

# OECD's second tax morale report focuses on role of MNEs and the Big Four

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## In brief

The OECD's report [\*Tax Morale II: Building Trust between Tax Administrations and Large Businesses\*](#) seeks to identify ways tax administrations, multinational enterprises (MNEs), the Big Four professional services networks (Deloitte, EY, KPMG, and PricewaterhouseCoopers), and others could enhance voluntary compliance. There are a lot of best practices and new opportunities identified alongside what it calls 'common challenges.' This Alert provides a few selected extracts.

The report is based in part on surveys of MNEs and tax officials, as well as a series of regional roundtables that included participants from both groups. The nature of tax rules and their operation, together with differing interpretations of the spirit/intention of the law and the alignment of tax planning with substance, are reflected in the views expressed by stakeholders. The dialogue at the roundtables, in which participants shared views on the outcome of the surveys, suggest a willingness to explore greater understanding and cooperation. The report notes that trust is increasingly recognised as a key driver of tax morale and is more responsive to policy interventions than many other factors.<sup>1</sup> The report is intended to provide a positive platform for improved communication, trust, and policies that could build tax morale, which is defined in the report as "the intrinsic willingness to pay tax."<sup>2</sup>

## In detail

### Background

The report was compiled by OECD personnel who have had widespread discussions with stakeholders. It is also informed by two key surveys, one addressed to MNEs regarding the nature of relationships with tax administrations and the other based on views from tax officials. The first survey resulted in a report, *Tax Morale: What Drives People and Businesses to Pay Tax?* (OECD, 2019<sup>3</sup>), and used data on MNEs perceptions on tax certainty. The second survey included an assessment of MNE behaviour against the Business at OECD (BIAC) [\*Statement of Tax Best Practices for Engaging with Tax Authorities in Developing Countries\*](#) (originally published 2013, updated 19 August 2021), and of the perceived behaviour of the Big Four against a composite of different voluntary code principles pledged by each. Four regional roundtables also were held with representatives from a range of stakeholders to discuss and investigate the preliminary findings and draw conclusions.

**Observations:** Awareness of the BIA Statement (which is expected to be further updated soon) is low in many countries and a greater understanding of its principles by both tax administrations and MNEs likely would produce better results in future surveys. [PwC's Global Tax Code of Conduct \(GTCC\)](#) is specifically referenced in the report but, while the other Big Four have similar items, assessment of any one Firm against metrics of the others is unlikely to produce the best results.

## Compliance and audit

Both tax administrations and MNEs expressed frustrations in the initial stages of compliance and audit. Requests for information were one source of that frustration – tax administrators cited poor responsiveness from taxpayers/advisers, as well as from other administrations when using exchange of information mechanisms. In addition, the perceived lack of clarity/purpose in respect of specific data requests was highlighted. More ongoing cooperative compliance and shared automation were recommended but in the context of the needs of particular countries. The Big Four's role in enhancing ordinary, everyday compliance was acknowledged. The experience of Tax Inspectors Without Borders (TIWB) programmes, supported in part by commercial awareness presentations by MNEs, shows that efficient administration of the audit process contributes to raising compliance.

**Observations:** Many comments were country specific, with some regional trends. There are cultural differences in approach, but the greater sharing within the Forum on Tax Administration of techniques and digital process transformation through its Tax Administration 3.0 project should help harmonise matters across jurisdictions. In the context of inbound investment particularly, MNEs might seek to understand, and tax administrations to provide, the rationale for information requests to get to the point more quickly.

## Expectations and accountability

The survey data from both tax administrations and MNEs highlight that expectations and predictability of behaviour represent challenges, especially in developing countries. The report notes that "Changing perceptions here may be hard, as perceptions can remain even as behaviour has begun to change, preventing the emergence of a virtuous cycle of increased expectations." There are difficulties identified in tax officials' perceptions of Big Four cooperation, tax planning aligned with substance (shunning artificial structures), and the spirit/intention of tax laws (not exploiting loopholes). However, these are all areas in which interpretation is paramount with 'promotion' by advisers being largely overtaken by businesses' strategic needs. While beyond the scope of this report, the report does note that Environment, Social and Governance (ESG) reporting increasingly includes reporting on tax, which puts a greater focus on behaviours.

**Observations:** Changing patterns of tax planning behaviour by MNEs, often supported by tax advisers, since the BEPS project and the subsequent introduction of anti-avoidance measures, are generally more widely recognised. Increasingly, companies today are focused on and disclosing their tax strategy, including through an ESG lens - this means considering [tax implications for every part of the business](#), from finance to supply chains to employment and more. PwC's Tax Policy Panels, also referenced in the report, provide an example of the extent to which many advisers also perform additional checks as part of their governance or as requested by clients. The public's, broadly positive, current perception of advisers and MNEs are reflected in joint surveys of the public by the Association of Chartered Certified Accountants (ACCA) and International Federation of Accountants (IFAC) - [see 2021 report for G20 countries](#) and [2022 report for 14 key developing countries](#). However, MNEs and their advisors could contribute to better outcomes by developing a deeper understanding of the policy imperatives that tax administrations have to implement, particularly in developing countries.

## Transparency and communication

The report suggests that improved communication should be the starting point for many of the actions it recommends. It also notes that responsibility for building trust and improving transparency and communication is shared between taxpayers (and advisers) and tax administrations. This level of transparency goes beyond the sort of financial or ESG-style public reporting to the desire for a more open relationship with tax administrations. The report acknowledges, however, that tax administrations must be careful of claims they are not sufficiently robust in their dealings with taxpayer affairs. Further, the report notes that MNEs also recognise the potential for adverse reputational effects if their relationship with tax administrations is regarded as inappropriate, but the OECD's suggestion of offering greater guidance and case studies may help move things in the direction of a more cooperative compliance environment.

**Observations:** The survey data showing that the Big Four are not as transparent with tax administrations as the tax officials would like, providing all relevant information when requested, speaks to the earlier observation about the expansive nature of some requests, as well as the need to discuss matters with the client and sometimes the client's parent or head office entities, including in foreign jurisdictions. Advisers should explore and try to explain the nature and purpose of requests to help clients understand and consider what information may be helpful.

## Capacity building

The reference to capacity building in the report is not limited to more or better equipped people in tax administrations. The report also mentions that MNEs may themselves need to consider building capacity in dealing with developing countries. It states that many governments have legislation requiring companies to establish an anti-bribery compliance programme, which includes anti-corruption corporate policies, capacity building, reporting channels, risk management, and internal control functions (including tax control frameworks). It also suggests that a better understanding and willingness to engage on the part of the taxpayers would help determine how best to address any combined resource constraints. The report adds that, while capacity building can ease problems over the long term, in the short term, processes will be needed to use the limited resources efficiently.

**Observations:** All stakeholders will suffer from inefficiencies and additional costs if the tax regime is sub-optimal. Identifying the pressure points in an open and constructive way at an early stage should help establish a plan for seeking the necessary assistance. A report published 7 September 2022 [Tax Capacity Building: A Practical Guide to Developing and Advancing Tax Capacity Building Programmes](#) has been developed by the OECD Forum on Tax Administration (FTA) to assist tax administrations globally in designing and carrying out their tax capacity-building programmes. The report recognizes that the Big Four should be able to avoid conflicts of interest appropriately and offer assistance to support capacity building in all its forms.

## The takeaway

The OECD's workstream on tax morale is likely to benefit from continued research on the issues and dialogue with stakeholders. This could lead to future recommendations to build trust between stakeholders in the tax system. The report provides some substantive building blocks in that initiative. The report recognizes the importance of MNE tax revenues to developing countries and calls attention to the duties that MNCs have with respect to taxes imposed on MNEs themselves, as well as other taxes collected by MNEs and remitted to governments (as described, for example, in [PwC's Total Tax Contribution Framework](#)). The report also recognizes the vital role that the Big Four and other advisers play in the evolution of tax morale, highlighting both efforts undertaken already and additional areas of focus.

## Let's talk

For a deeper discussion of how the OECD report might affect your business, please contact:

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<sup>1</sup> Page 9 of the Tax Morale II report (2022)

<sup>2</sup> Page 14 of the Tax Morale II report (2022)

<sup>3</sup> OECD (2019), Tax Morale: What Drives People and Businesses to Pay Tax?, OECD Publishing, Paris, <https://doi.org/10.1787/f3d8ea10-en>.