CFOs Should Prepare Now for Greater Global Tax Transparency

By Jay Nibbe, global vice chair of tax for EY

CFOs know corporate taxes are in the spotlight of policymakers and the public. CFOs are also uniquely positioned to prepare their businesses to meet heightened transparency standards that appear to be emerging from the global conversations.

Two transparency initiatives stand out from the 15 actions recommended by the Organisation for Economic Co-operation and Development (OECD) that are intended to end what some perceive as aggressive cross-border tax planning and transform the international tax framework. CFOs should direct their finance and tax functions to work closely together to meet these forthcoming obligations.

“Country-by-country reporting” is designed to provide high-level information about the jurisdictional allocation of profits, revenues, employees and assets. Equally important, but less widely understood, are the documentation requirements to provide insights into business processes, such as descriptions of the end-to-end supply chain for the largest products or services; the treasury and finance functions; intangible property; and the intercompany services organization.

Together, they will result in unprecedented levels of financial data disclosure across governments. Failure to comply with either may expose the company to regulatory actions and/or fines, and a loss of stakeholder trust.

These initiatives appear to be on the fast track for adoption by national governments, including the U.K. Meanwhile, countries are making unprecedented commitments to share both taxpayer data and enforcement strategies, as evidenced by an OECD-brokered automatic exchange of information pact signed in October by 51 countries.

In short, companies can assume what it tells one country will soon be shared with every country. And tax auditors that examine corporate tax returns with a microscope will need to add a wide-angle lens to their toolkit.

These developments escalate already heightened tax controversies for companies. In a recent EY survey, 60% of 87 global CFOs said their companies had experienced more frequent and more aggressive tax audits in past two years. Transfer pricing was their top source of tax controversy.

The paradox of these transparency initiatives is that the overwhelming majority of multinational enterprises are committed to complying with the world’s complex tax laws. These corporations would need to disclose even more information accurately and consistently in a way that inspires confidence with authorities rather than arouses unnecessary suspicions.

We would hope that this increased disclosure would help tax policymakers and tax enforcement authorities develop a greater commitment to avoiding double-taxation of income.

CFOs should be in contact with their tax directors to estimate their readiness to comply with these transparency requirements. There are many indications that most businesses aren’t as ready as they should be. In our survey, fewer than half of CFOs said they had reporting systems in place to comply with the heightened transfer pricing disclosure requirements. And just 22% said they had adequate resources to gather and provide the required transfer pricing information.

Complying with the separate country-by-country reporting requirements and the “master and local” transfer pricing files will be more complex due to the information categories. Ensuring information is reported in a consistent manner across the templates will be exponentially challenging.

Even though the first reporting deadlines using country-by-country reporting and transfer pricing master file templates may be a year or more away, CFOs need to support investment now in the right people, processes and technology to meet these disclosure requirements on their own terms. They need to consider how authorities will perceive information that is newly disclosed.

Finally, companies may need to update systems to modernize data collection and dissemination to produce useful documentation. Large proportions of companies in our survey indicated they still rely on spreadsheets rather than more efficient enterprise resource planning software for a wide variety of tax function purposes. Those who continue using outdated technology will struggle to manage the forthcoming tax transparency demands.