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Business Leaders disconnected from their Tax Experts: problem and solution

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On August 5, 2015 Grant Thornton (GT) published their annual International Business Report, a global "mid market survey covering more than 10,000 companies in 35 economies". Unfortunately, their website only provides summaries; the full report relating to tax is not available on the site. It appears a sensible assumption the mid market companies surveyed engage in cross border business; presumably many meet the criteria proposed for the cbcr proposals of BEPS.

I am truly shocked by one of the findings mentioned in the press release: 71% of business leaders "support their own government taking unilateral action to combat the loss of tax revenue in their jurisdiction". Only because they are not hopeful a global agreement on BEPS will be reached. In India 95%, in US 82%, in UK 79% and in China 67% of business leaders support unilateral action. Business leaders willingly choosing unilateral action, means reversing the movement to recognizing that we should aim for a global tax landscape without tax barriers and not a "fragmented 200 country tax landscape" like BEPS promotes. I cannot believe informed and knowledgeable business leaders would say this. Why not? Because it reduces profits, cash wise and accounting wise.

Assuming countries would follow the call to take unilateral actions, the cases of double tax on same profits would increase, the number of tax disputes between countries would immediately rise, the number and amounts of tax provisions in the corporate (quarter/annual) accounts would increase significantly and costs of tax departments would also increase (perhaps even more than under BEPS).

Most likely explanation for this shocking finding is business leaders have not been well informed by their tax experts. A sound of mind tax expert would not recommend taking unilateral action to address cross border BEPS issues instead of a global initiative. This lack of knowledge displayed by business leaders is not new. Only, I would have expected after the UK PAC hearing disaster for three companies with ill informed (non tax) company representatives, things would have changed. Board members (assume these are the business leaders surveyed by GT) still lack sufficient interaction with their tax departments or external tax advisers.

Experience tells me a majority of companies do not have a tax department reporting directly to the global Board (eg. CFO). For some years now, in the media for NGO's and politicians, tax is an issue on par with Human rights and Environmental issues. Thus, not reporting directly to the Board is wrong. It is a sign of not having a good corporate risk profile and acting accordingly to control the tax and reputation risk identified.

I see the outcome of the GT study as a wakeup call. Tax departments or external tax advisers (in case there is no in-house tax team) should knock on the door of the global Board and request an open line of information with them and with the Audit Committee. They can no longer prefer to continue as tax return filers, provision calculators and transaction planners; today they should be acting as a recognized corporate partner to advance the case of their company, including the reputation. The capacities and capabilities required for the tax leaders have changed dramatically over the last few years. Has this been recognized by say HR departments?

Evidently, Board members should revisit their corporate risk profile and act accordingly; however, don't think many Board members will read this tax blog unless tax experts forward it to their CFO and probably also to their CEO.

Conclusion: The GT finding acts as a wakeup call for tax departments in international companies. The task of only complying, reporting and transaction planning is behind us. The additional challenge is to be a partner with the Board in mapping and addressing future tax strategies and profiles as an integrated part of the global corporate business model. This can best be served by a tax department reporting directly to a global Board member and not to a Controller or Treasurer, let alone a tax department divided over business units without a clear line of command to the head of tax.

Let us aim to see a negligible number of business leaders supporting unilateral action in the 2016 report and in 2017 an overwhelming majority supporting a global approach to eliminating tax barriers for cross border businesses. This would stimulate economic growth around the world.

At the end, one question remains: would the finding have been significantly different for large multinational companies? The answer is likely to be a disappointing, no not much difference. Meaning the above also applies to most of those large multinational companies.

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