage BEPS implementation?

*"We have fully dedicated two managers to review and restructure all our current structures and business operations in light of BEPS."*

**-Respondent from Europe**

*"Huge changes in IT systems to deal with new PEs. Restructuring many business lines and intercompany transactions to reduce PEs."*

**-Respondent from US**

*"Allocation of more resources to documentation and understanding risk."*

**-Respondent from the UK**



# TECHNOLOGICAL READINESS

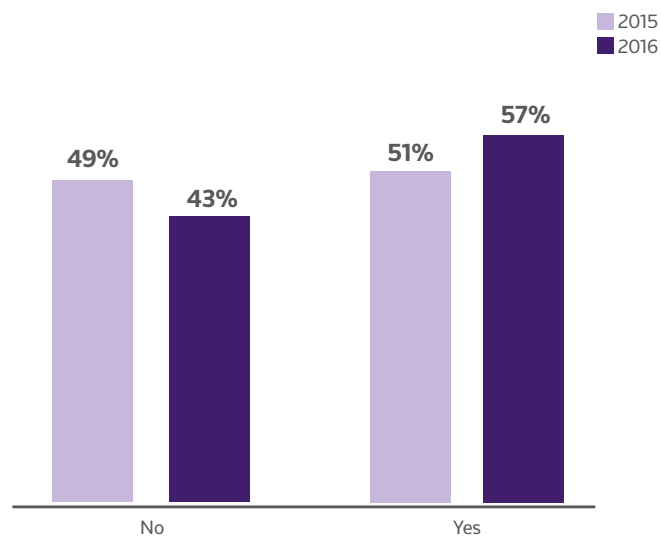


## BETTER TECHNOLOGY

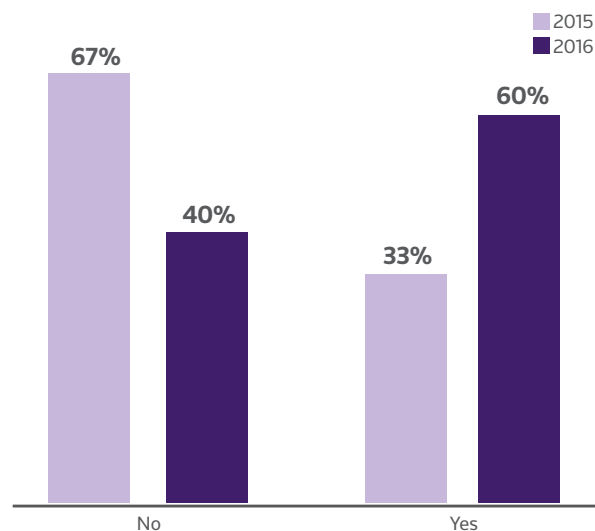
One way to improve efficiency is through technology – specifically through advances in software and other platforms.

The 2016 survey finds companies are adopting technology that will drive BEPS compliance. Last year, about half of the respondents (51%) said they had a database of intercompany agreements and tax rulings to comply with the new transfer pricing documentation requirements. Now, 57% say they do. Last year, when asked if they feel secure about their IT systems and how successfully they can integrate them with their transfer pricing documentation, two-thirds said no. Now, 60% say yes.

Do you have a central database of important intercompany agreements and tax rulings to comply with the new BEPS Action 13 transfer pricing documentation requirements?



Do you feel secure that your IT systems will be able to provide the necessary support for compliance of Action 13 reporting?



# TECHNOLOGICAL READINESS

## WHAT BEPS WILL DO

The needle needs to move further on these two areas (databases that are compliant with BEPS Action 13 transfer pricing documentation and IT systems that support compliance of Action 13 reporting), but the year-to-year improvement in how technology is used for transfer pricing compliance is a positive development.

Transfer pricing operations are largely performed regionally, a process that leads to data sets that do not always match and therefore cannot be adequately compared. Centralisation puts all transfer pricing data in the same format so that management and the tax authorities can see the whole story. It reveals real-time changes in transfer pricing policy, which leads to better strategy and lower audit risk.

This is probably why respondents indicated that BEPS has driven or will drive multiple operational improvements: conducting a review of the business's value chain and key profit drivers (56%), implementing changes to its transfer pricing policy (51%), implementing changes to its intercompany agreements (49%), conducting a review of business structures (39%), or restructuring the business entirely (19%). These improvements would give transfer pricing and tax professionals greater visibility throughout their organisations, which could lead to their knowledge and judgment being more widely used.



## OPEN-ENDED RESPONSES

What were the main motivations for making these changes to your business operations?

*"Compliance and exposure mitigation with respect to BEPS."*

**-Respondent from Europe**

*"Hybrid mismatch restructuring. Update documentation to comply with Action 13."*

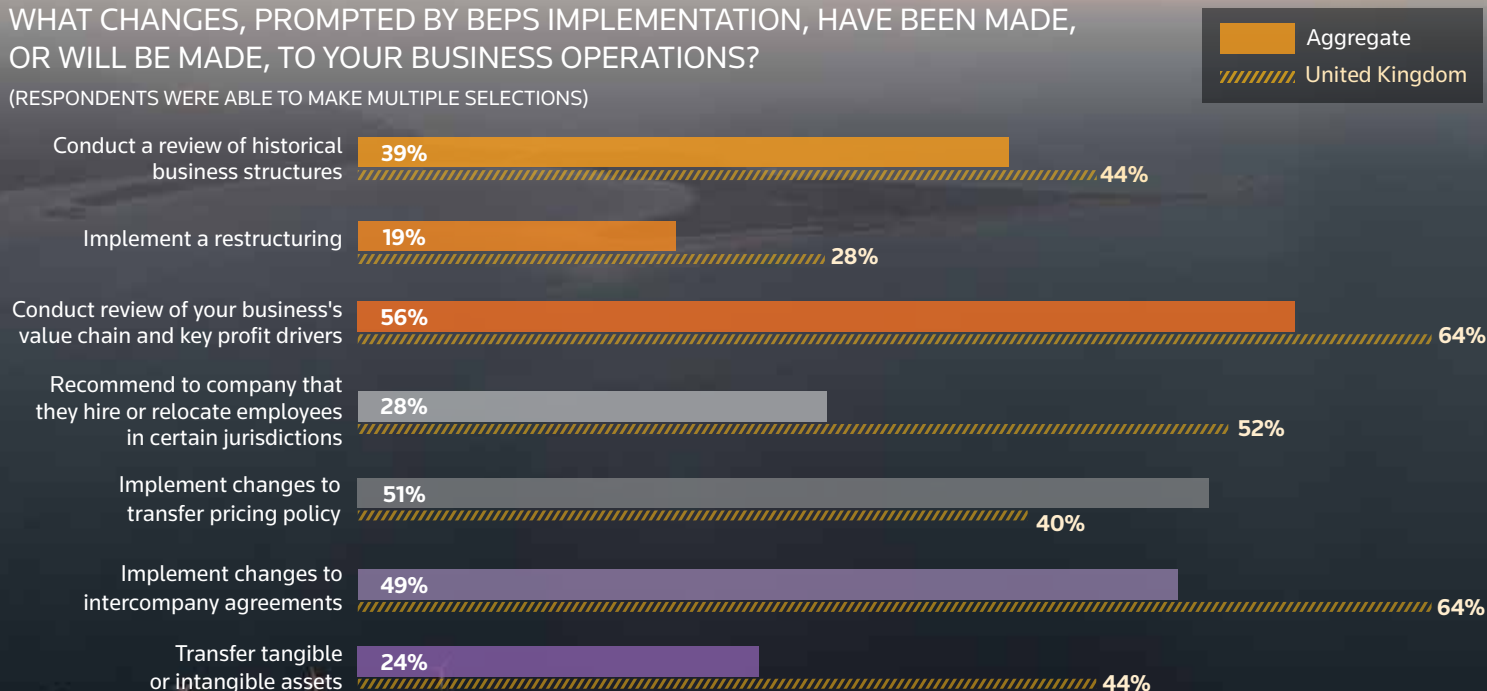
**-Respondent from US**

*"We have a very small team dedicated to international tax and legal compliance...because of this we wished to be very proactive and review structures and transactions to create a BEPS roadmap for our implementation."*

**-Respondent from the UK**

## WHAT CHANGES, PROMPTED BY BEPS IMPLEMENTATION, HAVE BEEN MADE, OR WILL BE MADE, TO YOUR BUSINESS OPERATIONS?

(RESPONDENTS WERE ABLE TO MAKE MULTIPLE SELECTIONS)





# RECOMMENDATIONS FOR MNEs



To assess their BEPS readiness, tax teams should ask themselves six crucial questions:

1. Can we thoroughly map out all legal entities included in our company (including permanent establishments [PEs] and branches), as well as their tax residence?
2. How many full-time employees (FTEs) work in each jurisdiction, and what is the management structure for each legal entity in our group?
3. Can we quickly gather and map entity-level financial data for each country we operate in? And how do we report the financials?
4. Can we adequately describe our group's global business operations and transfer pricing policies in a master file available to all relevant country tax administrations?
5. Can we capture narrative and graphical information for each element of the local file contents, and can we easily and quickly upload content and attach relevant documents?
6. Do we have the resources or data needed to support the transfer pricing analysis for each type of related-party transaction?

Being able to satisfy these six conditions matters now because, as more countries adopt BEPS-related legislation, the clock is ticking on putting the right processes in place.

Centralising transfer pricing data will have a profound effect on tax departments globally. It will enable tax departments to become centers of knowledge that benefit the whole organisation, and senior management will be able to monitor transfer pricing shifts and make strategic decisions accordingly. BEPS Action 13 forces transfer pricing operations to be better organised so they can be used more efficiently.

Ultimately, it is about more than just compliance. It is about better, more efficient trade operations.

At Thomson Reuters, we have experience helping international tax professionals build the business case for comprehensive tax technology. We created our product roadmap while the OECD developed the BEPS Action Plan and have the solutions and the expertise to help companies navigate the new world of transfer pricing documentation, including CbC reporting.

**FOR MORE INFORMATION, VISIT [TAX.TR.COM/BEPS](https://tax.tr.com/beps).**

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PREPARING YOU FOR ACTION.

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