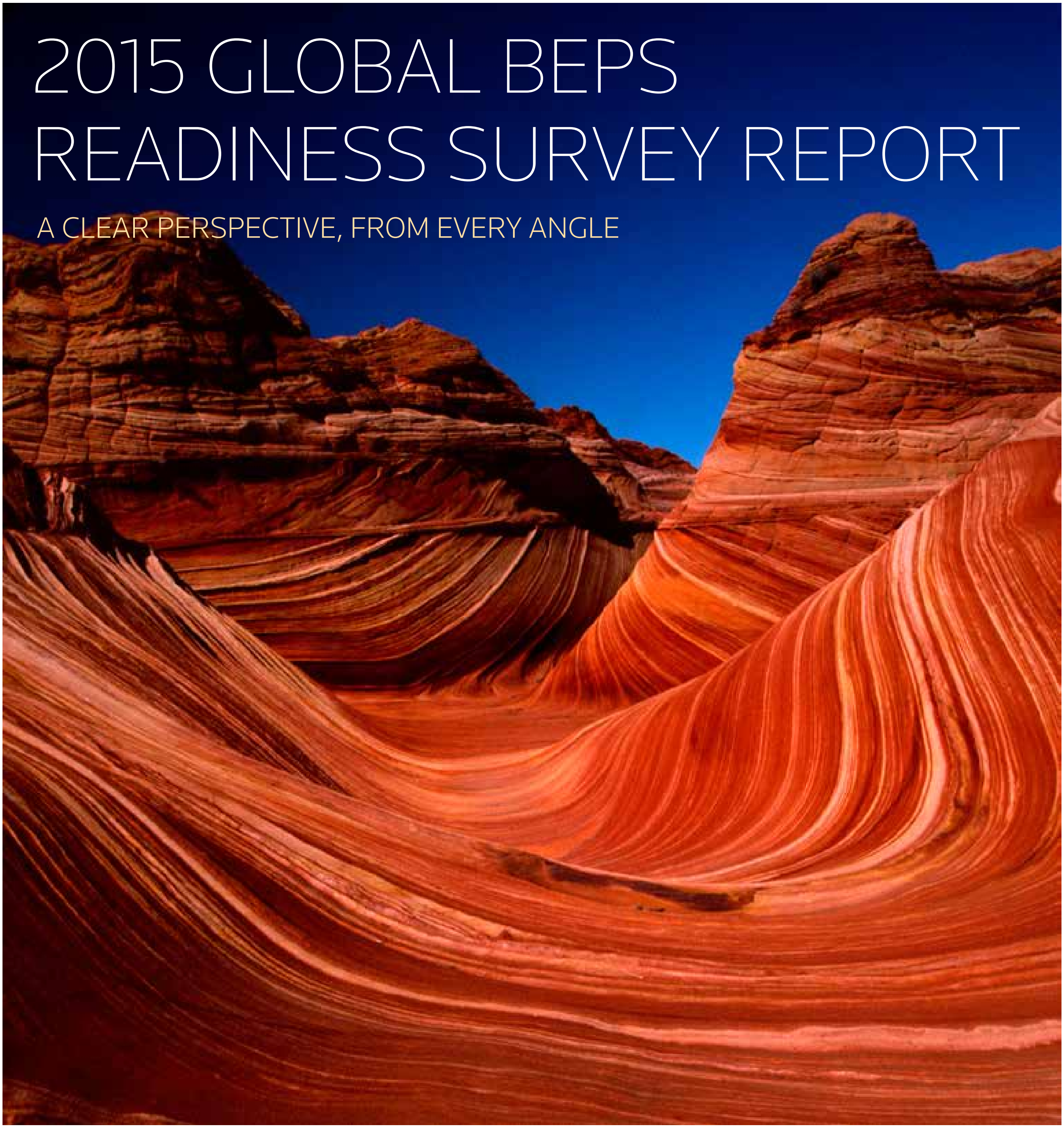
2015 GLOBAL BEPS READINESS SURVEY REPORT

A CLEAR PERSPECTIVE, FROM EVERY ANGLE



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PREPARING YOU FOR ACTION.

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EXECUTIVE SUMMARY

"This survey offers fantastic insight into how tax departments at multinational companies are behaving. The level of response is outstanding and demonstrates just how uncertain taxpayers are about BEPS and how important it is for peers to share their approaches to the difficult issues BEPS presents.

While many tax advisers, in particular, guess how companies are behaving in the run-up to BEPS, no one is certain. I think the results of the survey presented a few surprises for anyone who went through them."

Sophie Ashley
Editor of TP Week

October 6, 2015

The Organisation for Economic Co-operation and Development (OECD) has worked since 2012 to produce the Base Erosion and Profit Shifting (BEPS) Action Plan — a roadmap to help nations align their tax policies to address corporate tax avoidance.

This week, the OECD will present the plan to the G20 finance ministers in Lima, Peru. Next month, it will be taken up by the G20 Leaders Summit in Antalya, Turkey. The urgency and significance of the BEPS plan will undoubtedly become apparent in the wake of these G20 meetings as individual countries evaluate, debate and enact legislation to codify its proposals.

Indeed, the change already has begun. Several countries — including the UK, Australia, Spain, Mexico, the Netherlands, Poland, South Korea and China — have proposed new corporate tax rules reflecting the tenets of the BEPS Action Plan even before it is officially delivered.

In association with TP Week, Thomson Reuters surveyed 180 corporate executives and tax and transfer pricing directors across 35 countries and more than 20 industries to gauge their preparedness for the BEPS Action Plan.

Despite the accelerating pace of change, our report found that nearly half of the multinational companies surveyed are not actively preparing for the complex reporting requirements they are likely to face. Further, many are unaware of technology that can help them comply with the heightened regulatory demands.

Survey respondents said transfer pricing is the BEPS-related issue of greatest concern. In particular, the new requirement that companies are required to report their business activities on a country-by-country basis (including revenue, profits, taxes paid, employment, capital, tangible assets and more). Corporate concern over this requirement is well-founded: approximately two-thirds of respondents said their IT systems do not integrate with their transfer pricing documentation. This should be an area of focus for companies to ensure consistency between their transfer pricing policy, implementation, and documentation.

The goal of this survey is to shed light on how multinational companies are reacting to, and preparing for, the BEPS Action Plan. The findings uncovered trends, revealed risks, and exposed pain points on a global scale.

There is no question that BEPS will dramatically affect international tax professionals at companies around the world. We invite you to read this report and hope the information gleaned is valuable as you plan and execute your company's approach to this seismic shift. The findings certainly were eye-opening for us.

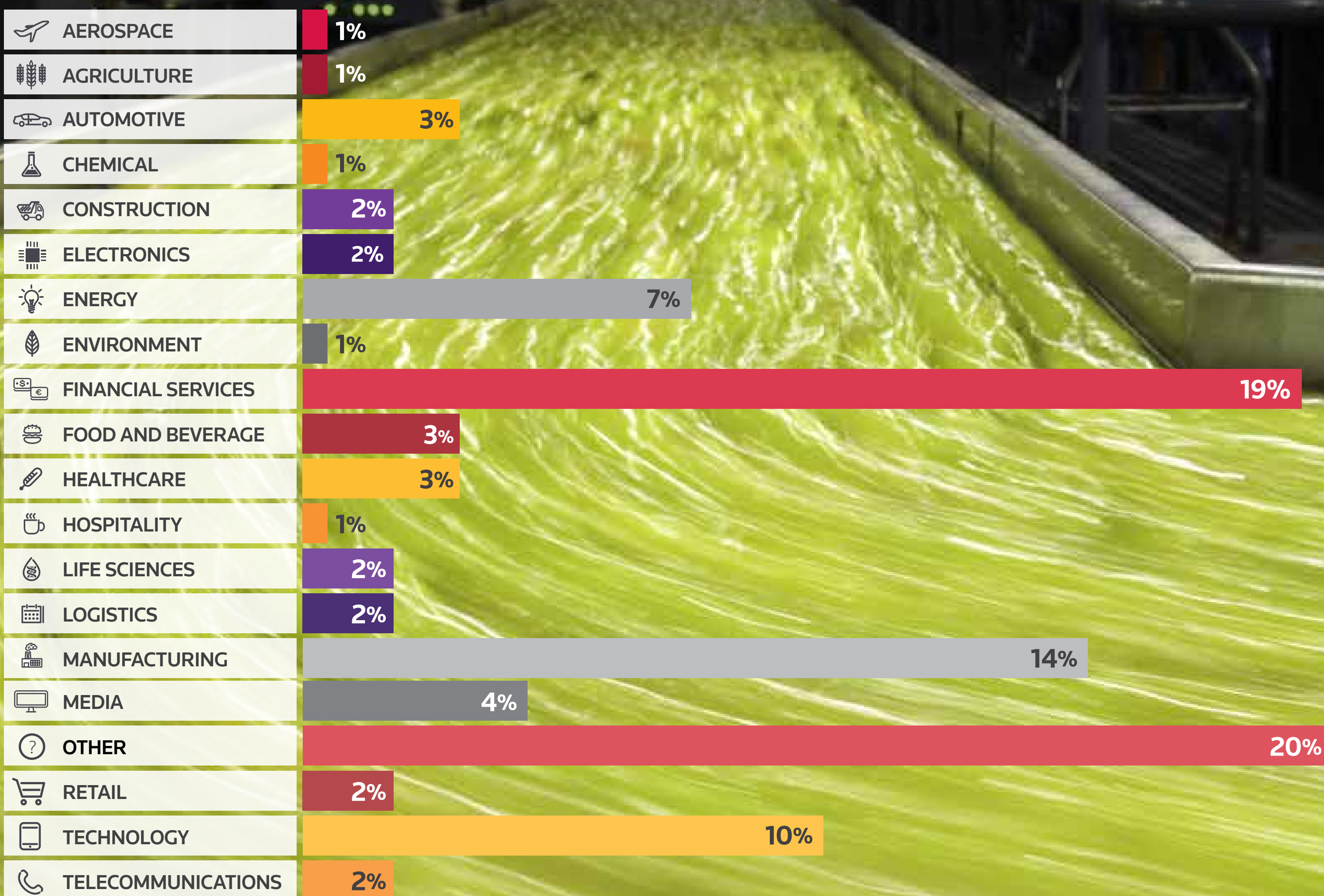
Best Regards,

Brian Peccarelli
President, Tax & Accounting

Thomson Reuters

RESPONDENT BREAKOUT

INDUSTRIES

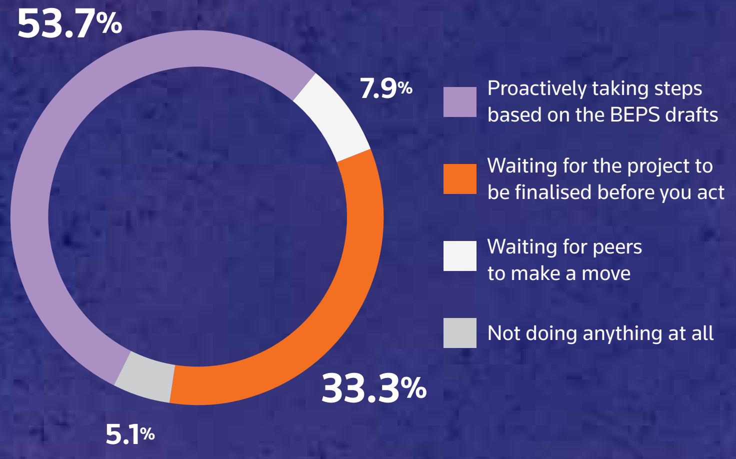


COUNTRIES

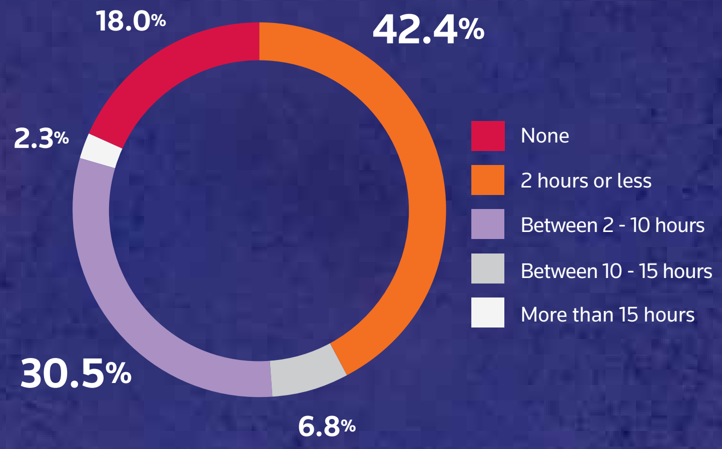
ARGENTINA	2%
AUSTRALIA	4%
AUSTRIA	<1%
BELGIUM	2%
BRAZIL	1%
CANADA	3%
CHINA	2%
COLOMBIA	<1%
DENMARK	2%
FRANCE	2%
GERMANY	<1%
GUINEA-BISSAU	<1%
INDIA	3%
IRAQ	<1%
IRELAND	1%
ITALY	<1%
JAMAICA	<1%
LUXEMBOURG	1%
MALAYSIA	3%
MEXICO	1%
NETHERLANDS	6%
NORWAY	2%
PERU	<1%
ROMANIA	<1%
RUSSIAN FEDERATION	1%
SINGAPORE	2%
SOUTH AFRICA	<1%
SPAIN	2%
SWEDEN	3%
SWITZERLAND	7%
TURKEY	<1%
UNITED ARAB EMIRATES	<1%
UNITED KINGDOM	20%
UNITED STATES	22%
VENEZUELA	<1%

MULTINATIONAL CORPORATIONS' (MNCs) RESPONSE TO DATE

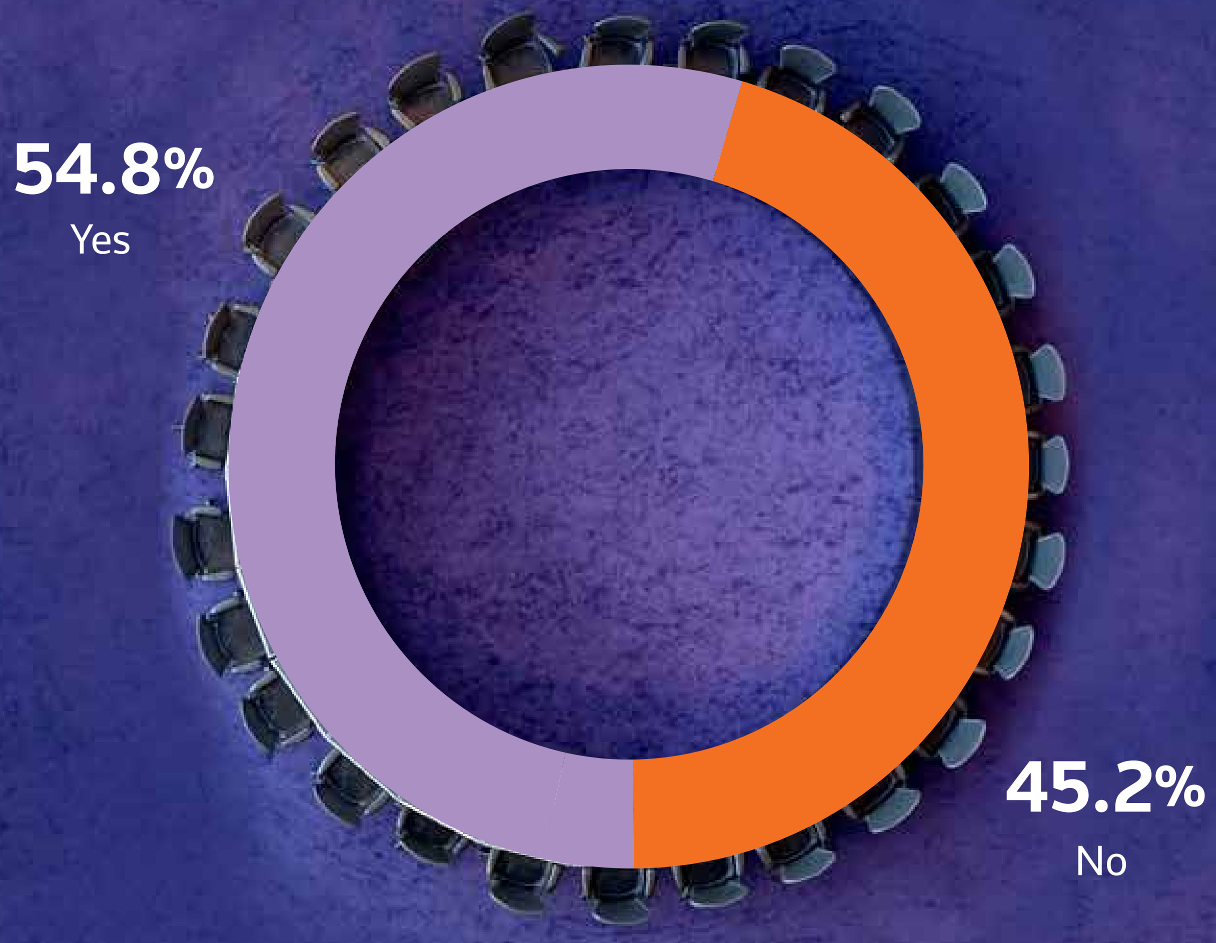
In general, what best describes your approach for responding to BEPS?



How much time per week are you spending on BEPS preparation?



Have you spoken to your company's board about BEPS measures?



MULTINATIONAL CORPORATIONS' (MNCs) RESPONSE TO DATE

OVERALL APPROACH TO BEPS

Slightly more than half of survey respondents (54%) said they are proactively preparing for BEPS regulations based on the anticipated OECD Action Plan, while the rest are waiting for the OECD project to be finalised (33%), waiting for peers to move first (8%), or doing nothing to prepare (5%).

The survey further found that European companies are more intensely focused on BEPS planning than their peers around the world. Fifty-nine percent of respondents from European-based corporations said they are proactively preparing, compared with 48% of companies in the Americas and Asia Pacific.

"Taxing authorities already are advancing BEPS legislation — particularly country-by-country reporting requirements," said Terry Hayes, senior tax writer for Thomson Reuters Checkpoint™ in Australia. "Companies that delay action too long may have difficulty staying abreast of regulatory developments in the various jurisdictions they operate in as well as preparing necessary data management and IT integration functionality."

TIME SPENT ON BEPS

When asked how much time they spend each week on BEPS preparation, 60% of all respondents answered "two hours or less" or "none." In Asia Pacific and Latin America, this reached 76% and 80%, respectively.

Again, BEPS preparation was found to be a higher priority in Europe, where 47% of respondents said they spend between two and 15 hours per week on BEPS activity, compared with 26% for the rest of the world. This may be due to a higher degree of BEPS-related policy activity taking place in Europe, where the UK, the Netherlands, Poland and Spain have proposed legislation broadly in line with the OECD recommendations.

"The wait-and-see approach at some companies may reflect skepticism that BEPS regulations will be finalised — or that they will be affected," Hayes said. "However, the legislative action in countries such as Australia and South Korea, and the important release of draft BEPS guidance in China last month, reflects that countries are moving on BEPS. The timelines may seem off, but that can be an illusion. A start date of January 1, 2016, for country-by-country reporting means the collection and preparation of data required for compliance will be in earnest."

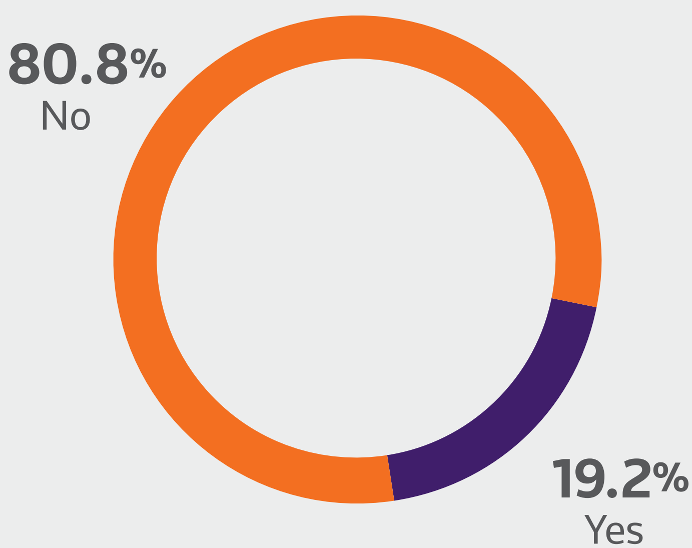
TALKING TO THE BOARD ABOUT BEPS

With the increased transparency that forthcoming BEPS-related legislation will likely require, it's no surprise that multinational corporations are discussing the topic at the board of directors table. Fifty-five percent of survey respondents globally have done so — although the number drops to 39% in the US and rises to 63% in Europe. The lower rate for US-based companies may be explained by the delay in BEPS-related legislative activity in the US relative to other countries and the continuing tax policy debate between the president and Congress in a general election cycle.

PROVIDING FEEDBACK TO THE OECD

When asked if they have submitted comments to the OECD regarding any of the BEPS discussion drafts, 81% said no. Again, Europe led the world in BEPS activism — 45% of the European respondents said their companies have submitted feedback through official channels compared with 11% across other countries.

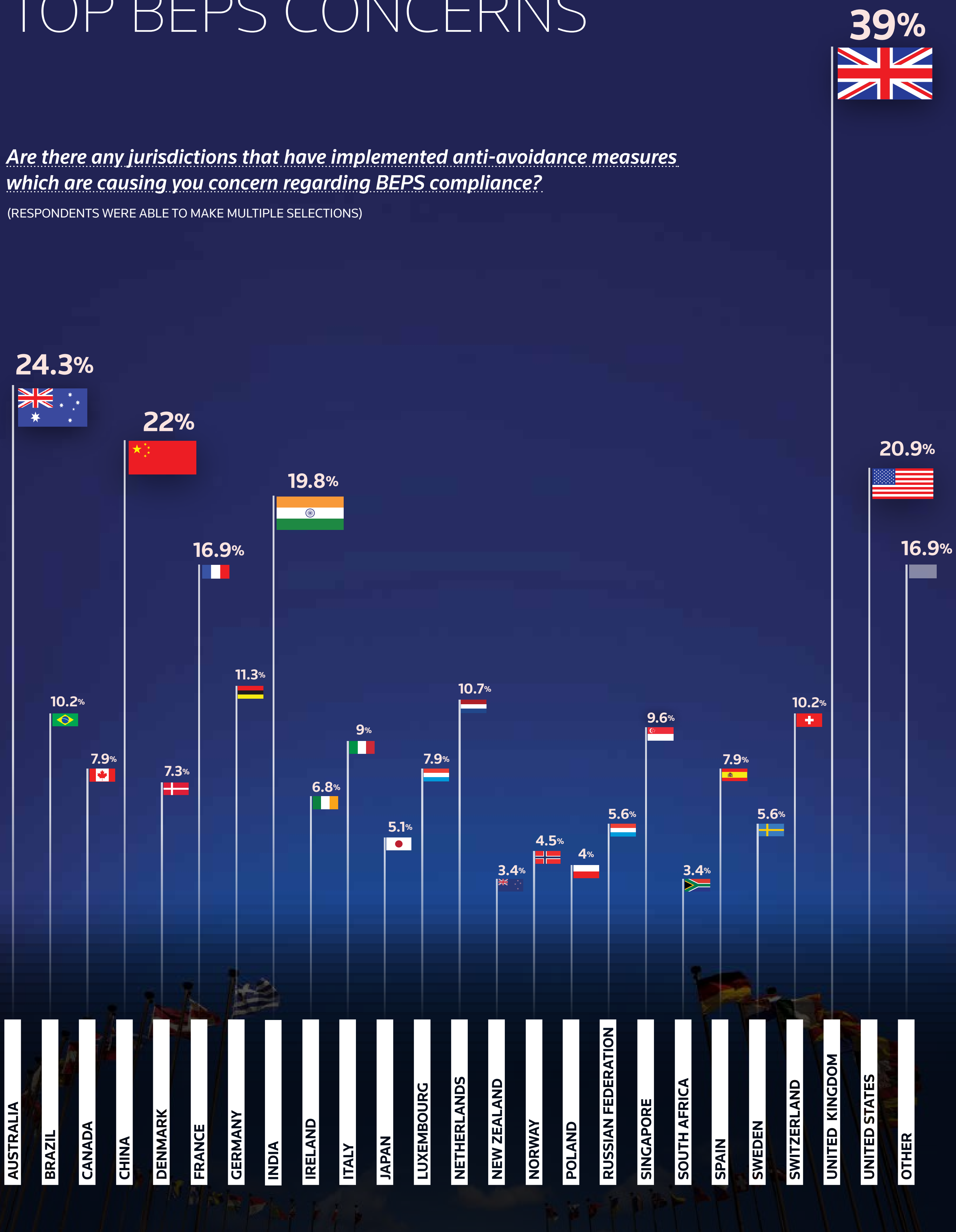
Have you submitted comments to the OECD on any of the BEPS discussion drafts?



TOP BEPS CONCERNS

Are there any jurisdictions that have implemented anti-avoidance measures which are causing you concern regarding BEPS compliance?

(RESPONDENTS WERE ABLE TO MAKE MULTIPLE SELECTIONS)



TOP BEPS CONCERNS

TRANSFER PRICING

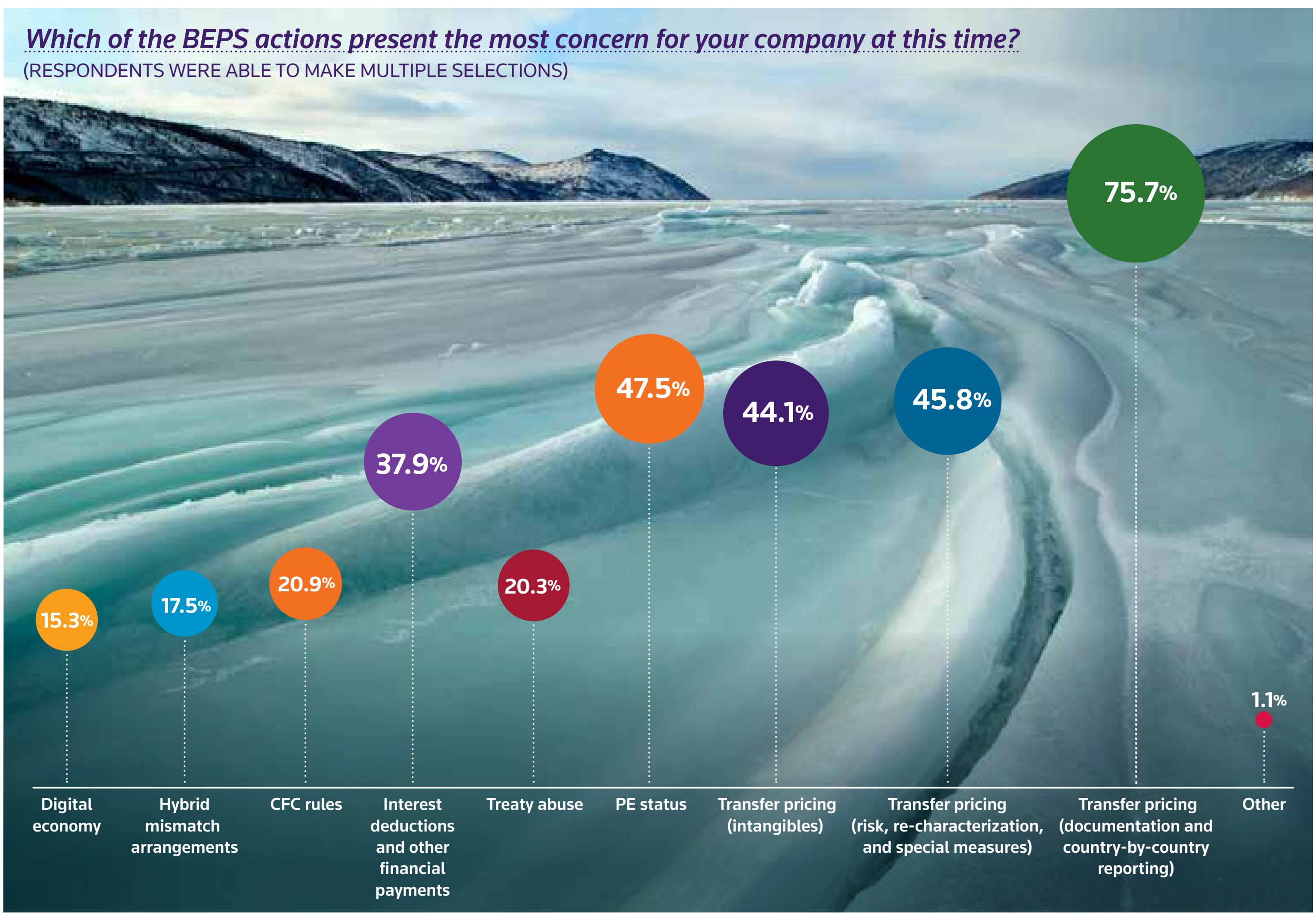
The most immediate BEPS-related concern for multinational corporations is transfer pricing. In the survey, most respondents said a transfer pricing issue, most notably documentation and country-by-country reporting requirements, is their greatest concern when it comes to meeting BEPS Action Plan requirements.

Under Item 13 of the BEPS Action Plan, companies with global revenues of more than €750 million (or the equivalent in local currency) need to begin compiling a country-by-country reporting template for fiscal years beginning on or after January 1, 2016, with submissions to tax authorities beginning January 1, 2017. This means that tax authorities could begin exchanging the first country-by-country reports as early as 2018 — creating unprecedented visibility into companies' tax footprints.

These unique requirements clearly create new challenges and compliance burdens for corporate tax departments and transfer pricing teams.

When asked if there were any jurisdictions that have implemented anti-avoidance measures that caused their company concern, the UK topped the list followed by Australia, China, and the US. Of the jurisdictions that have implemented anti-avoidance measures, the specific issues that are causing concern in BEPS compliance include country-specific issues (particularly the UK's diverted profits tax), business activities in specific countries, and historically difficult jurisdictions.

In Australia, legislation before Parliament would impose penalties of up to 100% of the tax owed when corporations use artificial or contrived arrangements to avoid attributing business profits to Australia. In addition, the legislation seeks to double the penalties imposed on significant global entities (i.e., those with global revenues above AUD$1 billion) that enter into tax avoidance or profit-shifting schemes.



ADDRESSING BEPS

Over the next several months, to which BEPS actions do you expect you or your staff to devote their time?

(RESPONDENTS WERE ABLE TO MAKE MULTIPLE SELECTIONS)

78.5% **Transfer pricing** (documentation & country-by-country reporting)

The majority of respondents expect their companies to devote time to BEPS Action 13 rules about documentation and Country-by-Country (CbC) reporting

50.3% **Transfer pricing** (risk, re-characterisation & special measures)

44.6% **Transfer pricing** (intangibles)

39% **Interest deductions & other financial payments**

49.2% **Permanent establishment (PE) status**

17.5% **Treaty abuse**

20.9% **Controlled foreign company (CFC) rules**

13% **Hybrid mismatch arrangements**

15.3% **Digital economy**

OPEN-ENDED RESPONSES

What are your main motivations for making these changes to your tax/business operations?

"Specific BEPS action items particularly around treaty benefits and PE risks that represent a change from the previous global norms instituted by the bilateral treaty network."

-Respondent from China

"Concern about BEPS changes, country-by-country reporting and adverse public opinion."

-Respondent from UK

"Avoid aggressive tax audit in the future and be prepared to answer to any question from the tax authorities in case of a tax audit."

-Respondent from Switzerland

ADDRESSING BEPS

ANTICIPATED OPERATIONAL CHANGES

When respondents were asked if they anticipate any changes to their tax or business operations in advance of BEPS regulations, 66% said they plan to review historical business structures, 30% anticipate a restructuring, and 28% said they expect to seek an advance pricing agreement or other tax ruling in a country.

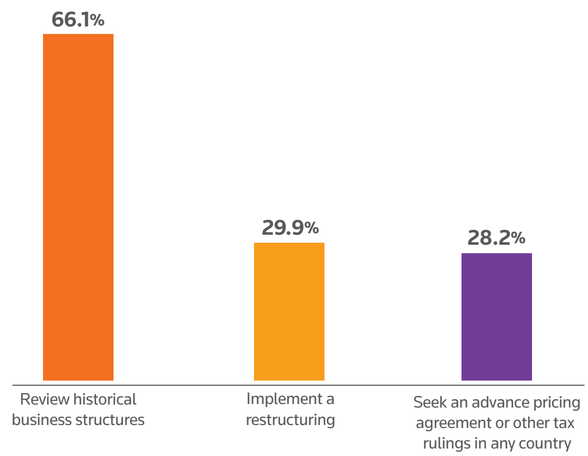
Among respondents already changing their corporate structure/transactions, the vast majority are acting specifically because of anticipated BEPS legislation, permanent establishment issues, and the digital economy. Other motivations for changing their tax and business operations include local legislation changes, preparing for other future requirements, and commercial considerations.

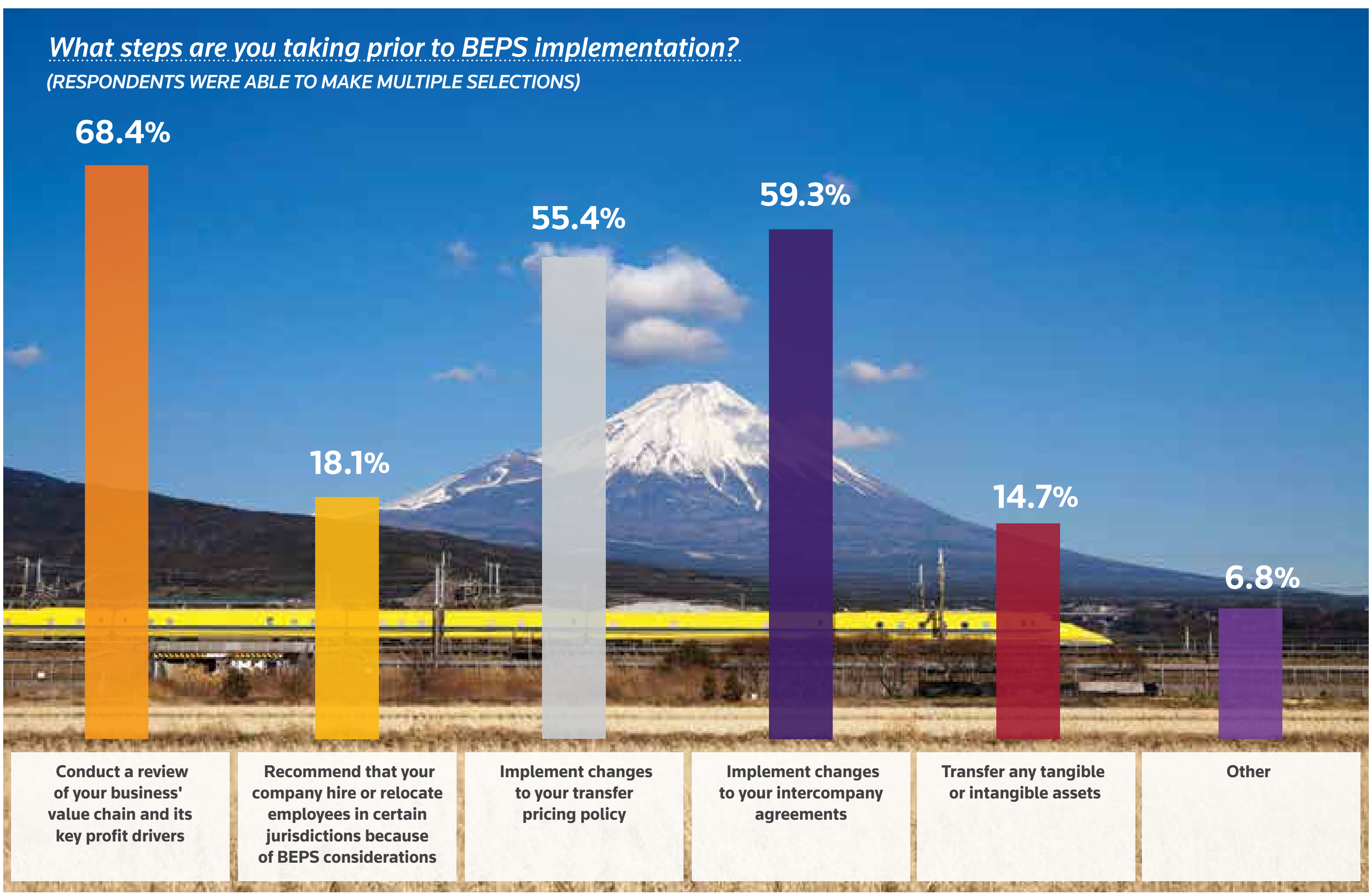
ADDITIONAL PRE-BEPS STEPS

More than two-thirds of respondents (68%) are planning to review their business' value chain and its key profit drivers prior to BEPS implementation. This is important in a post-BEPS environment. Price setting (including transfer prices) is a key component of complying with BEPS laws. This could affect profit drivers in the business and may lead to some reorganization. Additionally, inter-company pricing agreements will likely come under close scrutiny by tax authorities and will therefore need to be reviewed in light of BEPS legislation.

Do you anticipate any changes to your tax/business operations in advance of BEPS?

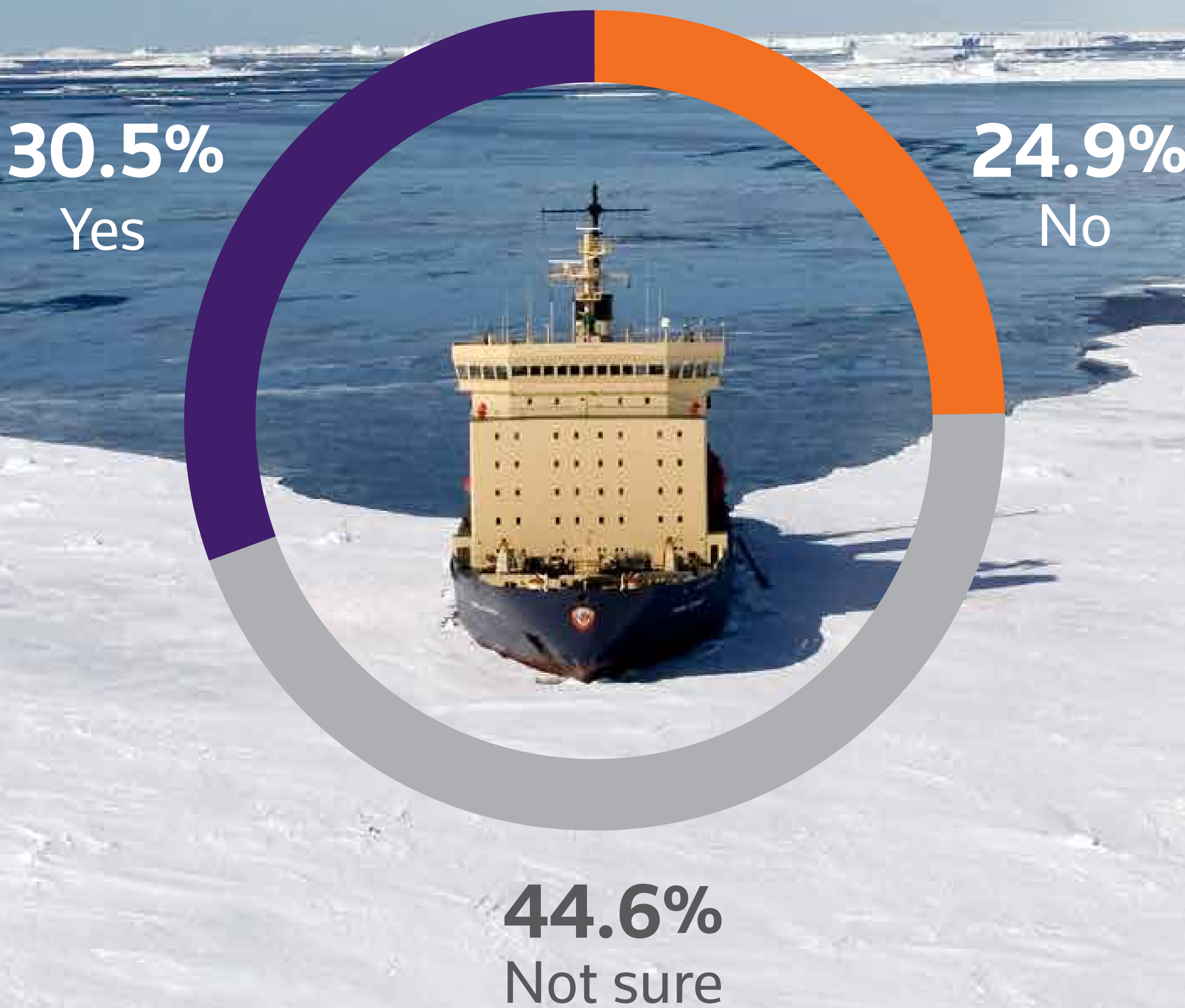
(TOP THREE RESPONSES. RESPONDENTS WERE ABLE TO MAKE MULTIPLE SELECTIONS)





ADDRESSING BEPS

Is your company prepared to provide more resources to help your department cooperate with BEPS measures?



ADDRESSING BEPS

RESOURCE ALLOCATION

When asked if their company is prepared to provide more resources to help their tax department cooperate with BEPS measures, 45% were unsure, 31% said yes, and 25% said no. Nearly one-quarter (24%) of US companies anticipate adding staff in advance of BEPS legislation, compared with 9% in all other countries.

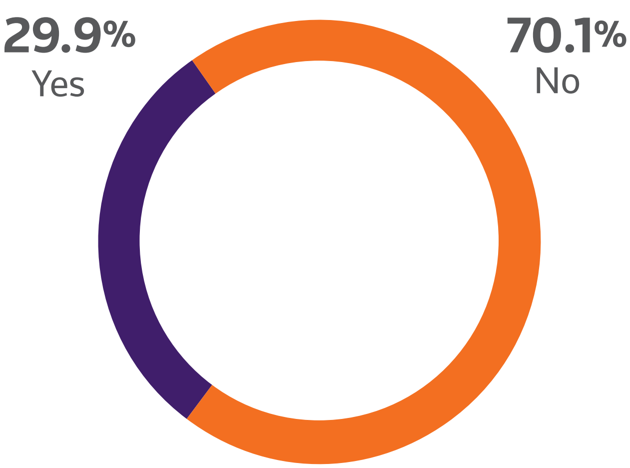
USE OF PRINCIPAL/COMMISSIONAIRE STRUCTURES

The majority of respondents (70%) said BEPS projects will not affect their use of principal/commissionaire structures. Of those affected, restructuring or moving away from the structures altogether are seen as the main options.

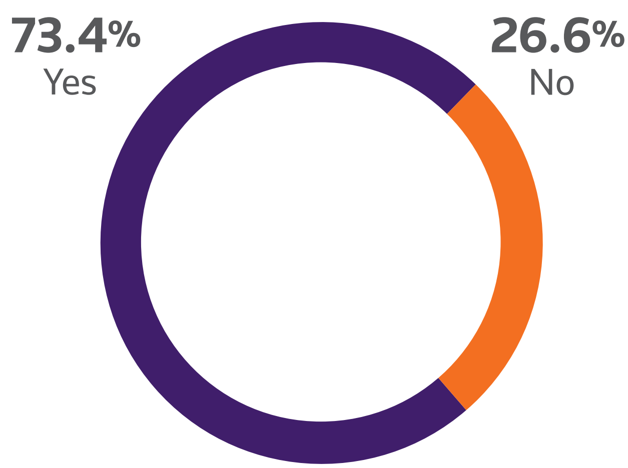
HITTING THE DEADLINE

When asked if they anticipate completing their first country-by-country analysis by deadline of Dec. 31, 2017, most respondents (73%) said yes — including 80% in the US and 78% in the UK.

Will BEPS affect your current use of principal/commissionaire structures?



Do you anticipate completing a country-by-country analysis by the December 31, 2017 due date for the first report?



OPEN-ENDED RESPONSES

If you are completing a country-by-country report well in advance of the due date, please state when and why?

"July 2015 — dry run. To ensure data availability, review outliers with potential to eliminate structures/entities prior to 2016 is appropriate. Preparation of reasoning/justification of outliers."

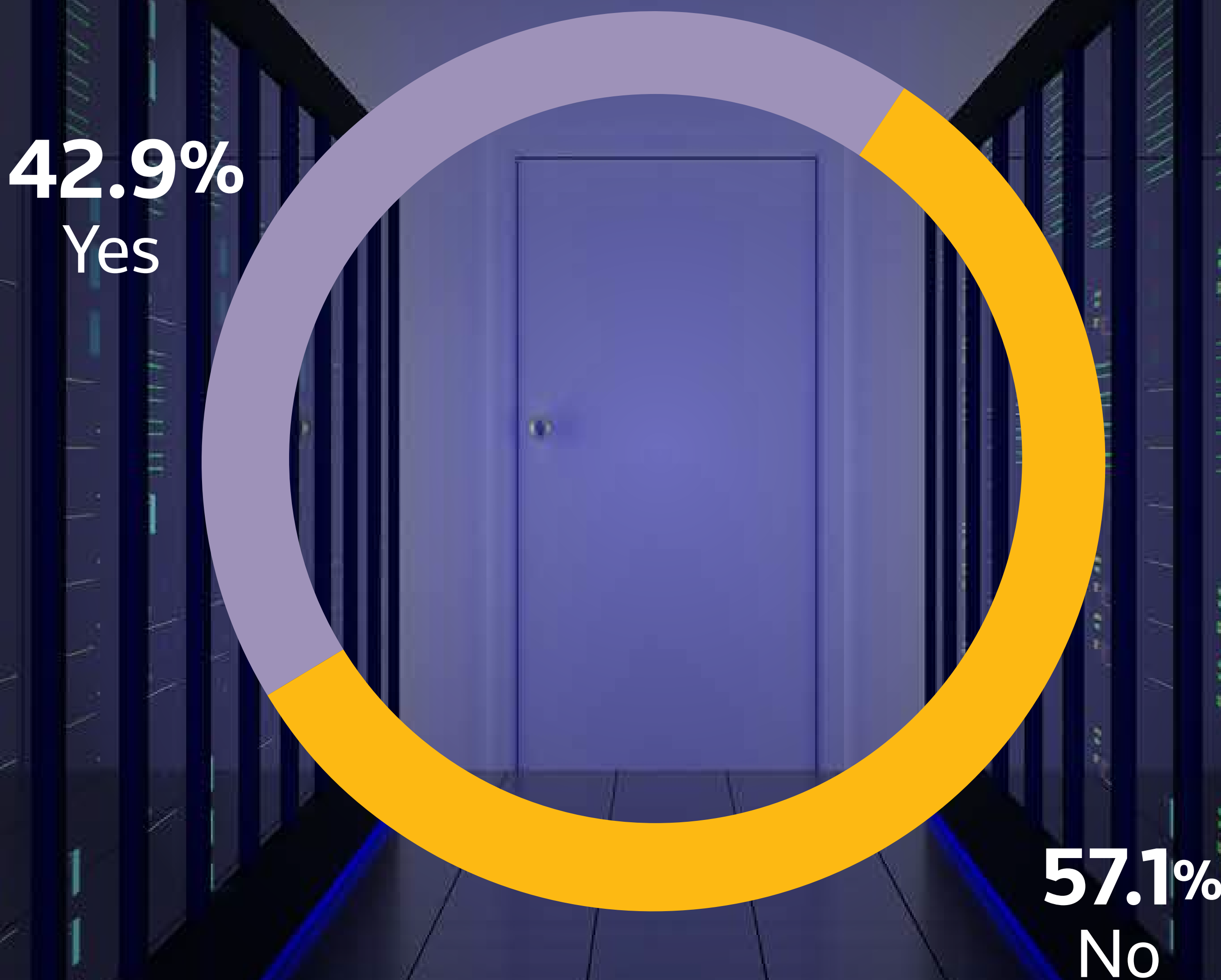
-Respondent from UK

"Need to see how it looks so we can proactively change anything that stands out as a problem."

-Respondent from US

TECHNOLOGICAL READINESS

Do you think the IT systems available on the market are sufficient to help companies cooperate with the country-by-country and TP documentation?



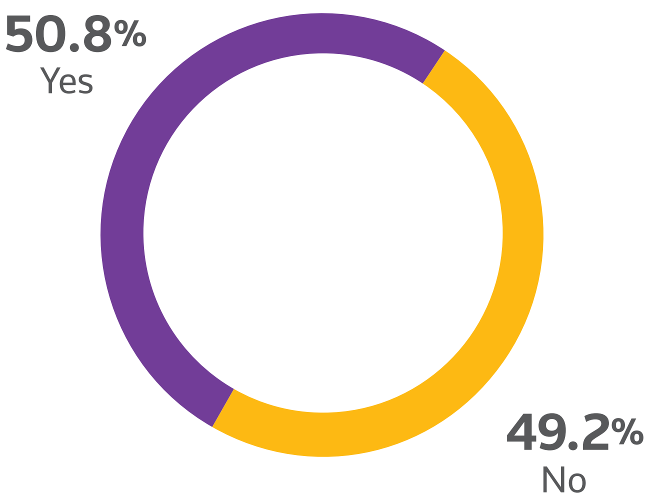
TECHNOLOGICAL READINESS

With countries enacting local regulations to comply with the OECD's anticipated recommendations, keeping up-to-date on legislative actions is a challenge — as this survey shows.

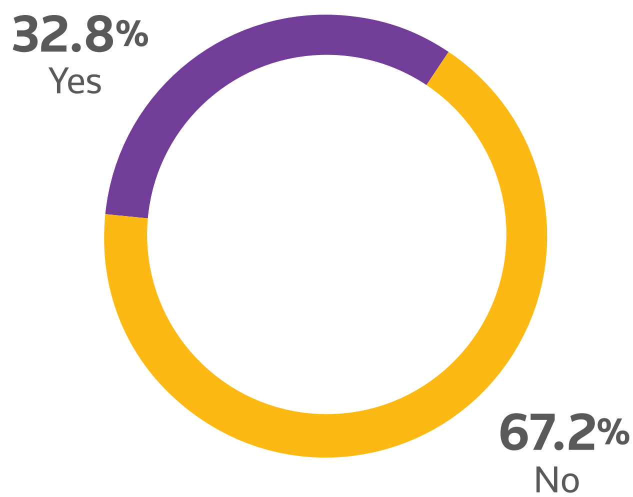
About half of the respondents (51%) said they have a database of intercompany agreements and tax rulings to comply with the new transfer pricing documentation requirements. Notably, when asked if they feel secure about their IT systems and how they integrate with their transfer pricing documentation, two-thirds said no.

These responses are surprising because BEPS proposals will mandate such record keeping. In addition, comprehensive tax technology solutions are needed to comply with master file and country-by-country reporting requirements. IT systems integration with transfer pricing documentation should be an area of focus for companies because, in the post-BEPS world, they will need to ensure a seamless flow between their transfer pricing policy, implementation and documentation.

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



Do you feel secure enough about your IT systems and how they integrate with your transfer pricing documentation in advance of final BEPS guidance?



RECOMMENDATIONS FOR MNCs

RECOMMENDATIONS FOR MNCs

With limited resources and aggressive timelines looming, how can corporate tax and transfer pricing teams successfully address the challenges of the BEPS Action Plan? It begins with reviewing historical and current transfer pricing documentation and intercompany policies so you can "know your story." In addition, identify inconsistencies and inefficiencies that may exist and address them. This is where up-to-date guidance and comprehensive tax technology is essential.

The BEPS project is supported by many countries, each with its own corresponding legislative activity. International tax professionals must keep up-to-date on the latest state of play for each of the 15 Action Items in all of the most economically active countries around the globe—which can add significant complexity and uncertainty to their tax planning and compliance activities. It is crucial to subscribe to the latest news, analysis, and guidance on BEPS-related legislation so that you can respond proactively to new developments, make strategic plans to minimise impact to your organization, and ensure you are in compliance with new standards as they are passed on a country-by-country basis.

Together with up-to-date guidance, the use of comprehensive tax technology is critical. Robust software solutions are available to help companies validate and leverage data, provide control and analytics, and effectively manage master file and country-by-country reporting requirements.

With several countries already enacting BEPS-related legislation and many more likely to follow, multinational companies without comprehensive tax technology in place for master file and country-by-country reporting will face a number of issues, including a high risk of error and inconsistencies and a higher risk of tax audits.

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. We have the solutions and the expertise to help companies navigate the new world of transfer pricing documentation and country-by-country reporting.

For more information, visit tax.thomsonreuters.com/BEPS.

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PREPARING YOU FOR ACTION.

Thomson Reuters BEPS research and technology solutions empower you with up-to-date knowledge, analysis and documentation tools to respond, comply, and advise as new laws and standards are passed on a country-by-country basis. We combine data, software, and research with global and local expertise to solve multinational tax compliance challenges.

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Get the clarity and perspective you need to see beyond the surface of the OECD BEPS Action Plan and better understand its impact on your organization. BEPS Global Currents from Thomson Reuters Checkpoint™ provides a comprehensive and customisable overview of the latest BEPS developments for all 15 Action Items in 47 countries, enabling you to respond proactively to new developments, make strategic plans to minimise impact to your organization and ensure you are in compliance with new laws and standards as they are passed by various countries.

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BEPS Action Manager from Thomson Reuters ONESOURCE™ combines research, data management, entity charting, document storage, reporting and analytics in a single solution, guaranteeing worldwide compliance and collaboration in a post-BEPS era.

Across the globe, from start to finish, BEPS Action Manager lays the foundation for a standardised and sustainable worldwide data collection process, enabling multinational corporations to document and report their results to taxing authorities. With up-to-date research, valuable risk assessments and intuitive analytics, multinational tax departments can remain current amidst an ever-evolving legislative landscape—and stay ahead of inquiries from various tax administrations.

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