2017 Tax Risk and Controversy Survey Series

Tax steps into the light
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“In short, the task of managing tax risk and controversies is more difficult than ever. It is arguably even more challenging than some may have envisioned in October 2015, when the BEPS recommendations were published and the implementation phase began.”

— Rob Hanson
EY Global Tax Controversy Leader
The business of tax is undergoing a fundamental shift on a global scale, and the primary driver is the explosion of new transparency and reporting measures that have swept over the global landscape in recent years. That is the clear message from the 901 tax and finance executives in 69 jurisdictions who participated in the EY 2017 Tax Risk and Controversy Survey.

The enhanced transparency measures and new reporting requirements, many brought about by the Base Erosion and Profit Shifting (BEPS) project of the Organisation for Economic Co-operation and Development (OECD), have had profound implications for businesses’ tax compliance and reporting functions, audits and controversies, and reputational risk, which in turn have increased the need for companies to develop a cohesive approach to tax risk and controversy management.

At the same time, tax administrations are harnessing the power of digitalization to make better use of limited resources and extract more value from the information they receive. Tax authorities are increasingly relying on digital methods to collect taxpayer data and are using data analytics to mine this data to help them boost tax collections, target compliance initiatives and improve overall efficiency. Tax authorities are making strategic use of data analytics to make compliance and audit determinations and are increasingly sharing this data with tax authorities in other jurisdictions. This exposes businesses to more risk if their people, processes and systems are dated or out of sync with government requirements and expectations.

And just as companies are adjusting to the rapid changes to tax policy and enforcement brought by BEPS and the digital revolution, a wave of political uncertainty has added a new wrinkle to the tax risk environment. These “unknowns” — such as the tax implications of Brexit and the question of how, and whether, the new US Administration will take tax policy in a new direction — have prompted many businesses to analyze the potential impact these events could have on their tax strategy and business operations.

“In short, the task of managing tax risk and controversies is more difficult than ever,” says Rob Hanson, EY Global Tax Controversy Leader, based in Washington, DC. “It is arguably even more challenging than some may have envisioned in October 2015, when the BEPS recommendations were published and the implementation phase began.”

US Supreme Court Justice Louis Brandeis famously called sunlight the greatest disinfectant. But sunlight can also harm those who aren’t prepared to face the intensity of the sun’s rays. Our survey indicates businesses around the world are currently regarding the compliance environment as a prism through which they interpret demands for greater transparency. The sunlight is being dispersed into a spectrum of red, orange, yellow, green, blue, indigo and violet. Each color deserves its own contemplation. And those who step into the light should consider the risks and take the necessary precautions before stepping into this new (and hostile) environment.

This report, the first in a series of four, examines the highlights of the survey. References to “large” businesses appear throughout the text and accompanying graphics and refer to global businesses with more than US$3 billion in annual revenues.
Tax risk takes hold
Businesses everywhere are feeling the effects of more tax risk. Fifty-eight percent of survey respondents said they have experienced an increased focus by tax authorities on cross-border issues and/or transactions in the last two years. Fifty-five percent said they have experienced an increase in disclosure and transparency requirements, and 41% said they have seen an increase in the number or aggressiveness of tax audits. Eighteen percent said they have experienced an increase in the application of general anti-avoidance rules or specific anti-avoidance rules.

“It’s clear that businesses are under pressure from many stakeholders to demonstrate compliance with ever-changing tax laws,” Hanson says.

Interestingly, while the percentage of respondents who said they have experienced the use of “name and shame” techniques by tax authorities is small (8%), the fact that 8% represents 74 companies is a somewhat eye-opening statistic when considering that the “name and shame” approach has not, to date, become a widely implemented tool.

The survey results provide illuminating insight into the sources of tax risk and the effects they are having on companies’ tax risk management frameworks and reputation.

Have you experienced any of the following events in the last two years?

- An increased focus by tax authorities on cross-border issues and/or transactions: 58%
- An increase in disclosure and transparency requirements: 55%
- An increase in the number or aggressiveness of tax audits: 41%
- An increase in the application of general anti-avoidance rules or specific anti-avoidance rules: 18%
- The use of “name and shame” techniques by tax authorities: 8%

Multiple responses allowed

“It's clear that businesses are under pressure from many stakeholders to demonstrate compliance with ever-changing tax laws.”

— Rob Hanson
EY Global Tax Controversy Leader
Sources of risk
Globalization

Globalization has created new challenges for the tax function. The proliferation of larger, more complex business structures means that tax departments need to have robust processes in place to coordinate with tax authorities in multiple jurisdictions, identify the taxes and other laws and regulations to which the company is subject, quickly obtain necessary data and keep track of tax risks and controversies around the world.

Greater business complexity, of course, results in higher levels of tax risk. Our survey shows businesses are dealing with a host of risks. Chief among them are a greater risk or uncertainty around tax legislation or regulation and a greater risk or uncertainty around transfer pricing, which were each selected by 59% of respondents. Tax legislation/regulation-related risks were selected at significantly higher rates by businesses in the insurance sector (77%), power and utilities (75%) and media and entertainment (71%). Businesses in life sciences and mining/metals (both 78%), technology (77%) and health (76%) reported the highest levels of concerns around transfer pricing-related risks.

That transfer pricing is a leading source of risk is unsurprising, given the unprecedented level of scrutiny that companies’ transfer pricing activities have been under from multiple stakeholders, including national policymakers, the news media, activist groups and supranational organizations. This is also consistent with the findings in the EY 2016 Global Transfer Pricing Survey of transfer pricing professionals, in which 75% of companies identified risk management as their top transfer pricing priority, up from 66% in 2013 and 50% in 2010 and 2007.¹

Greater complexity in supply chains is a particular area of concern for businesses in life sciences (48%), consumer products and retail (47%) and health (38%) (this challenge was cited by 24% of all survey respondents). A greater risk or uncertainty around the “substance” of legal entities is a major concern for businesses in private equity (83%), wealth and asset management (53%), technology (51%) and health (48%), compared to the 28% of all respondents who cited it as a concern.

1 See ey.com/tpsurvey for more information.

In the past two years, which of the following challenges associated with globalization have materialized at your company?

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Greater risk or uncertainty around transfer pricing</td>
<td>59%</td>
</tr>
<tr>
<td>Greater risk or uncertainty around tax legislation or regulation</td>
<td>59%</td>
</tr>
<tr>
<td>Greater risk or uncertainty around tax audits</td>
<td>46%</td>
</tr>
<tr>
<td>Greater complexity around effective tax rate management</td>
<td>40%</td>
</tr>
<tr>
<td>Tax reporting operational or data challenges</td>
<td>39%</td>
</tr>
<tr>
<td>More internationally mobile workforce</td>
<td>29%</td>
</tr>
<tr>
<td>Greater risk or uncertainty around the “substance” of legal entities</td>
<td>28%</td>
</tr>
<tr>
<td>Increased PE risk</td>
<td>26%</td>
</tr>
<tr>
<td>Greater complexity in supply chains</td>
<td>24%</td>
</tr>
<tr>
<td>Greater risk or uncertainty around customs</td>
<td>16%</td>
</tr>
<tr>
<td>Greater risk or uncertainty from EU State Aid investigations/enforcement</td>
<td>12%</td>
</tr>
</tbody>
</table>

Multiple responses allowed
Tax reporting operational or data challenges were cited as an area of particular concern by businesses in wealth and asset management (57%), insurance (52%) and oil and gas and private equity (both 50%), when compared to all survey respondents (39%).

The ongoing investigations by the European Commission (Commission) of the tax ruling practices of European Union (EU) Member States, which so far have resulted in several Commission decisions that tax rulings granted to certain multinational corporations violated EU State Aid rules (and that the Member State must recover the illegal aid received by the taxpayer), were cited as a concern by only 12% of the overall survey population. However, given that the tax rulings being scrutinized generally affect a narrow subset of businesses, that small number makes sense. Our survey revealed that a greater risk or uncertainty from EU State Aid investigations/enforcements is being felt by businesses in life sciences (30%), technology (26%), telecommunications (24%), government and public sector and wealth and asset management (both 20%) and automotive/transportation and health (both 19%).

In terms of which specific activities or issues represent the highest tax risks for their company, transfer pricing of goods and services received the highest votes (on a weighted basis), followed by indirect taxes, permanent establishment (PE) risk, limitation of deductibility of financing expenses and withholding taxes.
Jurisdictional risks

Overall, survey respondents identified 121 jurisdictions as one of their top three locations for tax risk in the next two years. The top five tax risk jurisdictions (on a weighted basis) were, in descending order, the United States, China, United Kingdom, Australia and India. Among US businesses, the top five were the United States, United Kingdom, China, India and Mexico. EMEIA-based businesses selected the United States, United Kingdom, Germany, China and India as their top five, while businesses in the BRICS countries selected China, India, Russia, Nigeria and the United States.

“Perceptions of jurisdictional risk seem to be shifting back to developed economies,” says Sydney-based Howard Adams, EY Asia-Pacific Tax Controversy Leader. “This may be a lagging effect of governments needing more revenue and revenue authorities gaining more tools to collect it.”

For instance, Adams says, governments have been taking increasingly aggressive enforcement approaches in developed countries such as Australia (e.g., the Multinational Anti-Avoidance Law, the Diverted Profits Tax, new rules requiring tax and financial advisors to report potentially aggressive tax planning schemes) and the United Kingdom (e.g., the Diverted Profits Tax, stiffer penalties for individuals or corporations who enable offshore tax evasion, proposed new corporate criminal offenses for failure to prevent the facilitation of tax evasion).

“Perceptions of jurisdictional risk seem to be shifting back to developed economies. This may be a lagging effect of governments needing more revenue and revenue authorities gaining more tools to collect it.”

— Howard Adams
EY Asia-Pacific Tax Controversy Leader

Top 10 jurisdictions that respondents expect to present the most significant tax-related risks in the next two years

1. United States
2. China
3. United Kingdom
4. Australia
5. India
6. Germany
7. Brazil
8. France
9. Mexico
10. Italy
“Concerns about the United States could be driven by the high level of uncertainty around how – and whether – the US Congress will enact comprehensive tax reform,” says Washington, DC-based Heather Maloy, EY Tax Controversy Leader for the US.

On the question of how entering into or operating in emerging markets affects their company’s levels of tax risk and controversy, 34% of all respondents said doing so “somewhat” increases their risks, while 20% said it “significantly” increases their risks. Nearly 14% said it has no real impact. The results were not significantly different for large businesses; 43% said the risks were “somewhat” increased, 25% said “significantly” and 11% said it has no real impact.

As for which emerging markets have the most significant potential for tax-related risks, the top five identified by all respondents were, on a weighted basis (and in descending order), China, India, Brazil, Mexico and Russia.
Transparency and reputational risks

Despite the unprecedented number of disclosure and reporting measures that have been introduced in the wake of the BEPS project, businesses appear to be gearing up for even more. Nearly 55% of all respondents said they think global disclosure, reporting and transparency requirements will increase significantly in the next two years. Forty percent said they think requirements will increase somewhat, and just 3% believe they will remain the same. Among large businesses, 69% said they think requirements will increase significantly, and 30% believe they will increase somewhat.

Moreover, as the “fair share of tax” debate continues to generate much attention, some policymakers and other stakeholders are calling for companies to publicly disclose the amount of taxes they pay in the countries where they do business. Whether that is proposed to be accomplished through a mandatory public country-by-country reporting (CbCR) mechanism or adoption of a voluntary public disclosure initiative, such as Australia’s Tax Transparency Code, tax-related reputational risks remain a key concern for many businesses.

Sixty percent of all businesses surveyed said they are somewhat, very or extremely concerned about media coverage of the “fair share” of taxes paid by some entities or their seemingly low effective tax rates. Among large businesses, this number jumps to 70%. Moreover, 56% of all companies said they are somewhat, very or extremely concerned that governments will require public disclosure of the amount of taxes their company pays where it operates. Again, this number increases for large businesses (to 72%).

Nearly 20% of all businesses said they have made a public statement in their website or financial statements on their approach to their global tax obligations (e.g., a tax policy statement, a report on taxes paid or other similar statement). Nearly 30% of large businesses said they have done so.
“Reputational risk remains an acute concern for many tax departments – and their C-suite stakeholders. Sometimes being proactive in communicating can be productive, but it’s always critical to know as much about your tax operations around the world so you can be equipped to respond and explain, if necessary.”

— Jean-Pierre Lieb

EY EMEIA Tax Policy and Controversy Leader

“Reputational risk remains an acute concern for many tax departments – and their C-suite stakeholders,” says Paris-based Jean-Pierre Lieb, EMEIA Tax Policy and Controversy Leader for EY. “Sometimes being proactive in communicating can be productive, but it’s always critical to know as much about your tax operations around the world so you can be equipped to respond and explain, if necessary.”

Large businesses were more likely to engage with the news media on their tax affairs, probably because many are publicly traded. Eighteen percent said they have done so, compared to 9% of the overall survey population. Among businesses that do engage, a majority reported successful outcomes. Nearly 88% of them said they were somewhat, very or completely successful at accomplishing their goals and objectives (the number is slightly lower (85%) for large businesses). Only 1% of all businesses, and 2% of large businesses, said they were not successful at all.

Do you engage with the press on tax issues?

<table>
<thead>
<tr>
<th></th>
<th>Overall survey respondents</th>
<th>Large businesses</th>
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</thead>
<tbody>
<tr>
<td>No</td>
<td>91%</td>
<td>82%</td>
</tr>
<tr>
<td>Yes</td>
<td>9%</td>
<td>18%</td>
</tr>
</tbody>
</table>

If you do engage with the press on tax issues, how successful are you at accomplishing your goals and objectives?

<table>
<thead>
<tr>
<th></th>
<th>Overall survey respondents</th>
<th>Large businesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Somewhat successful</td>
<td>59%</td>
<td>61%</td>
</tr>
<tr>
<td>Very successful</td>
<td>27%</td>
<td>20%</td>
</tr>
<tr>
<td>Not very successful</td>
<td>11%</td>
<td>12%</td>
</tr>
<tr>
<td>Completely successful</td>
<td>2%</td>
<td>4%</td>
</tr>
<tr>
<td>Not successful at all</td>
<td>1%</td>
<td>2%</td>
</tr>
</tbody>
</table>
Impact on tax planning and structures
The survey shows that the new era of tax risks — whether those risks derive from BEPS implementation, digitalization, political uncertainty or other elements — is clearly having operational impacts. Fifty-four percent of all businesses said that tax controversy management has become somewhat or more important for their entity in the last two years. Among large businesses, that number increases to 64%.

For businesses that have existing tax controversy policies, 73% said they have made some kind of changes (minor, significant or completely revised) to those policies over the past two years.

The heightened tax risk environment is also affecting other elements of companies’ business. Thirty percent of all respondents said they changed a transfer pricing arrangement because of tax risk. Another 23% said they changed a financing arrangement, 17% said they changed the substance of the legal entity involved, and another 17% said they modified an M&A transaction.

**Addressing risk**

There is evidence that businesses continue to put in place processes and tools to manage their tax risks. More than half of respondents (54%) said they have complete or substantial visibility over active tax disputes (including open audits) around the world, compared to 43% reporting complete visibility in our previous survey. Another 14% said they have partial visibility. Those numbers are slightly higher for large businesses – 33% said they have substantial visibility, 32% have complete visibility and 16% have partial visibility.

“It is absolutely critical in the current environment to have a clear and structured line-of-sight for controversy and potential controversy around your organization,” says Klaus von Brocke, EU Direct Tax Leader for Ernst & Young GmbH.

“Businesses should also have a plan for setting out an order of relevancy or priority around upcoming tax controversies,” von Brocke adds. “A seemingly minor issue with, say, a nongovernmental organization over some leaked tax data should be given as much attention as a multimillion dollar tax dispute that could potentially end up in court. Focusing more on the latter at the expense of the former could prove to be a fatal error.”

Businesses are also taking steps to ensure that their CEO, board of directors and/or other business departments are involved in tax matters. Nearly 41% of all respondents said their CEO and/or board’s oversight relating to tax risk and controversy management has increased somewhat over the past two years, while nearly 11% said it has increased significantly. Seventy-three percent of respondents said they provide periodic briefings to the CEO or CFO on how tax risks and/or tax controversy are managed. Respondents also indicated that periodic briefings are given to the audit committee (41%), the board (35%), the internal audit or corporate risk department (28%), other business units (25%) and human resources (10%).

Heightened risks have also prompted businesses to improve their documentation processes. Nearly 48% of all companies said they have somewhat increased their focus over the last two years on the documentation of transactions for tax purposes, while almost 20% said they have significantly increased their focus. Reducing compliance risks (66%) was the leading driver for companies changing their documentation approach, followed by “in response to country-level legislative developments” (39%) and “in response to the BEPS project” (36%).

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**Has tax risk impacted the nature or structure of a transaction you were contemplating in any of the following ways?**

- **30%** Changed a transfer pricing arrangement
- **23%** Changed a financing arrangement
- **17%** Changed the substance of the legal entity involved
- **14%** Changed the functions allocation
- **14%** Modified an M&A transaction
- **11%** Modified an investment in a new tax jurisdiction
- **3%** Stopped an M&A transaction
- **2%** Resulted in a disinvestment
**Dispute resolution**

The rapidly evolving legislative and regulatory landscape, increasing demands for data and aggressive enforcement efforts have no doubt increased the number of tax disputes, which in turn has put more pressure on both taxpayers and tax authorities to find better ways of preventing controversy and, if it cannot be avoided, developing more effective and efficient dispute resolution mechanisms.

Advance pricing agreements (APAs) have long been a key tool for taxpayers and tax authorities to reducing the risk of future transfer pricing disputes. However, amid complaints from some taxpayers in recent years that obtaining an APA is burdensome and takes too much time, it appears that enthusiasm for APAs is waning. Only 9% of respondents said they have used unilateral APAs in the last two years, and just 13% said they have used bilateral APAs. This is consistent with the findings in the EY 2016 Global Transfer Pricing Survey, where only 37% of companies said they are using either bilateral APAs (16%), unilateral APAs (14%) or a combination of the two (7%).

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**Over the course of the past two years, which of the following pre-filing tools has your company used?**

<table>
<thead>
<tr>
<th>Tool</th>
<th>Overall survey respondents</th>
<th>Large businesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advance rulings (private letter ruling)</td>
<td>26%</td>
<td>41%</td>
</tr>
<tr>
<td>Bilateral APAs</td>
<td>13%</td>
<td>27%</td>
</tr>
<tr>
<td>Unilateral APAs</td>
<td>9%</td>
<td>19%</td>
</tr>
<tr>
<td>Pre-filing agreements</td>
<td>7%</td>
<td>9%</td>
</tr>
<tr>
<td>Cooperative compliance agreement</td>
<td>6%</td>
<td>11%</td>
</tr>
</tbody>
</table>

Multiple responses allowed

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“It is absolutely critical in the current environment to have a clear and structured line-of-sight of flashpoints for controversy and potential controversy around your organization.”

— Klaus von Brocke
EU Direct Tax Leader for Ernst & Young GmbH

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Impact on tax planning and structures

Tax steps into the light | 13
“Building mutual trust takes time and effort. Theoretically, cooperative compliance arrangements can be mutually beneficial to both taxpayer and government, but making these programs succeed requires good-faith efforts from both parties. The survey data shows businesses are open but proceeding with caution.”

— Rob Hanson

EY Global Tax Controversy Leader

Moreover, only 12% of respondents said they are likely to use unilateral APAs in the next two years; just 17% said they are likely to use bilateral APAs. The numbers are slightly higher among large businesses – 22% said they are likely to use unilateral APAs in the next two years, with 30% saying they are likely to use bilateral APAs.

In the next two years, are you likely to use one or more of the following?

<table>
<thead>
<tr>
<th>Agreement Type</th>
<th>Overall Survey Respondents</th>
<th>Large Businesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advance rulings (private letter ruling)</td>
<td>29%</td>
<td>40%</td>
</tr>
<tr>
<td>Bilateral APAs</td>
<td>17%</td>
<td>30%</td>
</tr>
<tr>
<td>Unilateral APAs</td>
<td>12%</td>
<td>22%</td>
</tr>
<tr>
<td>Pre-filing agreements</td>
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<td>14%</td>
</tr>
<tr>
<td>Cooperative compliance agreement</td>
<td>7%</td>
<td>11%</td>
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Multiple responses allowed
Impact on tax planning and structures

There also does not appear to have been much movement in the use of mutual agreement procedures (MAP), with 23% of companies reporting that their use of MAP has not really changed in the last two years. Just 7% said it has increased somewhat, and only 2% said it has increased significantly.

The survey results further suggest there may be some resistance around the OECD’s efforts to drive higher adoption of cooperative compliance programs. On the one hand, the number of businesses who said that one or more tax administrators have sought to develop a more open and collaborative relationship with them has increased since the last survey – 39%, up from 27% in 2014.

On other hand, there was a relatively lukewarm response to the question of how businesses regard the possibility of entering into a cooperative compliance agreement (such as the Dutch horizontal monitoring program) with one or more tax administrations. Among large businesses (to whom such programs generally are targeted), 12% said they are already participating in such a program. Nearly 32% said they are open to the possibility but have some reservations, while 13% said they are completely open to the possibility. Eight percent said they are not open to the possibility (nearly 35% said they don’t know).

Of the large businesses who have pursued such relationships, 35% said they have had a generally positive experience. Twenty-eight percent said it’s too early to tell, 19% said they have had mixed results and 18% said their experience has generally been disappointing.

“Building mutual trust takes time and effort,” Hanson says. “Theoretically, cooperative compliance arrangements can be mutually beneficial to both taxpayer and government, but making these programs succeed requires good-faith efforts from both parties. The survey data shows businesses are open but proceeding with caution.”

BEPS readiness

Businesses have had to invest an enormous amount of time and resources to ensure they are BEPS-compliant, particularly with respect to new disclosure and reporting requirements. As may be expected, large businesses are more likely to have the necessary tools in place for complying with the Action 13 CbCR obligations. Seventy-two percent of them said they have reporting systems that will gather and comply with CbCR guidelines, with around 20% saying they do not. Among the overall survey population, 53% said they have the necessary reporting systems, and nearly 31% said they do not.

Large businesses are also more likely to have made changes to existing structures in anticipation of the BEPS recommendations being implemented. Thirty percent said they have evaluated and made changes, compared to the 19% of the overall survey population who said so.

Have you carried out any of the following activities in anticipation of BEPS Actions being implemented?

- We have evaluated our existing structures but not made any changes
  - Overall survey respondents: 45%
  - Large businesses: 58%
- We have neither evaluated nor made changes to existing structures
  - Overall survey respondents: 9%
  - Large businesses: 19%
- We have evaluated and made changes to existing structures
  - Overall survey respondents: 30%
“The C-suite is finally beginning to understand that BEPS is much more than just a tax issue. But it remains the responsibility of the tax department to help the business understand and respond to all of the implications.”

— Alex Postma  
EY Global Leader for International Tax Services

As for which non-tax functions will be impacted most significantly by BEPS implementation over the next two years, accounting topped the list at 71%, followed by finance (62%), treasury (32%), legal (30%) and information technology (28%).

Over the next two years, which of the following non-tax functions will be impacted most significantly by the implementation of the BEPS action items?

- Accounting: 71%
- Finance: 62%
- Treasury: 32%
- Legal: 30%
- Information technology: 28%
- Strategic planning: 16%
- Mergers and acquisitions: 14%
- Big data/ analytics: 17%
- Intellectual property management: 13%
- Human resources: 14%
- Investor relations: 11%
- Sales and marketing: 9%
- Research and development activities (including location): 9%
- Regulatory: 8%
- Real estate: 2%

Multiple responses allowed

“The C-suite is finally beginning to understand that BEPS is much more than just a tax issue,” says Alex Postma, EY Global Leader for International Tax Services. “But it remains the responsibility of the tax department to help the business understand and respond to all of the implications.”

Looking ahead, the results suggest that businesses still have their work cut out for them. Forty-two percent of all respondents foresee “availability and quality of data for CbC, master and local file reporting” as their greatest BEPS implementation challenge (for large businesses, this number jumps to 57%). Nearly 27% of all respondents foresee potential controversy in some countries’ implementation of BEPS Actions as their greatest challenge (for large businesses, this number increases to nearly 40%). Tracking and managing many countries’ implementation of BEPS Actions was chosen by 25% of all respondents (and by 32% of large businesses).
Steps to take

There are several things we recommend businesses do immediately to adapt to the riskier compliance environment and meet demands for more transparency in a productive fashion.

1. **Strategic approach to tax risk management**

   Adopt a strategic approach to tax risk management: The survey shows long-anticipated drivers of tax risk have become a reality, so it’s important that businesses be prepared to confront whatever form it takes, from responding to aggressive audits or challenges to transfer pricing arrangements, to managing tax-related reputational concerns or examining existing business and cross-border structures. An integrated, holistic, global and end-to-end approach can help businesses stop controversy before it occurs through the use of top-down governance, systems and processes that enhance monitoring and compliance. This approach also helps businesses track for visibility, oversight and risk assessment so they can better manage controversies that do occur. And choosing the most appropriate dispute resolution mechanism – whether it’s exam management, appeals management, arbitration or litigation – allows for faster resolution so businesses can resume focus on their core mission.

2. **Tax and reputational risk**

   Be proactive in managing tax and reputational risk: To cope with BEPS-driven enhanced reporting and disclosure requirements and greater audit scrutiny, ensure your tax department has adequate knowledge, staffing, budget and other necessary resources to meet the new demands on the tax function. Assess reputation risks that may arise and ensure the board and C-suite stakeholders fully understand that their company’s tax profile is both a financial and reputational issue. Develop, with the board’s advice and consent, a clear policy explaining the company’s approach to tax planning. In developing this policy, keep in mind that the board, CEO and company representatives must be comfortable with making the policy available publicly and, if necessary, be prepared to defend it. At the same time, decide how transparent your business wants to be in terms of disclosing the amount of taxes you pay in the countries where you do business; once a decision is made, develop a plan for communicating it to external stakeholders and tax authorities in a consistent way.
3 | Global approach to managing tax controversy

Adopt a **global approach to managing tax controversy:** In a world of increased information sharing among tax authorities, aggressive tax enforcement and associated reputational risks, maintaining a global perspective on all the jurisdictions in which your business operates is critical. Implementing a globally coordinated approach enhances your ability to manage and prioritize risk and could help mitigate the impact of controversy. Creating a global tax audit management framework, a global compliance platform, a tax controversy management reporting framework and making use of pre-filing tools and economic modeling can bring clarity, confidence and more certainty. A global approach can deliver benefits across the enterprise: a reduced audit risk, greater control over audits involving sensitive issues, a proactive management of tax controversy and increased knowledge-sharing.

4 | Digital tax administration

Close the **digital tax administration** readiness gap: With many governments requiring near real-time reporting and performing increasingly sophisticated data analytics, tax authorities are gaining global visibility. Businesses need to enhance their digital capabilities so they can meet the demands of this new world of digital tax administration. Putting in place a new digital operating model is an essential step. This means that businesses need to ensure they understand tax authority data requirements, can format source data for local country requirements and have the appropriate tools to prepare digital tax submissions. Businesses should also perform analytics on data before filing and put in place a process for archiving digital files for audit purposes. Business should consider developing a real-time compilation of data for audit defense and other potential controversy, as well as a regional or global tax portal to monitor and track audits and collections.
Alternative dispute resolution (ADR)

Use alternative dispute resolution (ADR) mechanisms strategically:
Evaluate the various pre-filing tools (APAs, pre-filing agreements, cooperative compliance agreements) to determine if any might be an appropriate method for your company to reduce future risks and controversies, taking into account the costs and benefits such tools entail. Work to build better relationships with tax authorities (a good working relationship with the tax authority is a critical success factor for any ADR processes). Also evaluate the pros and cons of dispute resolution mechanisms that are available if disputes cannot be avoided — including appeals, litigation, mediation, arbitration and MAP. As cross-border tax disputes with tax authorities increase, consider accessing MAP sooner to resolve potential tax disputes. Develop a consistent philosophy of controversy: under what circumstances will disputes be resolved, litigated or otherwise handled?

People/processes/technology

Get the most out of your people/processes/technology: Establish clear frameworks for tax internal control, controversy management, digital tax administration and communications. If some tax matters aren’t directly managed by the tax function, be sure there is good coordination between the tax function and the business unit(s) handling those tax matters. Ensure your tax function has clear audit management processes and the appropriate technology and software tools to monitor your company’s global tax compliance and reporting obligations and can respond quickly to tax authority demands for data (in particular, new digital data requirements). Ensure that your documentation processes are BEPS-compliant and meet the specific country tax schema. Provide periodic briefings and management dashboards regarding the company’s tax risks and controversies to the CEO and board, as well as other business units (as appropriate).
Conclusion

With the greater demands for transparency emerging as a key driver of risk, the business of tax is undergoing a fundamental global shift. Earlier, we wrote that tax compliance is the prism through which more transparency—or sunlight, to use Justice Brandeis’s metaphor—is viewed. Depending on the angle with which businesses view the prism, the transparency’s light bends and refracts; the optical density shifts. This series strives to help all stakeholders view the rainbow in all its splendor.

The survey results discussed in this report demonstrate that businesses are adapting rapidly to these new realities. From reputational risks to operational concerns, tax risk has become a prominent C-suite and board room issue. Leading companies are taking steps to better manage these risks and stakeholder reactions to them. These steps include having a strategy for risk management, being proactive in addressing reputational risk and taking a global approach to managing tax controversy. Closing the digital readiness gap, making use of alternative dispute resolution programs and investing in people, processes and technology also help businesses successfully manage and mitigate tax risks. We expect, based on the survey results, that tax risk and controversy will persist as an area of concern for some time, so we advise taking action.

Our next report will take a deeper look at the risks businesses report in responding to BEPS. The third will use survey results to explore more deeply the emerging trends in tax controversy. Finally, we’ll examine the best practices leading businesses are following to manage tax risk and thrive.

We hope you will find the series insightful and illuminating.

Survey methodology

The survey was conducted between January 2017 and February 2017. The survey was distributed via email and conducted using an online tool in English, Spanish, Chinese and Japanese; 90% of respondents chose to complete the survey in English. Routine reminders were sent out to respondents who had not completed the survey. Once an adequate number of responses had been recorded, the survey was closed. Any survey with two-thirds or more of the questions answered was considered complete for analysis purposes. The respondents included 901 tax and finance executives representing more than 17 industry sectors in 69 countries. Figures contained in the report may not add to 100% due to rounding, non-reporting of “don’t know” responses and no responses. Questions with fewer than five respondents are not reported in the interest of data confidentiality.
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