18th Annual Global CEO Survey

Despite evidence that governments around the world are reducing tax costs and compliance, these efforts are not being felt by CEOs. Here we explore some of the reasons for the disparity.

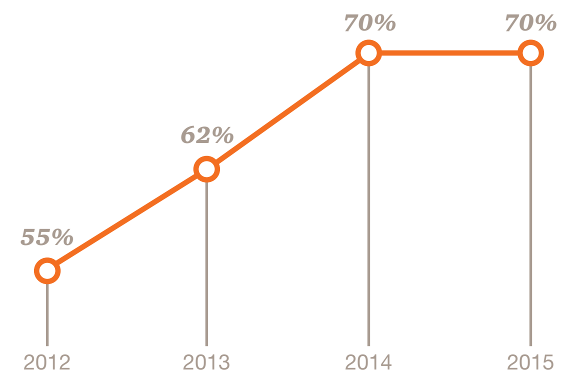
Taxing times for global business

70% *still somewhat or extremely concerned about tax*

PwC's 18th Annual Global CEO Survey reveals that seven in 10 CEOs (70%) are still somewhat or extremely concerned about the increasing tax burden borne by their businesses – the same proportion as in last year's survey and significantly higher, (some 15 percentage points) than the levels of anxiety seen in 2012.

Figure 1

CEO concern regarding the increasing tax burden has increased sharply in recent years



Source: PwC

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Evidence of a positive trend

These high levels of concern are despite the trends seen in the annual PwC / World Bank Group study, *Paying Taxes: The Global Picture*, which suggest a different story. The most recent study shows that not only has the global average Total Tax Rate for a typical medium sized company fallen by 1.3 percentage points, but so too has the compliance burden, measured by the average time it takes a case study company to comply with its tax responsibilities and the number of tax payments required to be made. Indeed, all three of these sub-indicators have shown a steady downwards progression over the past decade. So why is there such a mismatch? The data from PwC's *Paying Taxes 2015* study shows the benefits arising from administrative reforms (*See below*).

Perceptions can be driven by a wider set of factors

Chris Wales, tax policy adviser at PwC, believes the apparent disparity can be partly explained by the growing pressure on governments to be seen as holding corporate taxpayers to account. "For many businesses there is a sense that the system has become more difficult to comply with – not necessarily because of the weight of tax compliance itself, but because of the greater pressure for public transparency and accountability, and the level of uncertainty and inconsistency that currently exists around what is required and how data is used and interpreted" he explains.

That pressure has become more acute in recent years. Businesses saw a step-change in 2009 following the financial crisis, according to Paul Morton, head of group tax at RELX Group (until very recently Reed Elsevier), which operates in more than 90 global markets.

"We suddenly saw a huge political focus on corporate taxation in geographies all around the world – in most places, tax authorities are now markedly tougher and rightly demand much higher levels of compliance quality," he says.

Increasing public and media interest in tax

Reputational concerns from the understandable increased public and media interest in tax have also had a significant impact: "Reputation management has become an ever more serious issue," says Morton. "We have never pursued an aggressive tax strategy, but businesses are acutely aware that the view on what is acceptable for corporates has certainly moved over the past five years."

The public debate around tax has been prominent in the UK for a number of years and has brought transparency more to the fore. A recent PwC review shows a significant increase in the number of companies disclosing their approach to tax, tax governance and the total tax contribution that they make. But these issues are also becoming increasingly important internationally. In Spain, IBEX35 companies are responding to new requirements around tax strategy and governance procedures, whilst in Australia, work is being done on a code for corporate transparency.

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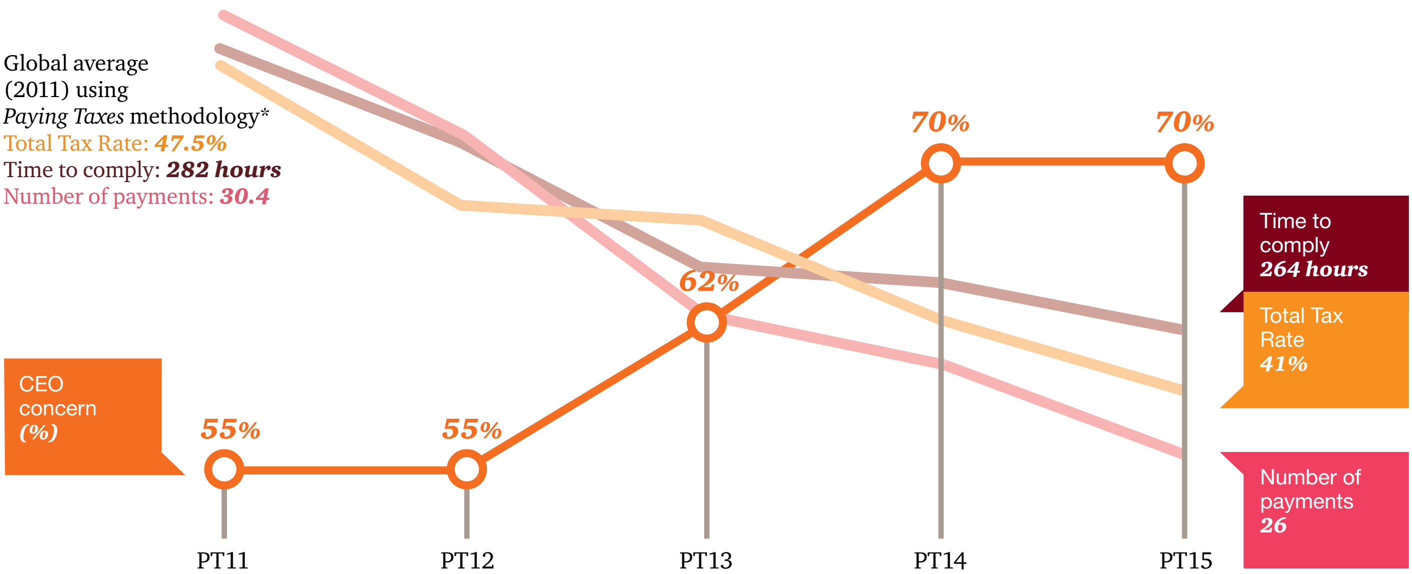
Paul Morton, head of group tax at RELX Group

Figure 2

Administrative reforms have benefitted business over the last five years



And there are demands on governments and businesses in developed and developing economies alike. In Nigeria – for example, where falling revenues as a result of a collapse in the oil price has been an additional headache for the government, PwC's Head of Tax, Taiwo Oyedele, warns that while taxes on profits have not risen, businesses are paying higher property and employment taxes – and are having to work much harder on compliance. "Even companies that have always been compliant – now face more audits and reviews, and there is still scepticism voiced from some quarters that multinational businesses are really paying what they should," Oyedele says.

A changing world and a new environment

But it's not just compliance CEOs are worried about, they are concerned about rising tax costs too. Could these concerns be based on how CEOs think tax costs are going to change in the future?

Globalisation, technological advances, changing demographic patterns and the persistent challenge around the environment and energy, present a turbulent mix of issues which have a significant impact on fiscal policy and the associated tax systems around the world. Against this backdrop, there is a growing realisation that the current international tax system isn't fit for today's business world, and this has led to OECD proposals for the most significant changes in the international tax rules for decades.

The impact of many of the Base Erosion and Profit Shifting (BEPS) proposals will depend on how they are implemented not only by OECD members but also by other countries. Some countries are also adopting unilateral approaches without waiting for international agreement. The CEO community appears undecided on whether the result will be greater harmonisation of tax rules and clarity of where tax is due: only 43% of survey participants see a convergence of tax policies and rates while only 40% say governments are changing tax systems to reflect how multinationals operate today. The probable impact of the lack of a universal approach is more disputes between territories, business and tax authorities.

Certainty still a priority for CEOs

Uncertainty about the future of the tax system has long been a reason why CEOs see it as a key concern. Uncertainty is a consistent worry for CEOs, who as a consequence feel unable to set strategic priorities or plan investment when they have little certainty about their future tax exposures and liabilities.

40%

only 40% of CEOs say governments are changing tax systems to reflect how multinationals operate today.

The takeaway

It is with good reason that tax continues to be high on the list of concerns for CEOs around the world.

The challenge for governments is to balance the need to raise revenues and the political pressure to be seen as tough on corporate taxpayers, whilst creating an attractive place to do business and to continue with the positive progress seen in the *Paying Taxes* study. As Chris Wales says: "Governments often find it easier politically to raise taxes from companies than from individuals: there's a perception business can better afford to pay, but ultimately these costs will be borne by people." High taxation on corporate profits is not necessarily in the public interest if it reduces investment or indeed wages since this may lead to lower growth and have a consequential impact on tax revenues. Indeed, an overly aggressive or changeable tax policy, designed to maximise the contribution businesses make to public services, may actually result in a lower overall tax take, as CEOs scale back their plans, reduce investment and create fewer jobs. But finding the right balance between competitiveness and fairness across the developed and developing world is not easy.

What can make a big difference to how those resulting policies are perceived is if governments explain the rationale clearly and provide a clear indication of the direction of travel. Where governments are achieving this balance, CEO perceptions according to our survey are now improving, but there is more work to be done.

The challenge for business is to anticipate and plan for the proposed changes in the international tax system. There is a need to assess what this means strategically for the business and its approach to tax, to consider the interest of a wider group of stakeholders in the taxes that they pay and to be able to articulate their strategy.

With concerns about increased unilateral action by governments pre-empting the OECD reforms, business needs to make sure its voice is heard and well understood.

And with increased scrutiny on tax now from a wider range of stakeholders, businesses need to respond in a clear and considered way. This is not just about tax reporting but thinking fundamentally about the approach to tax.

"Even companies that have always been compliant – now face more audits and reviews, and there is still scepticism voiced from some quarters that multinational businesses are really paying what they should."

Taiwo Oyedele, Head of Tax, PwC Nigeria

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