# Tax disputes take their toll

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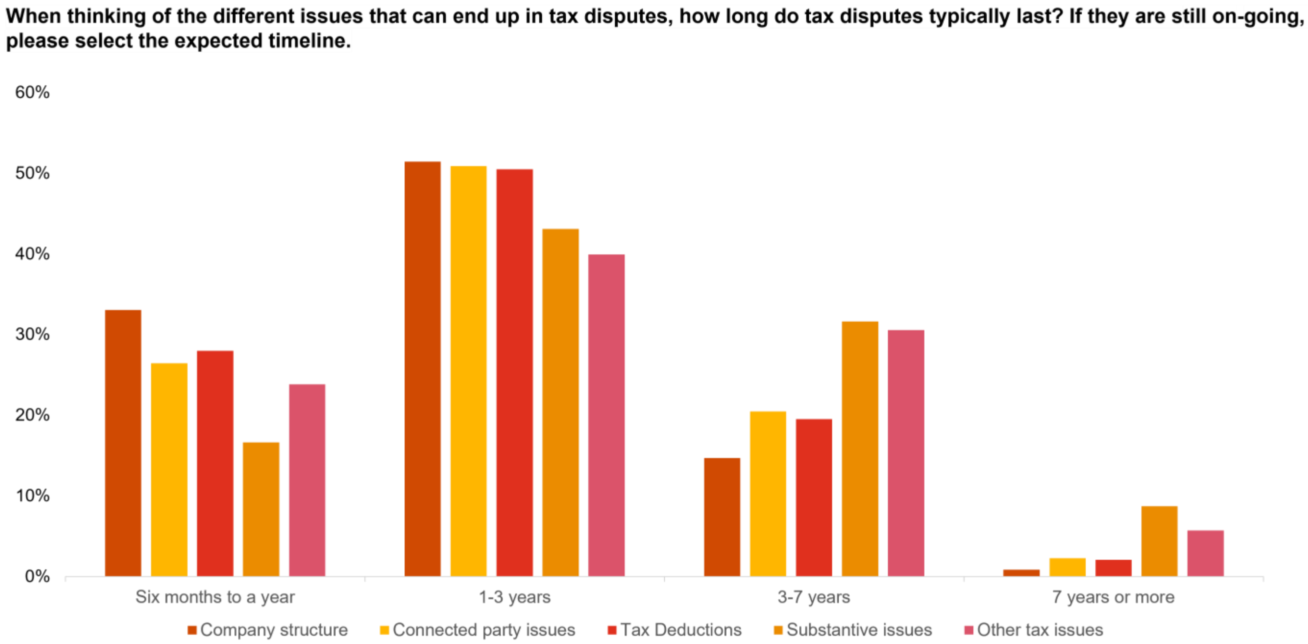
## Our research demonstrates that businesses engaged in disputes with tax authorities may face years of time-consuming and expensive work before resolving their cases

The growing number of businesses worldwide now stuck in tax disputes face years of arguments with their tax authorities. While most businesses that get into a tax dispute resolve them within 3 years, our research shows that there are a significant number of cases, where disputes are taking far longer to resolve.

Our research breaks down dispute resolution timelines by both issue (see Figure 1) and geography (Figure 2 ). By issue, tax disputes related to substantive issues – such as the application of GAAR regimes or the substance over form rules – are most likely to last three years or more, with 41% of these cases taking this long to resolve. Cases related to tax deductions – covering categories such as business expenses, research and development incentives, and employee expenses – are least likely to drag on, with 78% resolved inside three years.

Figure 1: Dispute timelines by tax issue

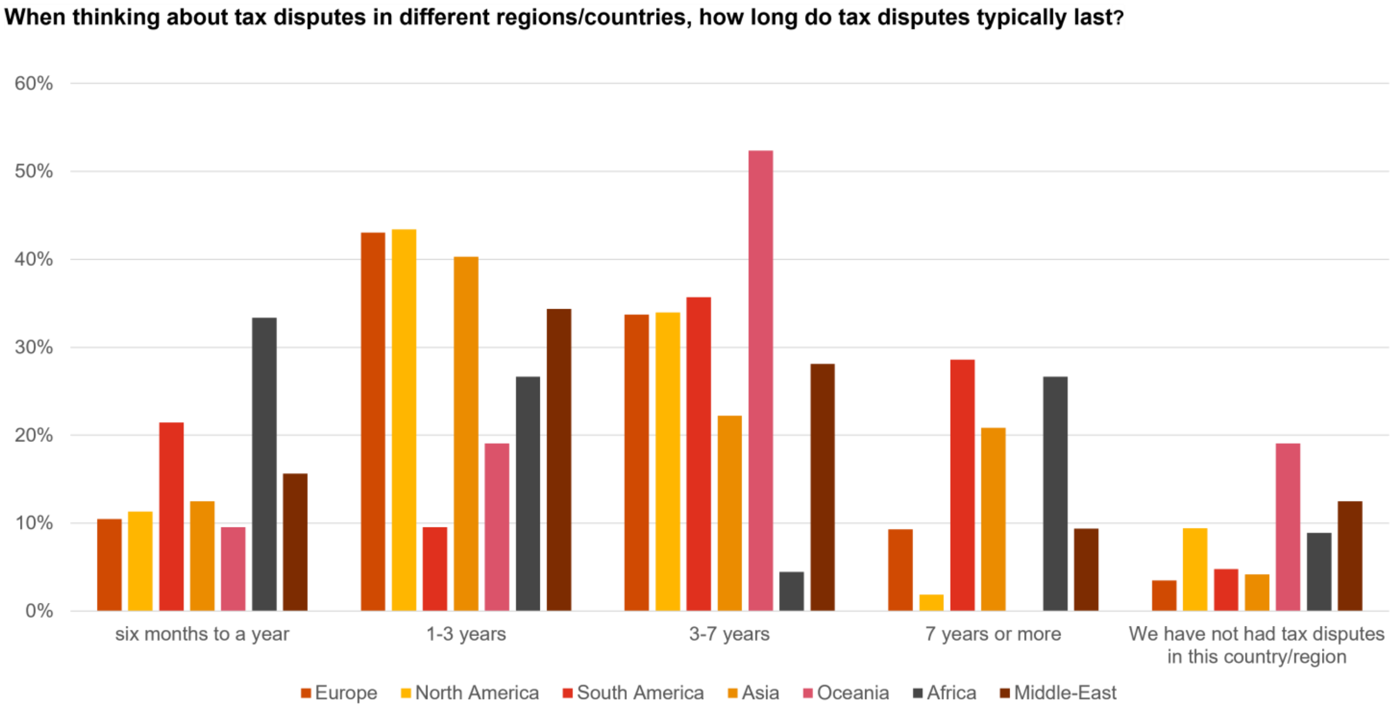



By geography, most businesses say that disputes with their home tax authorities are typically quicker to resolve than those with regulators in other countries. When dealing with overseas authorities, businesses say disputes in Europe and North America last for more than three years in 43% and 36% of cases respectively; the corresponding figure for Asia in also 43%.

In other territories, more businesses are experiencing extended timelines for disputes. In Latin America, for example, businesses say 68% of disputes are taking at least three years to resolve, including 30% that take more than seven years. In Oceania, 65% of disputes take at least three years to resolve, though no business has seen a dispute go beyond seven years. Tax authorities in Africa and the Middle East perform slightly better in the research.

In practice, every dispute varies – some cases will inevitably take longer to resolve due to their complexity, or because one or both parties have more entrenched views about their position. The broad picture, however, is one of tax functions – and the broader business – finding themselves dealing with potentially time-consuming and expensive disputes for extended periods. Moreover, some PwC professionals warn that disputes are now taking longer than ever to resolve.

Figure 2: Dispute timelines by region




How, then, to mitigate the risk of an extended tax dispute? The traditional advice to corporates looking to avoid disputes, or at least to resolve them in a timely and non-disruptive way, has been to engage collaboratively with tax authorities, ideally as early as possible.

Many businesses are still keen to work in this way. More than nine in 10 businesses taking part in this research (94%) say they sometimes attempt to address potential tax disputes before they arise by taking external advice and engaging with tax authorities before issues arise. That includes 40% who say they always do this.

Equally, however, this research suggests such an approach is far from guaranteed to pay off. Among businesses receiving a tax inquiry in the past three to five years, an average of 43% saw this initial contact evolve into a full-blown dispute, suggesting that early engagement with regulators has often failed.

Certainly, there is a widespread desire to avoid tax disputes ending in litigation, which carry significant costs and the potential for reputational damage. Some 95% of businesses in this report say they believe it is “very” or “critically” important to avoid litigation.

However, attitudes may be shifting. With inquiries and disputes on the increase, some businesses may feel that collaboration can now be somewhat one-sided – that tax authorities are happy to engage as long as they’re getting the answers they want, rather than any pushback from businesses.

Indeed, some PwC professionals now report that clients in certain jurisdictions are more willing than in the past to entertain the prospect of litigation. With tax authorities under more pressure from governments to secure additional revenue – and with individual authorities competing for a share of the tax take – some businesses may believe that regulators are over-reaching. Their response may be to accept the risk of taking a tougher line.

The right approach will depend on the merits of the case but will also vary from one jurisdiction to another. In some countries, options such as arbitration may be worth pursuing. And in countries that have invested in systems such as independent tax tribunals, leveraging these facilities can accelerate engagement and settlement discussions.

At the least, many organisations will need support from advisers who understand how individual tax authorities operate and the stances and attitudes they tend to adopt. Businesses may be willing to engage, but misjudging exchanges with regulators can add to their problems, rather than encouraging speedier resolution.

# Thank you