



How to deal with international tax complexity

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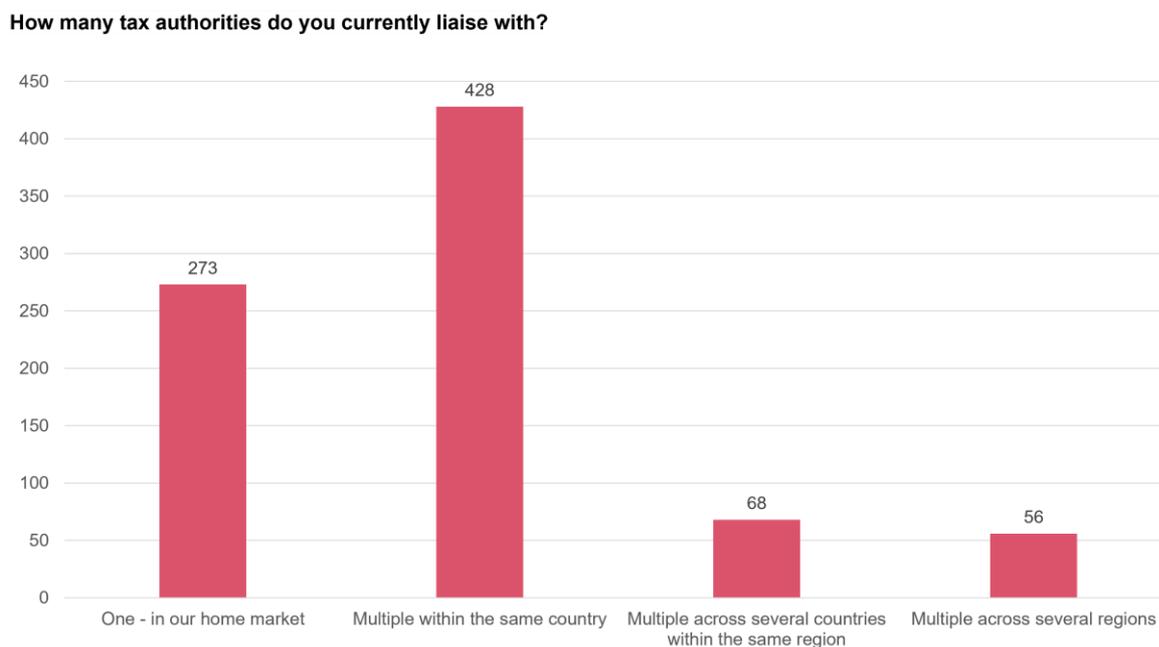
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Businesses around the world are struggling with growing international tax complexity, with multiple tax authorities making increasingly tough demands. The research shows more than 70% of businesses have seen an increase in inquiries from tax authorities over the past five years, many of which have escalated into full-blown disputes. A significant proportion of these businesses are trying to manage the requirements of many different authorities.

Just a third of businesses taking part in the research (33%) say they are dealing with a single, home-market tax authority (Figure 1). More than half (52%) are liaising with multiple authorities in the same country – perhaps working with both federal and state authorities, for example, or with authorities responsible for different areas of tax. And 15% are managing relationships with authorities across multiple countries.

With every country focused on its own revenues, particularly in an era of international tax regulation that may prompt competition between different jurisdictions for a share of the tax take, this complexity can put businesses in a difficult position. Many tax functions are now dealing with multiple inquiries and disputes across multiple jurisdictions with different rules, different time limits and different penalty regimes applying in each case.

Figure 1: Serving many masters



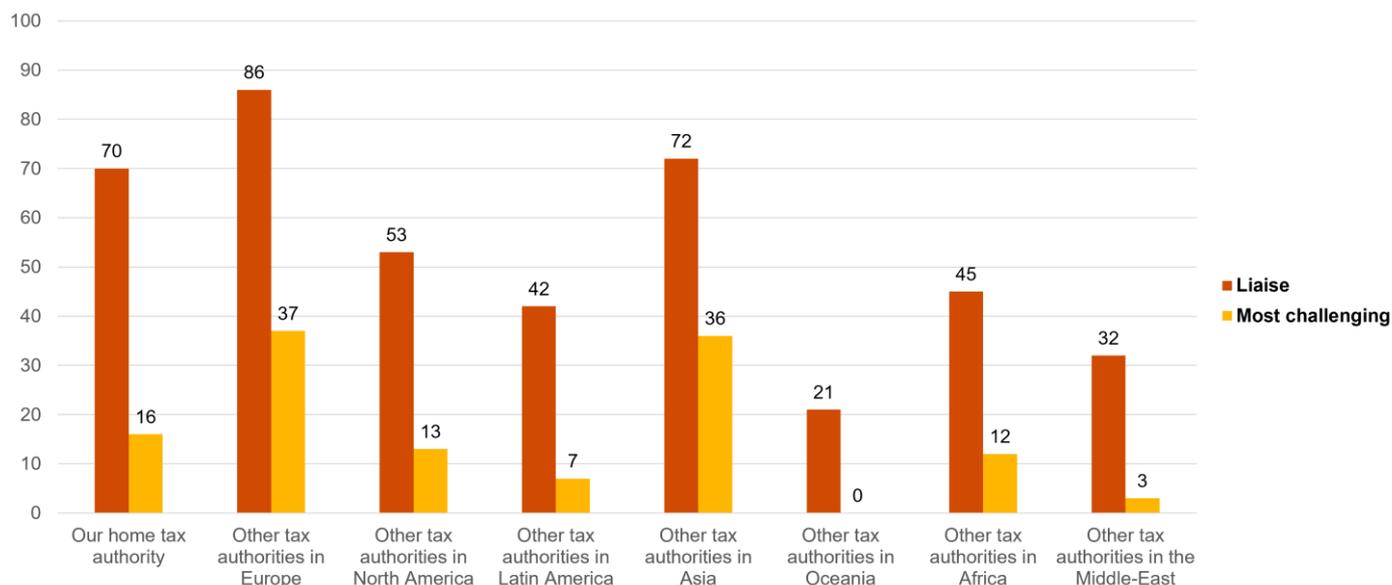
Inevitably, businesses find some tax authorities easier to work with than others. As Figure 2 shows, tax functions dealing with multiple authorities are more likely to describe European and Asian regulators as challenging, with fewer complaining about their counterparts in North America. However, while individual tax authorities each bring their own challenges, it is important for businesses to recognise that authorities are also working together more regularly. It increasingly makes sense for tax functions to assume that information given to one tax authority will be available – or even actively shared – with many other authorities in different territories.

This can add to the difficulty of working with multiple tax authorities. And while initiatives such as double taxation treaties are intended to protect businesses from the possibility of receiving repeated tax demands on the same revenues, the practical realities may prove very different. In some cases, businesses are choosing to accept an element of double taxation to avoid getting sucked into disputes with tax authorities that each believe their territory is the one in which the tax is due.

Figure 2: Where businesses run into problems

Which tax authorities do you liaise with?

Which tax authority do you find the most challenging to work with?



Indeed, most businesses are keen to avoid confrontation, which consumes resources, increases costs and poses risks such as reputational damage. Many are already trying to build constructive relationships with tax authorities. In this research, 66% say they are in regular contact with relevant authorities and their representatives – as opposed to 34% who only make contact when it is necessary to do so.

Establishing such relationships with tax authorities has multiple benefits. Not least, it can help businesses and tax functions to come to a better understanding of how different authorities see particular issues – and therefore to tailor their approach accordingly. One common problem for businesses dealing with multiple tax authorities is that individual regulators often take very different views and positions on the same types of matter; a “cookie-cutter” approach to tax that overlooks such nuances can drive inquiries and disputes.

Importantly, this bespoke approach should extend to the nature of the relationship with individual tax authorities – and how businesses work with them – as well as the positions that businesses take on particular tax issues.

Culturally, tax authorities around the world are very different. For example, some authorities may encourage regular informal contact between businesses and their tax function staff; others prefer to keep relationships more rigid and structured. Some may welcome a range of different types of communication; others may be uncomfortable with that. In some cases, businesses may welcome certain inquiries from tax authorities because they provide guidance that enables them to head off future difficulties. An inquiry from another tax authority may be more ominous.

Businesses that are able to navigate these cultural differences stand a better chance of building positive working relationships with all the tax authorities they must deal with – and that may translate into fewer difficult inquiries and disputes. For those that feel daunted by managing relationships with tax authorities in this way, it's important to work with advisers that have a strong grasp of local nuances in each territory.

There are no guarantees. Businesses will sometimes find themselves in dispute with authorities they work well with. Communications may not always be consistent – informal guidance that a tax position or transaction is acceptable may be countermanded by a more formal view later on. And tax authorities' personnel change, which can change the relationship too. Still, the bottom line is that no two tax authorities are identical; businesses' approach to them needs to reflect that.



Thank you



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