GTSAP Snapshot

This year's Global Tax Symposium - Asia Pacific 2018 was held in Singapore from 23 to 24 May 2018 and discussions centred on the community's changing expectations of multinational tax behaviour, tax competition and technology. In this newsletter, we provide a snapshot of some of the challenges and experiences shared at the Symposium.

Communities now have a high degree of interest in how and where multinationals pay tax. At the same time corporate tax rates are falling, as countries compete for foreign investments. This creates a complex environment with competing objectives coming from different stakeholders. Businesses are challenged by governments seeking to take a tax bite from the same profit cherry. Tax administrations are being asked to roll out tax reforms whilst at the same time transforming through technology. Recent trends include lowering tax rates, introducing new incentives, taxing ecommerce and more.

In two plenary sessions, moderators Tom Seymour (Asia Pacific and Americas Tax Leader, PwC Australia) and Chris Woo (Tax Leader, PwC Singapore) spoke to senior tax executives, tax professionals and tax officials from around the region. Panellists shared their experiences on how territories and businesses are responding to the many changes in the tax environment, and how these are also changing the way tax administrations operate - the challenges that they face and how they are digitalising their own administration.

The current tax environment

The current tax environment in the Asia Pacific region is varied - in terms of tax rates, stages in economic development, levels of tax disputes and approaches to dispute resolution, alignment with international norms, etc. In spite of these differences, common priorities include attracting foreign direct investment (FDI), which must be balanced with the need to increase tax revenues and to be aligned with the new international tax norms.

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How are the Asia Pacific countries responding to tax reform?

The main drivers of tax change recently have been the Base Erosion and Profit Shifting (BEPS) project, largely driven from Europe, and the US Tax Reform, which is the biggest fiscal reform the world has seen in a long time even though change is mainly directed at boosting the US economy.

In this region, it is still too early to tell what changes will be introduced in response to the anticipated impact of the Reform on foreign direct investment.

Tax administrations though are reviewing tax policies and legislation in the light of international tax changes such as the BEPS initiatives and the accompanying transparency and information exchange obligations. In addition, as these initiatives are creating an influx of data, tax administrations are increasingly turning to technology and data analytics to help them process and manage information. Tax administrations are also relying more on technology to increase revenue collections through better taxpayer compliance monitoring and by making it easier for taxpayers to comply with their tax obligations

From a business perspective, while it is acknowledged that taxpayers will want to benefit from measures introduced by governments to attract FDI, the consensus is that tax certainty is a clear priority over a low tax rate.

Another change observed is a trend of decreasing corporate tax rates and an increased reliance on indirect taxes for revenue collection. Further, each country's priorities are reflected in the key initiatives introduced in the last five years. For example, India's introduction of Goods and Services Tax (GST) and Indonesia's recent tax amnesty and reforms. It is, however, difficult to predict where these tax rates will eventually end up as the reactions of individual countries will depend very much on their individual economies.

Compliance, transparency and the need for technology

Compliance levels for both tax authorities and taxpayers have increased rapidly because of the implementation of transparency measures and there is a great deal of pressure to "get it right".

As there are now more stakeholders (non-government organisations, banking commissions and other regulators) which have vested interest in outcomes for the community, businesses to be transparent and open in their interactions with tax authorities, use of tax incentives, and in managing communications with stakeholders and the general public. Hence, the accountability agenda has become more prominent and has extended beyond tax functions into the boardroom and is influencing business behaviours. Audit committees are now reviewing tax policies, and tax functions are required to work more closely with their finance colleagues to understand the underlying treatment of items going into the financial statements. Failure to fulfil certain tax compliance obligations may move from being a civil to a criminal offence, and today, a legally correct position is only the bare minimum - it is no longer enough to get it right, companies must also be seen to be doing the right thing.

Tax authorities are also becoming increasingly sophisticated and now use technological tools to analyse and manage the influx of data. They now have the capabilities to enable them to extract data directly from taxpayers' accounting systems, which means that the question that businesses and their tax professionals need to ask themselves is, "Have the tax authorities got better data than me, and how are they using it?"

Tax authorities' voracious appetite for information puts a strain on tax resources, and in countries with high labour costs, businesses may have no alternative but to look to tax technology to relieve some of the cost pressures. As businesses grapple with the need for real time data extraction, this presents an opportunity for in-house tax professionals to engage their operations colleagues while projects are still at an early stage and influence the manner in which data collection is carried out to ensure that the necessary data is being captured.

Dispute resolution and arbitration

Countries generally have seen an increase in the number of tax disputes. The general consensus among countries is that dispute prevention, by way of advance pricing agreements and mutual agreement procedure, is preferred to arbitration. Of the countries that are open to arbitration as an avenue for dispute resolution, i.e. Indonesia and Singapore, the value of arbitration is in getting tax authorities to settle before arbitration.

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