

# Challenges of cooperation & compliance in times of fiscal consolidation - A taxpayer's view

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GE imagination at work

# Agenda

- Global Environment & the European Look – The shape of the (Tax) world is changing
- Main Government and Tax Authority actions/plans
- The Tax Risk Management perspective
- A Tax payers perspective 
- Key Observations



# Global Environment

## What s driving Global Tax Policy And Enforcement these days?

- **Deficits / fiscal consolidation needs**
- Globalization
- Corporate tax base, investment friendly environment, balancing (growth and jobs)
- Growing influence of the BRICS
- Increasing intergovernmental cooperation
- Less formalistic, more substance-driven rules
- New voices in the debate
- **OECD BEPS Action Plan**

## Recession, high unemployment, hangover of financial crisis + bonuses, populist politics. Spillover into tax area:

- US: NYT story on GE, Occupy Wall Street
- UK: Criticism of HMRC
- Increased activity by NGOs on tax & development
- Politicians – esp. on right – very nervous being identified with MNCs
- Bigger focus on tax havens, country by country reporting, transfer pricing, FTT (+OECD BEPS Action Plan)

## Global financial risks

- Poor global growth rates, austerity vs stimulus, West vs East, global regulations/ solutions?

## New debate around capitalism

- The rise of the Occupy movements, the Capitalism of the future?

## A few predictions:

- The public mood will only get worse
- Politicians, incl. from right, will play the anti-MNC card (wedge bw MNCs and SMEs)
- As tax revenues needs increase (stimulus + deficit) tax administrators will have more input into policy
- NGOs, and calls for more „transparency” will grow
- More pressure to reduce headline rate = more attacks on ‚special breaks’



# Focus on Europe

## - The EU and Financial Markets

- Public anger over austerity and low growth directed at banks
- Regulation at EU level: New regulatory bodies, FTT

## - What is next for the Eurozone?

- Recent downgrades of EU economies
- Lots of summits, but still more questions than answers
- Will the new treaty solve the crisis?
- Fiscal harmonisation?

## - Ongoing political uncertainty...

- 25 Member States signed up to new Fiscal Compact
- Prospects of a two speed Europe
- Questions over the UK's role in the EU

## - FTT at EU level (mid-2014?)

## - CbC (2015?)

## - Continuing attacks on financial and corporate sectors



# Main Government responses/plans

Keep deficit below 3% of GDP? Enhance growth? Cut Gov. spending? Stimulate Consumption? How to do it? Fiscal consolidation in focus.

## Examples:

- Property taxation (shifting to value based taxation, immovable property, vehicle tax)
- Consumption tax (wine, beer, tobacco etc.)..”health” taxes (”sin”, ”junk food” taxes)
- Taxation of gambling
- Environmental taxes (energy taxes)
- Abolition of special regimes in PIT
- Anti-evasion measures / countering tax evasion, GAAR
- Raise tax rates of existing taxes
- Make tax collection more effective
- Restrictions on loss utilization („minimum tax”), interest deduction
- Stricter penalties (criminal too) and sanctions
- Influencing economy by changing tax administration (e-registration, e-declaration, e-taxes..the Polish example, where no need of harsh measures..making it simpler to pay taxes & comply...compliance cost reduction )
- Cutting Gov. spending/expenditures
- More active cooperation between the tax authorities of countries (eg. Eol)
- Bank levy, FTT etc. etc.





# Tax risk management..



- The taxpayers' perspective

Internal tax risks: transactional, operational, compliance, financial accounting (specific), portfolio, management, reputational (generic)

External tax risk: **ongoing legislative and regulatory changes**, new case law result in changes in application and interpretation of tax laws

- The tax administration's perspective:

Risk management guide for tax administrations

(prepared by tax officials for tax officials, published by EC's Taxation and Customs Union Directorate General (February 2006))

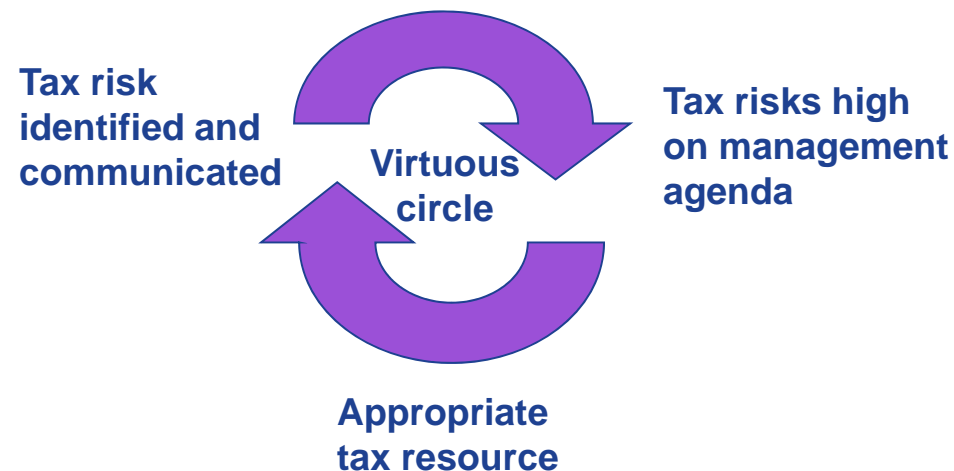
Context: legislation, public opinion, **economic conditions** (external),  
organisation, resources, tools and access to data (internal)

Risks: register, filing, payment, declaration

Both taxpayers and administration need to address the challenges of the changes  
in the global environment

# Tough internal environment too..

- Base cost challenges..
- Headcount challenges..
- All otherwise reasonable ideas get approval?
- IT Budget to support compliance projects?  
(eg to ease burden on tax audits..)



# Taxpayers perspective on Government actions & plans

- BE PREDICTABLE
- PROVIDE CLARITY
- BE SIMPLE

Taxpayers are fully aware of the unstable environment and fully understand the need of Government actions to address budget issues and challenges, however, WATCH..

All tax changes have an impact on ability to spend by **consumers** and ability to invest, grow by **companies**, ..impact on GDP growth  
Need **balancing**..

**Q: Is our tax function/management prepared to tell our story  
and ability to influence tax policy makers?**



# Do we anticipate any changes in managing our tax department, taxes in our countries?

- Resources (not just more...but composition of team/expertise)
- Access to knowledge bases (need to remain up-to-date on legislative developments more than ever + ability to influence?)
- More proactive participation in 'lobby' organizations?
- Change in focus areas (more on compliance & controllership?)
- **Relationship with the tax authorities (new dimensions? new approach in communication with tax authorities, including beyond audit times?..to tell your story, possibility of building positive reputation with finding common ground and use new language )**
- More conservative approach in setting up reserves?
- Ready to respond quickly to unexpected developments?
- More discussions & cooperation with other functions /stop the tax function to 'be an island'../ etc. ?



# Key Observations

- Tax administrators will have more input into policy
- Tax administrators will have more power to collect revenues
- Is this all bad news?...**not** necessarily
- Many tax authorities having to do more with less...there is a big incentive to get money from taxpayers quicker but many realize **cooperation not confrontation is more effective** (see eg. ,horizontal monitoring')
- Therefore, there is an opportunity to **re-set relationship & lead**
- New **opportunities for communicating**...to tell, share the company's positive story (eg total tax contribution)
- Further improve TP documentation process
- Reduce uncertainty with APAs where possible
- Adjust your team, resources, strategy (if necessary) in your tax department to be prepared for the changed environment and meet new challenges from the changing (tax) world, case by case company by company approach  
..no standard solutions



**See you  
soon!**

**Viszontlátásra  
!**

**Do  
zobaczenia  
wkrotce!**

**A bientôt!**

**Hasta luego!**

**Auf  
wiedersehen!**

**Tot ziens!**

