



RSM InterTax Tax Insights June 2016 - BEPS

Global businesses expect 5% effective tax rate increase from new taxation rules

A survey of international businesses has revealed an expected average increase in effective tax rates of 5% as a result of the OECD's Base Erosion and Profit Shifting (BEPS) Action Plan, but they are split on who will shoulder the burden. The independent survey of 494 businesses worldwide who have familiarity with the BEPS project was commissioned by RSM, the world's sixth largest audit, tax and consultancy network, and shows that the proposals will impact middle market firms almost as hard as large multinationals. 72% of all businesses surveyed expect the rules to increase their effective tax rates with 27% expecting their tax bill to grow by more than 10%.


The vast majority (92%) of businesses surveyed, encompassing companies from \$50m to over \$5bn turnover, also expect to see an increase in compliance costs as a result of legislation motivated by BEPS with a median expected rise of 17%. The rules are being gradually adopted in national jurisdictions and were opened up to developing countries in February. Only 18% of all businesses surveyed intend to absorb all of the costs themselves, with 34% expecting customers and 31% expecting shareholders to shoulder some of the burden.

It had been expected that the impact of the OECD's rules would hit large multinational companies most heavily deterring companies from taking advantage of differences in national tax laws to reduce their effective tax rate and thereby levelling the playing field. However, smaller and middle market businesses have clearly felt the impact reporting very similar expectations concerning anticipated increase in compliance costs, level of taxation, and business uncertainty.

With smaller regulatory teams and less experience dealing with cross-border taxation, complying with the rules is a significant challenge for the middle market, it is no surprise that three quarters expect that they will need to alter their corporate structure to conform to changes in the law. While smaller businesses will not need to comply with all of the disclosure requirements resulting from the BEPS Project, they will still have to deal with the same substance and international tax changes that affect other companies.

78% of middle market firms (defined as having revenues from \$50m to USD\$1bn) say the rules are creating uncertainty. Just 18% of middle market businesses have undertaken planning to bring them into line with the new permanent establishment rules and 20% are fully aligned with the revised transfer pricing rules.

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Despite the increased costs and business challenges the proposals bring, businesses are broadly in support of BEPS with 69% admitting a global taxation standard is necessary. Indeed, when asked to rank the guiding principles of BEPS legislation, simplicity and business practicality ranked the highest with cost of implementation ranked as the lowest consideration.

However, most businesses surveyed see BEPS as a work in progress rather than the final solution, with more work needed by governments globally to ensure the original objectives of the proposals are met. 61% of those surveyed felt the BEPS action plan only moderately, slightly or did not at all satisfy the primary objective of ensuring tax is paid where profits are created and only a third (35%) felt it would largely or completely satisfy the objective of levelling the international playing field.

The effects of the BEPS project will prove a wake-up call for many middle size businesses. The new rules being introduced around the world will not only target highly complex tax structures involving Caribbean Islands but the day to day operations of many businesses. It is vital that all organisations that trade internationally review the impact of the changes to mitigate the considerable risks that these unprecedented changes present.

The Belgian implementation of the new BEPS rules are in the mean time introduced in the Belgian parliament. In September RSM Belgium will inform its clients about these new rules and the action that can / should be undertaken.

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