

# Podcast transcript

## How geopolitics, digitization and changing business models are impacting tax disputes

Podcast with Sharon Katz-Pearlman, Global Head of Tax Dispute Resolution & Controversy, KPMG in the US

*Musical intro*

**Announcer:**

Hello, and welcome to another episode of the KPMG podcast series for tax leaders. Today, I'm joined by Sharon Katz Pearlman, Head of Global Tax Disputes resolution and controversy services at KPMG International and the National Principal in Charge of KPMG's tax controversy services practice at KPMG in the U.S.

**Sharon, thanks for taking the time to join us today. In this series, we've been talking with tax leaders from across KPMG about the themes of geopolitics, digitalization and changing business models. Based on your work with your clients, which of these themes do you think is having the greatest impact on how tax disputes are managed?**

**Sharon:**

Certainly all three of these areas are impacting tax disputes and the way that companies are approaching them from a process perspective as well as just from a perspective of trying to understand how to best protect the multinational and allow the multinational to deal with a lot of things coming at it all at once. All three will have an impact, perhaps some more than others, if I had to choose one, I would say at this point, I think geopolitics is having a major impact.

**Announcer:**

**Okay, so let's start there. How are you seeing tax disputes being affected by geopolitics?**

**Sharon:**

Well certainly, I think what we're seeing now is this very clear trend towards a nationalistic view of country and tax.

**Announcer:**

**And do you have any examples you could share with us?**

**Sharon:**

We're seeing it in a number of jurisdictions where legislation is being enacted specific to that country's desire to focus on an area or to increase their revenue, so clear examples there: the UK's DPT, Australia's MAAL tax, the U.S. tax reform and the beat. What we've just seen very recently in France with enacting their tax around the digital economy. Countries are heading off in their own direction and putting a stake in the ground, saying, this is what we are going to tax here. When you layer that on top of what's going on globally and a lot of the other initiatives that are out there, I think it really becomes an incredibly difficult environment for a company to deal with.

**Announcer:**

**So Sharon based on your experience, do you have any advice for our listeners as to how they can prepare for these changes in geopolitics?**

**Sharon:**

Well certainly from a geopolitical perspective, I would say, know the rules. Make sure that you understand what the new legislation is in each jurisdiction, how is it going to impact you, how is it going to impact you not just from a local perspective, but globally as well, and be proactive, try and get ahead of the initiatives. A good example here would be the DPT facility that's been created in the UK where HMRC is encouraging companies to come in voluntarily and really provide their own analysis of why there's no DPT issue. You know, if you're at the forefront, if you're proactive, it's generally a better place to be than when you're reacting to something that a revenue authority is doing or thinking.

**Announcer:**

**Sharon, we're seeing tax authorities becoming increasingly sophisticated with the way they're using technology. How are you seeing them exploit technology, and what do you think of the consequences of this rise in the use of technology?**

**Sharon:**

Well, revenue authorities have been investing a lot of money in technology, and it's a trend that we've been seeing for the last several years. Brazil probably the number one jurisdiction, or certainly one of the top two jurisdictions in terms of how they're employing technology in conducting examinations, in determining which data to focus on. Brazil is really, really far ahead in terms of real time information and just being able to pull up whatever data they need about a particular taxpayer and conduct an examination. Other countries, of course, are following suit, and again, some more than others. It's budget driven, not every country has put as much revenue or as much of their budget into financing technology developments, but it is absolutely a trend, and the OECD is very much behind that. Certainly a clear focus area for all countries is improving technology. In addition to just using the technology to conduct exams or investigations, queries, they're using it, of course, to perform risk assessments and determine where should they be putting their resources, and the availability of huge amounts of data plus very sophisticated technology, we believe, is leading to a more focused exam in lots of instances, and therefore certainly a need for a taxpayer to be able to use technology as well in preparing their responses and in making sure that they're ready.

**Announcer:**

**And from a taxpayer's perspective, what types of technology should they be considering?**

**Sharon:**

Well certainly what I am hearing and seeing from a number of multinationals is a big focus on developing or using a technology that's going to allow the company to understand exactly what it is facing globally. Lots of multinationals, even those very sophisticated companies that operate in lots and lots of jurisdictions don't necessarily have a great handle on what is going on globally, where are all of the disputes, what issues are in dispute, what's the potential exposure, how far down the path are we, are there issues in terms of statutes of limitation, and so on. So having some kind of technology that will let a global head of tax or a global head of tax controversy at a multinational have a direct line of sight into what's happening is critical. I think also, very, very important, if not critical, is the availability of technology that can allow a company to benchmark itself against others, and I mean, this I mean specifically with respect to where risks have been identified by revenue authorities and where does that company sort of stack up against issues that are evolving and are clearly creating trends in various jurisdictions.

**Announcer:**

**Finally, Sharon, as businesses continue to evolve their business models, how do you think they can mitigate the risks of tax disputes?**

**Sharon:**

I'd say the most critical thing, and this is going back to something I said at the beginning of this podcast is that multinationals know what is happening in each jurisdiction in which they operate. All facets of what is happening, so what is happening in that jurisdiction from a geopolitical perspective, are there any initiatives underway that could impact their tax situation. From a digitalization perspective, what is happening in a particular jurisdiction from the revenue authority's perspective in terms of use of technology and ability of revenue authorities to generate conclusions or draw conclusions based on information that is readily available? I'd say something else that multinationals should be mindful of is, what is out there about their company? Again, we're going back to this concept of huge available amounts of data. Revenue authorities routinely look at what's available in the public domain on websites, Google, reporting, whatever is out there about your company is out there for revenue authorities to take a look at and use within their analysis, so make sure that you know what's out there. It's very, very important that the information that's out there is correct and is known to the multinationals and their tax team so that they can better prepare for inquiries from a revenue authority in a particular jurisdiction.

**Announcer:**

**Sharon, on behalf of myself and on behalf of our listeners, thanks for your time today, and thanks for your insights.**

Join us again next time, and please email us with your questions about this episode and any suggestions you have for future episodes. You can reach us at [tax@kpmg.com](mailto:tax@kpmg.com). We'd love to hear from you. Thanks for listening.

*Musical exit*

