

# How the “Fair Share of Tax” debate is heating up in Canada



Base Erosion and Profit Shifting (BEPS) started as a G8 political initiative coming out of the global economic crisis. Governments have been struggling for revenues, running deficits and taking a much closer look at their tax base. BEPS quickly expanded into an initiative of the G20 and the Organization for Economic Co-operation and Development (OECD) was asked to look into it. The OECD is essentially the standard setting body for tax. They issue guidelines that are usually followed in varying degrees by most countries including Canada. But non OECD countries are also at the table including China and India.

Essentially the OECD is rewriting the guidelines for international tax principles. Their particular focus is on situations where tax profits are perceived as geographically distinct from activities. The OECD initiative comprises 15 work streams over a two year period. On September 16, 2014, the OECD published its recommendations for seven of the 15 work streams. While they are now published, the proposed measures are not yet finalized as they may be impacted by the 2015 deliverables. We expect the rest of the recommendations to be issued by September 2015, however, we are already seeing countries pursuing their own actions and timetables unilaterally.

## Why should you pay attention to this issue?

The spin on BEPS is that legal tax avoidance is immoral and unfair. As a result, corporate taxation has become an issue of general interest and reputation, making its way into boardrooms across Canada. Any change in tax rules represents the potential for both risk and opportunity. However, the scale and scope of this initiative is unprecedented so the risks and opportunities are exponentially larger for most multinational businesses and it is emboldening governments to take a more aggressive approach to corporate taxation. If not managed properly companies could face higher cash and accounting tax costs in the future, see complexity of deals go up and face difficult tax audits in numerous countries.

To deal with the potential consequences, we believe boards and management need to consider their tax strategy now and prepare for the changes ahead.

# What you should be asking:



## Reputation

1. Do we understand how our current tax structure may affect the company's reputation?
2. Are we prepared to discuss our tax position with our stakeholders including investors, customers, employees and regulators?
3. Have we benchmarked where we stand compared to our peer group?
4. Do we have a crisis response plan prepared in case we get negative media attention?



## Preparedness and transparency

1. What processes do we have in place to monitor the OECD and country-specific tax changes that affect our business?
2. Who is prepared for questions around our tax strategy?
3. How do we plan ahead knowing that regulations within the jurisdictions we operate, and expectations, are changing rapidly?
4. What steps are we taking to respond to increased reporting requirements regarding our global corporate structure?



## Risk and controls

1. Where is our company on the risk continuum and where do we want to be?
2. How do we assess the effectiveness of our control procedures around tax risks?

## How PwC can help

Our ranking as the top global tax practice means we can bring our clients the knowledge and insight how BEPS could impact their business in every market they operate. Our industry-focused network of international tax, transfer pricing, tax technology and tax accounting specialists can be deployed quickly and can be scaled efficiently so our clients receive our support when they need it and how they want it. We can also bring non-tax resources to the table including our value chain transformation specialists, our risk and controls specialists and our corporate social responsibility specialists to provide our clients with a broader perspective on these issues. As an initial step, many clients are taking inventory of their current global tax structure and our BEPS Diagnostic is a powerful tool that can provide a high level phase one deliverable at a reasonable cost.

## Questions? Contact us.

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