



BEPS controversy readiness

**e-Brainstorming[®]
survey results**

November 2017

kpmg.com



Background and participant profile

As the scope and pace of tax law and regulatory change has increased, taxpayers face increased uncertainty that is driving greater tax controversy. The adoption of recent anti-tax avoidance rules, such as the Australian Multinational Anti-Avoidance Law (MAAL), the U.K. Diverted Profits Tax (DPT), and the EU's pending second Anti-Tax Avoidance Directive (ATAD II) in addition to the revised tax treaty standards adopted as a result of the Organisation for Economic Co-operation and Development's (OECD) base erosion and profit shifting (BEPS) project, represent a global trend towards more subjective standards designed to prevent perceived tax abuses. Multinational enterprises (MNEs) that operate in any of the jurisdictions affected and that rely on related tax treaties to avoid costly double (or greater) taxation with respect to their cross-border operations may be directly affected by these developments.

With significant subjectivity in these new rules and standards and no existing precedent, KPMG LLP (KPMG) expects continued and accelerated tax controversy globally. In light of these catalysts for controversy, MNEs should begin preparing now.

In response to raise awareness of these matters and facilitate the sharing of leading practices, KPMG hosted an e-Brainstorming® session on September 19, 2017, KPMG's proprietary online collaboration tool, with approximately 50 MNEs and the leaders of KPMG's BEPS Controversy Readiness (BCR) group to discuss their current preparations for the expected increase in tax controversy. Please find a summary of the results of the session on the following pages.

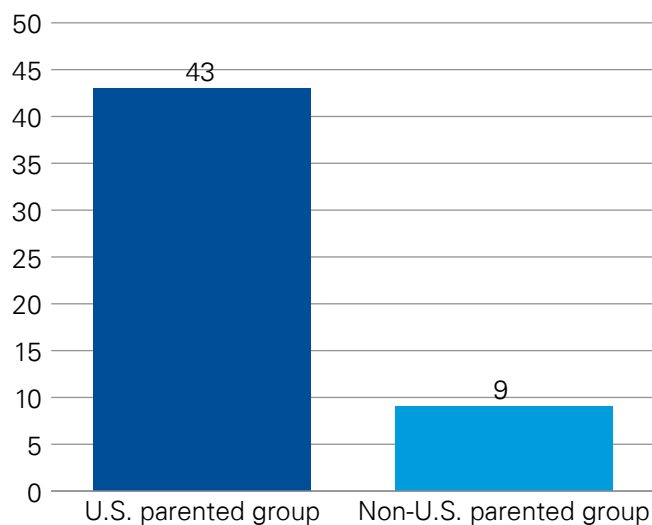
"The conclusion of this multilateral instrument marks a new turning point in tax treaty history. We are moving towards rapid implementation of the far-reaching reforms agreed under the BEPS Project in more than 1,100 tax treaties worldwide. In addition to saving the signatories from the burden of bilaterally renegotiating these treaties, the Convention will result in more certainty and predictability for businesses and a better functioning international tax system for the benefit of our citizens."

— Angel Gurría
OECD Secretary-General

Source: OECD Information Brochure, Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting

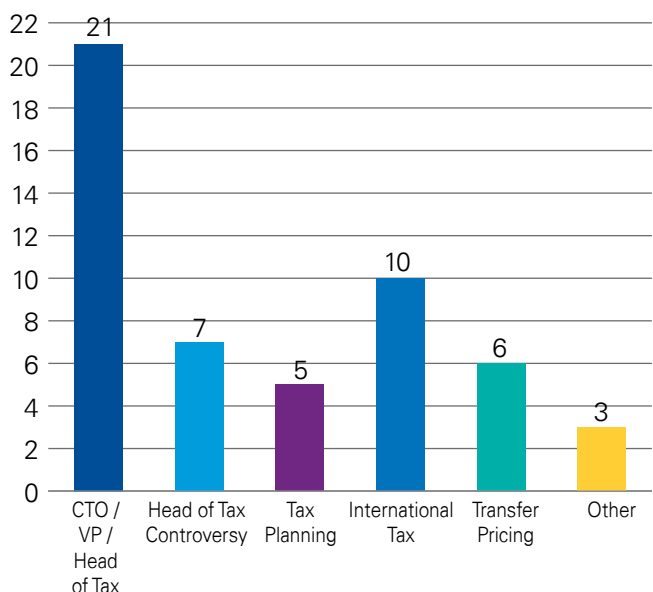
Profile of e-Brainstorming participants

Location of participants' parent organization



n = 52

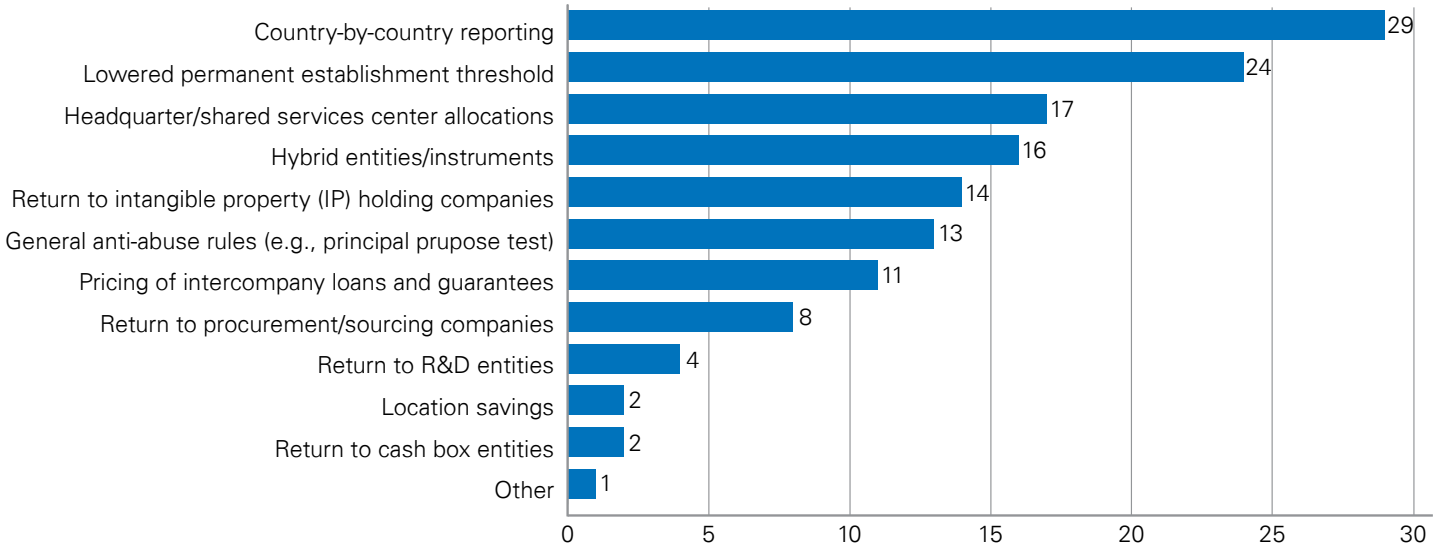
Participants' role within organization



n = 52

How BEPS affects organizations today

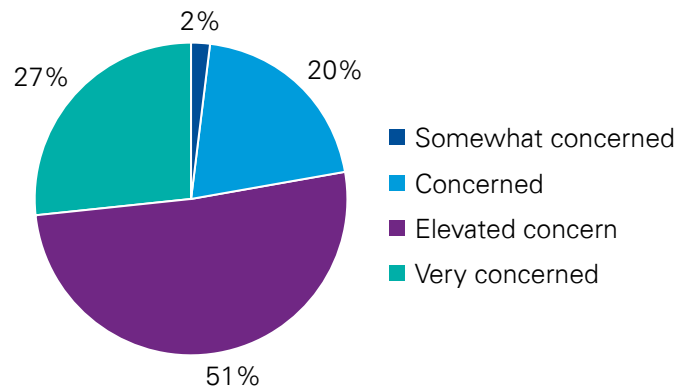
Over the past three years the OECD's BEPS project has placed an unprecedented focus on a number of areas of perceived tax abuse. Of the following focus areas, which THREE are the most applicable to your organization?



How has BEPS and the multilateral instrument (MLI) affected your organization's tax strategy?

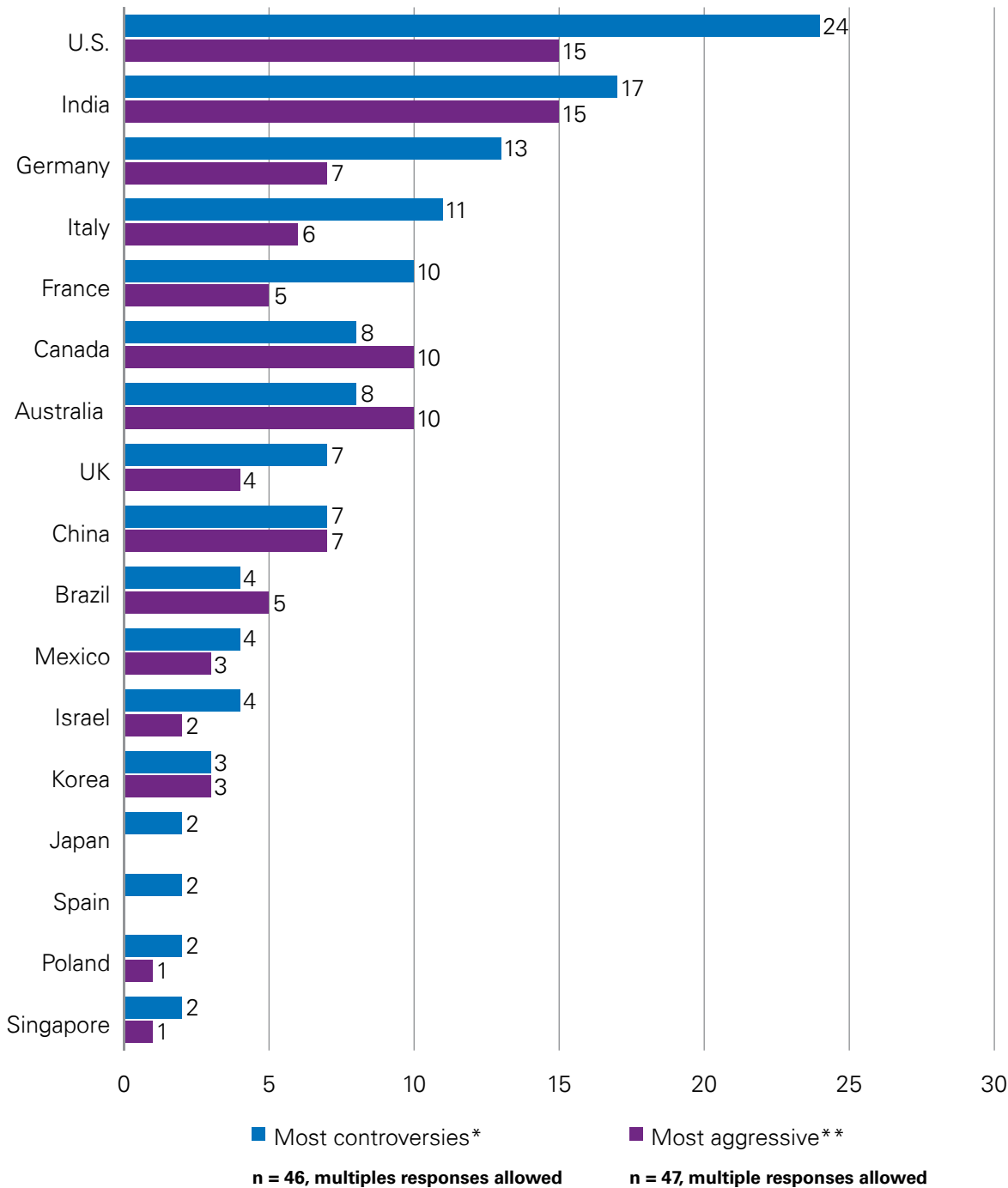
- Approximately 4 out of 5 participants have not assessed their treaty positions in light of MLI outcomes.
- Most respondents felt that global coordination in order to “speak with one voice” globally was of increased importance and many lack the resources and coordination to do so currently.
- Broadly speaking, there is an increased reluctance to pursue tax rulings.
- More than one-third (35 percent) of respondents have changed or expect to change their IP holding structure in response to BEPS.
- Adding additional “substance” to principal companies was the most common remedial action taken to date in response to the BEPS initiatives.

How concerned are you about the impact of the OECD's BEPS final actions and the MLI on your organization?



Organizations' global tax controversy profile

In which countries do you experience the most tax controversies (i.e., exams, assessments, and litigation)? Which tax authority(ies) are you finding most aggressive upon audit?

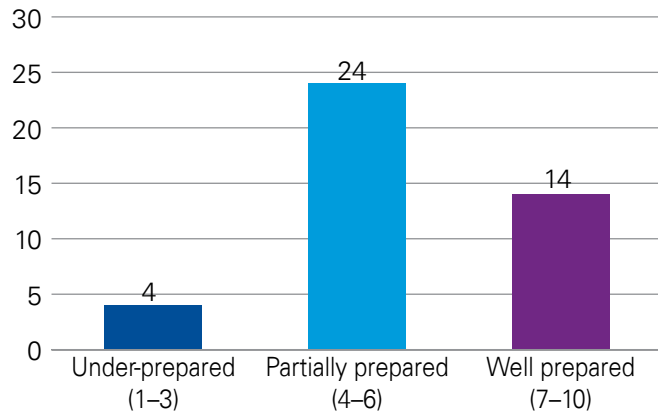


* The following countries received one response as to where respondents are experiencing the most controversy: Austria, Belgium, Indonesia, Malaysia, Nigeria, Netherlands, Norway, Philippines, Russia, Thailand, Turkey, and Vietnam.

** The following countries received one response as to where respondents finding that tax authorities are most aggressive upon audit: Austria, Belgium, Chile, Nigeria, and Russia.

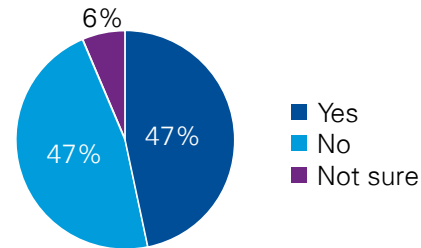
Organizational preparedness

On a scale of 1–10, how would you rate your organization's preparedness for an increase in BEPS-related audit inquiries?



n = 42

Does the broader finance function within your organization understand the increasing external pressures on tax functions globally with respect to transfer pricing and international tax controversy?



n = 47

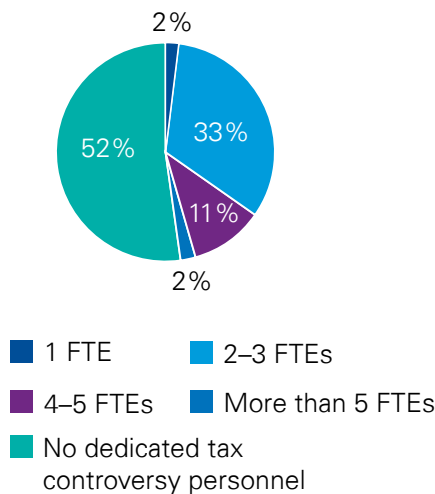
Common challenges in communicating tax audit risks with nontax functions:

- Difficulty getting finance leadership to focus on tax audit risk proactively versus reactively
- Historically difficult to get nontax functions to see the connection between tax audits and the business, viewed as a "tax only" issue
- Finance does not have technical knowledge to understand the issues and see how they fit within the global transfer pricing framework

Tax controversy team

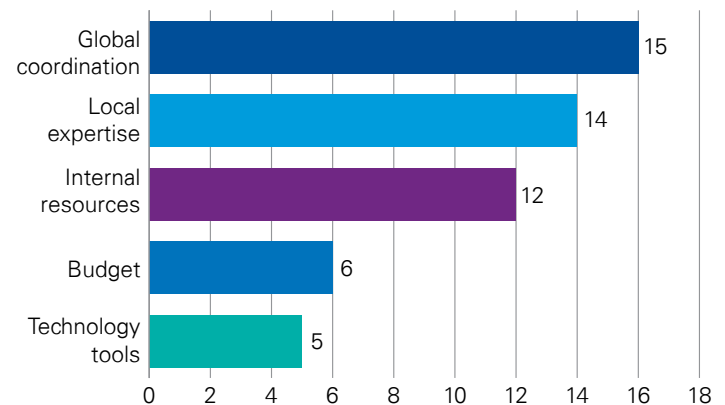
How many FTEs comprise your in-house tax controversy team?

While more than half (52 percent) of respondents do not have a dedicated tax controversy team, 46 percent expect to add personnel or grow their existing tax controversy teams in the next five years.*



n = 46

What is your organization's biggest area of need with respect to tax controversy?

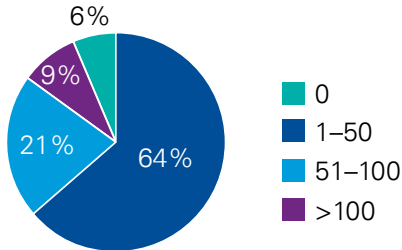


n = 40, multiple responses allowed

*Question: Do you expect the size of your tax controversy team to increase, decrease, or stay the same over the next five years?

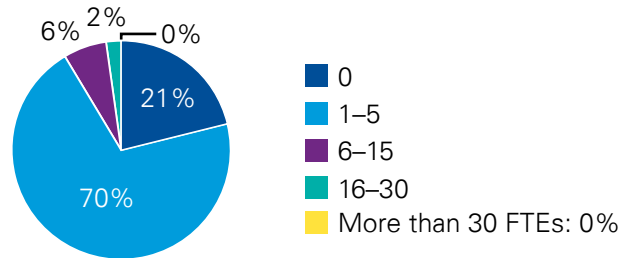
Transfer pricing

How many transfer pricing local country reports do you prepare each year on average?



n = 47

How many FTEs comprise your in-house transfer pricing team?



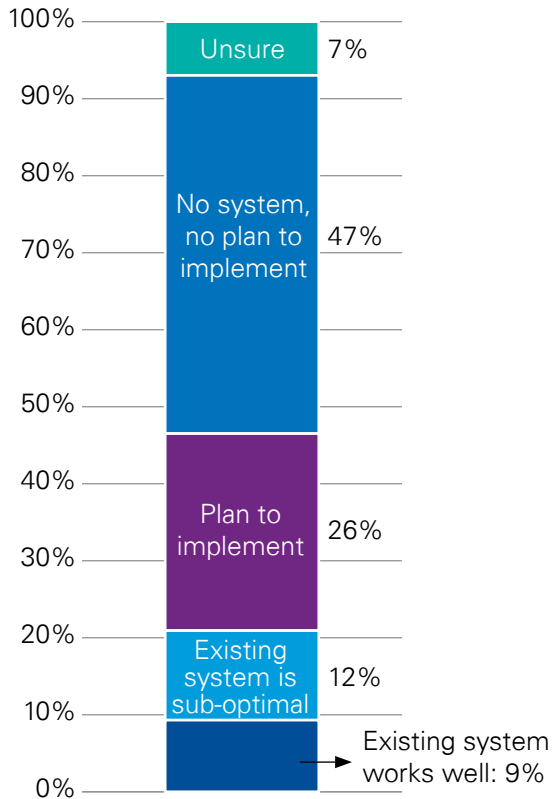
n = 47, does not sum to 100% due to rounding

Further, 43 percent of the respondents have seen their transfer pricing team increase in size over the past five years, and nearly two-thirds expect to grow the size of the group over the next five years.*

*Questions: Has the size of your tax controversy team increased or decreased over the past five years? Do you expect the size of your tax controversy team to increase, decrease, or stay the same over the next five years?

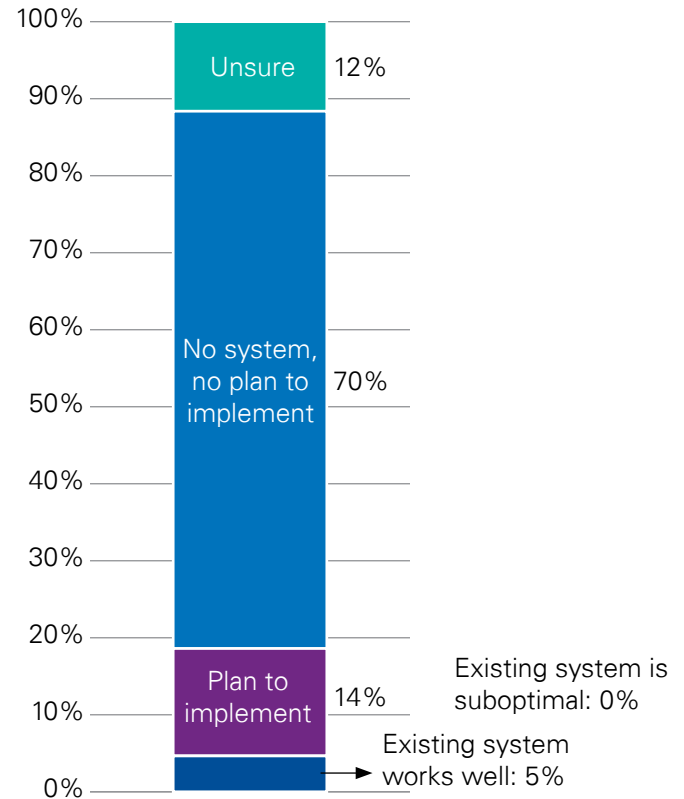
Systems

Does your company have a system in place that tracks audit responses globally?



n = 43, does not sum to 100% due to rounding

Does your company have a system that tracks competent authority protective claim filings?



n = 43, does not sum to 100% due to rounding



KPMG's BEPS controversy readiness contacts

We hope you find these results helpful as your organization seeks to respond to the expected increase in global tax controversy. KPMG thanks all of the participants in the BEPS controversy readiness e-Brainstorming session for their candid and insightful responses.

If you would like to discuss any of these matters further, please reach out to any of the members of our BCR team. And look for continued updates and insights from KPMG and the BCR team in response to the rapidly evolving global tax environment.



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