2018 International Tax Survey
Priorities and challenges facing multinationals
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Executive Summary

This international tax survey from Baker Tilly International was designed to assess:

- The impact of BEPS to date upon our multinational clients
- How multinational businesses are reacting to a fast changing international tax arena
- Key tax uncertainties in an increasing globalised economy when political winds point toward de-globalisation and
- Topics that directly impact their daily business.

This approach has been orchestrated to ensure the initiatives, efforts and focus in relation to products and services to our multinational clients accurately match our client’s needs, expectations, concerns and aspirations.

This survey has involved multinational clients in over 65 territories, assessing everything from BEPS preparations to reactions to US Tax Reform.

The main issues and global tax trends stemming from this international tax survey highlight that transfer pricing and permanent establishments remain the major concerns for multinational businesses. Plus that much more can be done to proactively deal with a very fast paced tax environment.

In conclusion, managing key tax risks to ensure there are no surprises for multinational businesses has never been as complex and never been as important.

Ines Paucksch  
Global Leader, Corporate Tax

Chris Danes  
Tax Director, Baker Tilly International
Coverage

Countries shaded below contributed to this survey.

Highlights

- 74% list transfer pricing as a key uncertainty
- 33% seek further BEPS clarification before reacting
- 38% agree that permanent establishment is a key risk.

The survey clearly shows that beside all the BEPS discussions including Tranfer Pricing, the Anti Tax Avoidance Directive (ATAD) and the Multilateral Instruments (MLI), one topic remains an ongoing issue for multinational groups.

The question of PE or not PE...

International businesses do not only have to think about the Authorised OECD Approach (AOA), they have to consider:

- Anti Fragmentation Rules
- Anti Splitting Rules
- Specific Activity Exemptions, and
- Any Agency and Commissionaire Arrangements.

Follow us to hear more about it, especially about our new PE tracker that is coming soon.

Ines Paucksch
Global Leader, Corporate Tax
BEPS and ATAD: The Long Game

Q: BEPS Preparation: Select the answer that best describes your situation.

- 32.67% Waiting for more clarity on the new rules
- 25.74% Some research undertaken
- 4.95% Detailed research undertaken
- 13.86% We are starting work on BEPS projects
- 22.77% We are already executing BEPS projects

Q: BEPS and the EU ATAD’s Impact on Operations: Select the answer that best describes your situation.

- 9.90% Major restructuring projects already in progress
- 14.85% Minor restructuring projects already in progress
- 31.68% No changes expected
- 33.66% No changes to date
- 3.66% A restructuring is coming soon
- 20.18% Waiting for more clarity on the new rules

The OECD’s Action Plan on Base Erosion and Profit Shifting (BEPS Action Plan) was expected to fundamentally change the international tax landscape. And it will, but gradually rather than with the big bang that some were expecting.

For the majority of multinational entities, their international tax structure reflects the economic reality of their business model. As a result, few will have to undertake large-scale restructuring projects. Both BEPS and ATAD are about changing the mindset of corporate decision makers. Fair taxation, transparency and recognition of value creation are the driving forces behind the policy changes taking place. The timing and application of these recommendations is crucial but perfect: they come at a time when perceived tax avoidance by multinationals is at an all-time high.

Tanja De Decker
EMEA Leader, Tax
Almost a quarter of survey respondents named the multilateral instrument (MLI) as a key tax uncertainty post BEPS.

A significant number of important BEPS proposals will be implemented by the MLI, which will modify the application of thousands of bilateral tax treaties concluded to eliminate double taxation.

Since all countries involved will follow their own domestic ratification procedure and parties to the MLI have freedom to opt out of certain parts of the instrument, the MLI is a clear example of increased complexity in the post-BEPS international tax environment.

One thing is certain: the impact of the MLI, and its application, cannot be underestimated by multinational entities.

Marijn Verhagen
African Tax Desk Leader
The awareness and impact of transfer pricing is vast: almost 90% of respondents to our survey stated that transfer pricing is relevant to their business model(s). However, roughly two out of three groups of respondents have not drafted transfer pricing documentation yet or are only now in the process of adjusting their documentation to meet the new standards following the roll-out of new documentation rules as part of the BEPS Action Plan.

We expect that documentation will undergo extensive fine-tuning over the coming years as a wave of tax audits hit the years for which the new transfer pricing documentation rules apply.

**Carsten Hüning and Iris Burgstaller**
Global Leaders, Transfer Pricing

“Best in class”: only 23% of respondents have completed the task of fully updating their transfer pricing documentation.
US Tax Reform

Q: US Tax Reform: Select the answer that best describes your situation.

46.53% of respondents indicated this was not applicable to their business.

We are reviewing the changes and they are expected to be positive for our business

- 28.71%

We are reviewing the changes and they are expected to be negative for our business

- 13.86%

Minor restructuring project(s) in progress

- 8.91%

Major restructuring project(s) in progress

- 1.98%

US Tax Reform is paramount for all businesses operating in the US. Tailored advice is vital to ensure there are no surprises for our multinational clients.

The positivity to the Reform largely stems from the reduction in the Federal Tax Rate. However, the results from the survey justify that the complexity arising from anti-avoidance measures can easily lead to negative consequences.

It is great to see so many of our international clients are reviewing the rules and restructuring as required to ensure no adverse consequences arise

Jim Alajbegu
Global Leader, International Tax Structuring
Baker Tilly International

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$3.4bn
Worldwide revenue 2017 (USD)

147
Territories

33,600+
Partners and staff globally
Get in touch

We would like to thank the companies that took part in our survey. These are challenging and evolving areas for organisations and even more so as different aspects of the BEPS Action Plan unravel and significant uncertainty remains for multinational businesses. If you are concerned with any of the issues raised in this survey, we would be happy to help you assess the risks and opportunities for your business.

Contact us on tax.desk@bakertillyinternational.com.