



Navigating the global tax disputes landscape

An in-depth look at
tax authorities and the
global environment that
in-house taxpayers are
navigating today



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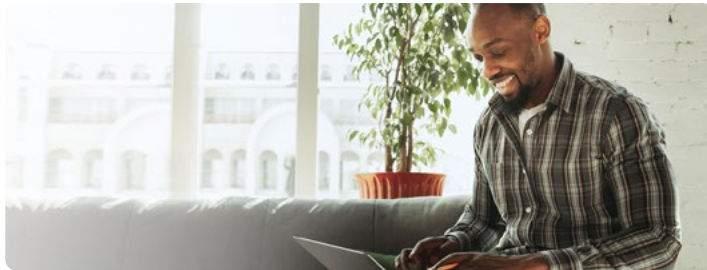
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Introduction

This special report takes an in-depth look at tax authorities worldwide and the global environment that in-house taxpayers are navigating today. Based on an extensive survey of tax dispute professionals from KPMG firms, this report examines the trends and developments shaping the current environment and how tax authorities respond.

Overall, the survey results show that companies see a significant rise in tax audits and disputes, and all signs point toward even more intense tax authority activity in the future.

Key findings include:

- Audit activity has been rising across the board for most taxes, with a special focus on multinational groups and large domestic taxpayers.
- Audits are being approached more aggressively, and tax authorities seem more likely to employ harder-hitting powers to gather information, such as asserting formal access rights, conducting formal interviews and issuing summonses.
- New and increased tax penalties are being enacted, and tax authorities seem to be applying them as well as existing penalties more frequently.
- Technology is helping tax authorities improve the evaluation of enormous volumes of available data that can help identify and address significant compliance risks.
- Disputes can be resolved through settlement in most jurisdictions, although many tax authorities tend to propose significant adjustments and expect taxpayers to concede the disputed amount.
- Critical factors influencing settlement include the amount of funds at stake, the impact of the available evidence, and the risk of litigation.

This report discusses these and other survey findings in detail, together with insights from senior leaders of KPMG's Global Tax Dispute Resolution & Controversy Services network. We also present leading practices for tax dispute management leaders to help them prepare for challenging times ahead.



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About the survey

- This report charts the evolution of leading tax departments and identifies operational benchmarks for high-performing tax teams. It highlights the survey's findings about issues facing tax authorities that include people, processes, and technology deployed by tax departments to manage their activities related to tax audits and disputes.
- The findings in this report are based on a survey of over 115 tax dispute professionals from KPMG firms in 49 jurisdictions worldwide.
- About 40 percent of respondents deal primarily with international companies, while 35 percent most commonly work with large domestic companies. The remaining respondents are focused on small business clients (15 percent) and individual clients (10 percent).



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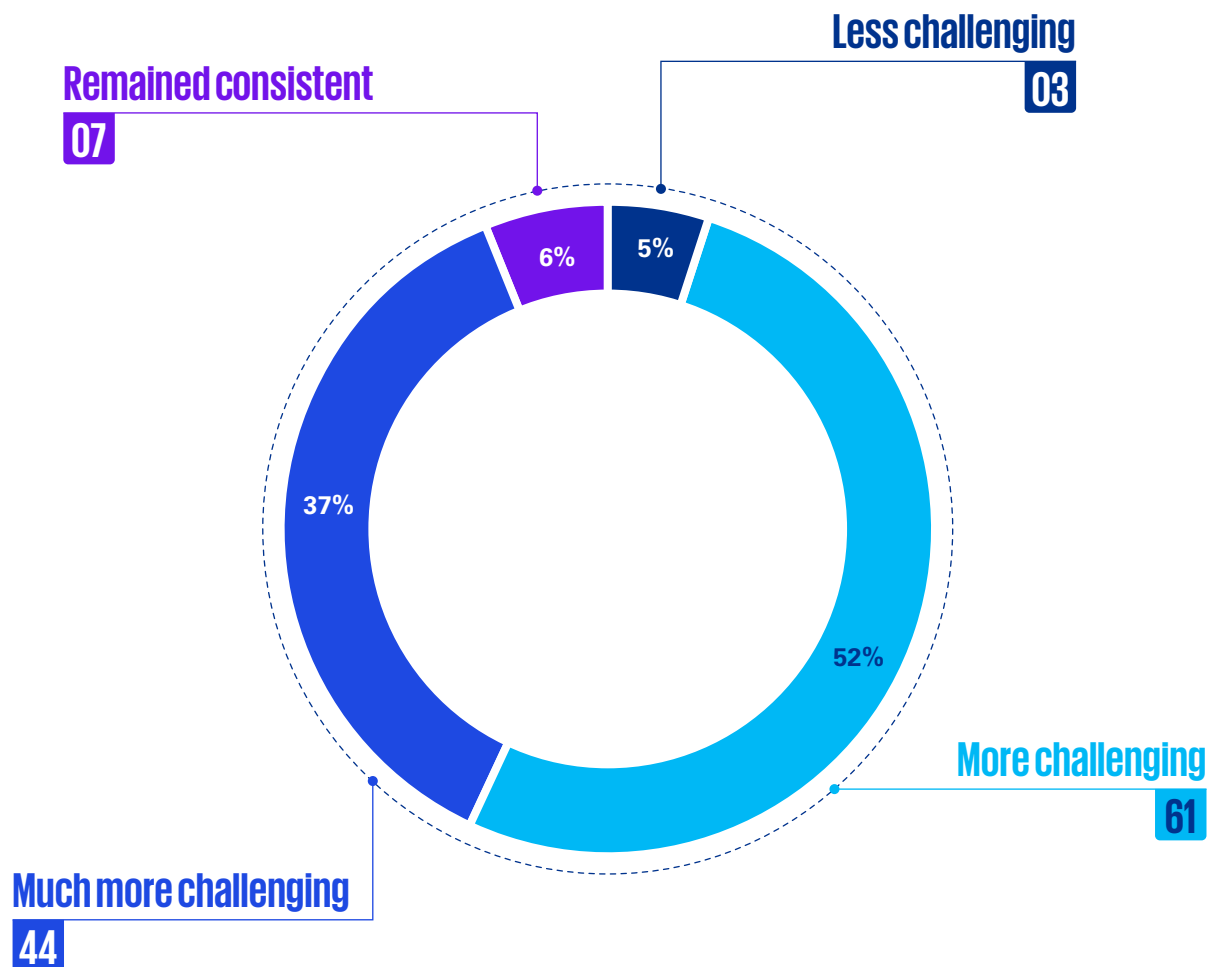
Overall, KPMG’s research confirms that behavior is changing among tax authorities worldwide. Feedback suggests that today’s tax administrations are getting harder to deal with. Almost 90 percent of tax dispute professionals surveyed agreed that the tax controversy environment has become more challenging or much more challenging over the past 3 years. Moreover, a high majority consisting of 94 percent of respondents say tax disputes are becoming more challenging to resolve.

Even before the pandemic, tax authority activity had risen as financially strained governments pressed for higher revenue collection, and media and public attitudes turned against perceived corporate tax avoidance.

While the pandemic slowed tax audit and dispute activity temporarily to some extent, tax authorities are expected to take a harder line in the coming years. In the near term, disputes could rise as tax authorities zero in on claims for pandemic-related financial assistance delivered through tax systems. In the long term, governments need funds not only to recover from the impact of emergency programs, but also to finance greener economies amid rising inflation, geopolitical conflict and supply chain problems.

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Over the past 3 years, how would you say the disputes environment has changed?



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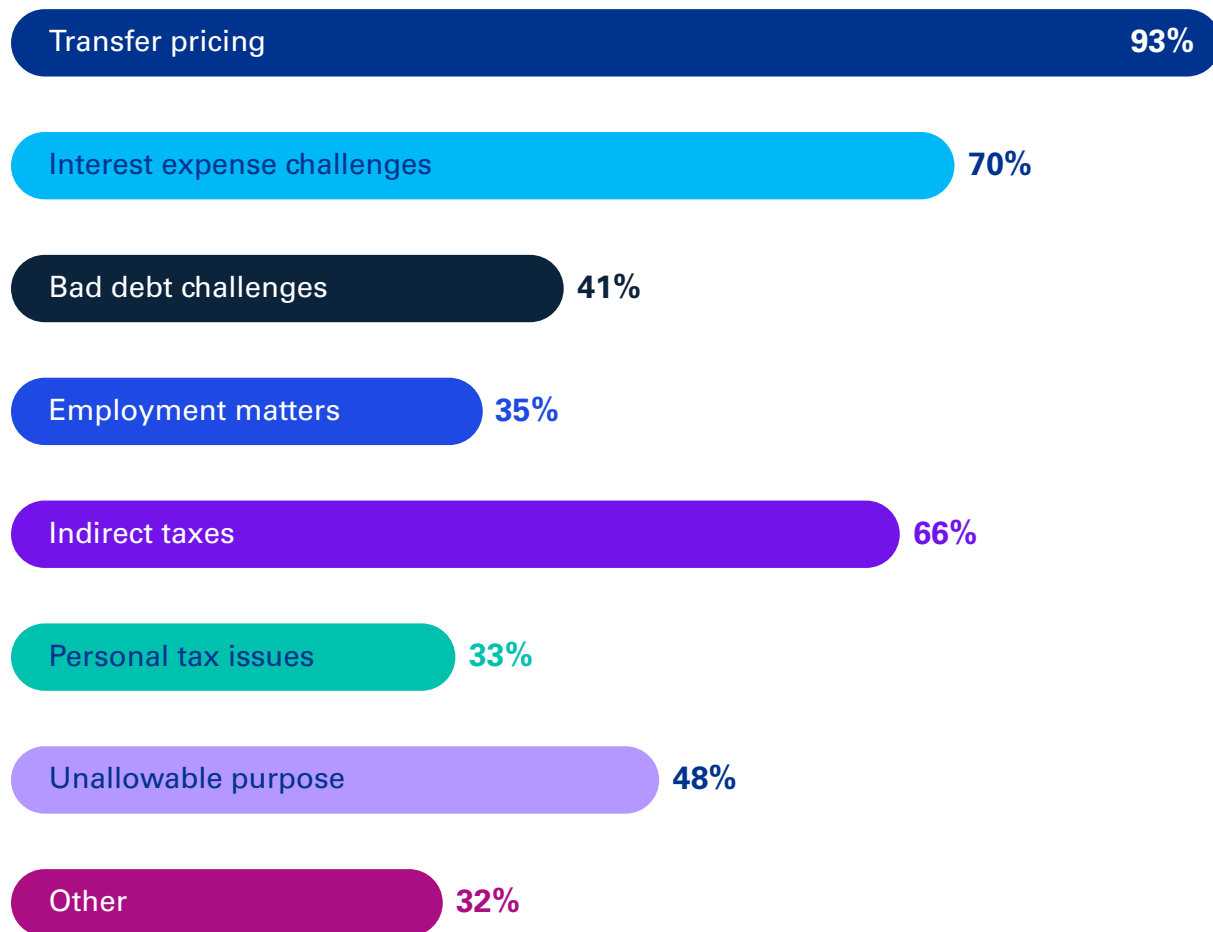


Audit activity has been rising across the board for most taxes, with a special focus on multinational groups and large domestic taxpayers. Almost half of the respondents said their jurisdiction’s tax authorities had allocated more funding for compliance and enforcement work.

At the same time, audits are being approached more aggressively. Most respondents report that their tax authorities seem more likely to employ harder-hitting powers to gather information, such as asserting formal access rights, conducting formal interviews and issuing summonses. Almost half say they see such powers used frequently. Tax authorities are also taking aim at material legally protected by privilege, with over 70 percent of respondents reporting challenges in this area.

Transfer pricing issues were named the most common type of dispute in the past 12 months, followed closely by interest expense challenges and indirect taxes. Respondents are also seeing high volumes of disputes involving bad debt challenges, employment matters, and indirect taxes.

What are the key areas/topics of tax dispute you have seen over the last 12 months? (Please check all which apply.)



Along with increasingly aggressive audit activity, almost two-thirds of respondents noted an increase in the tax authorities’ application of penalties globally. New or increased penalties are being legislated in many jurisdictions. Respondents commented that penalties are being assessed more routinely and becoming more difficult to abate.

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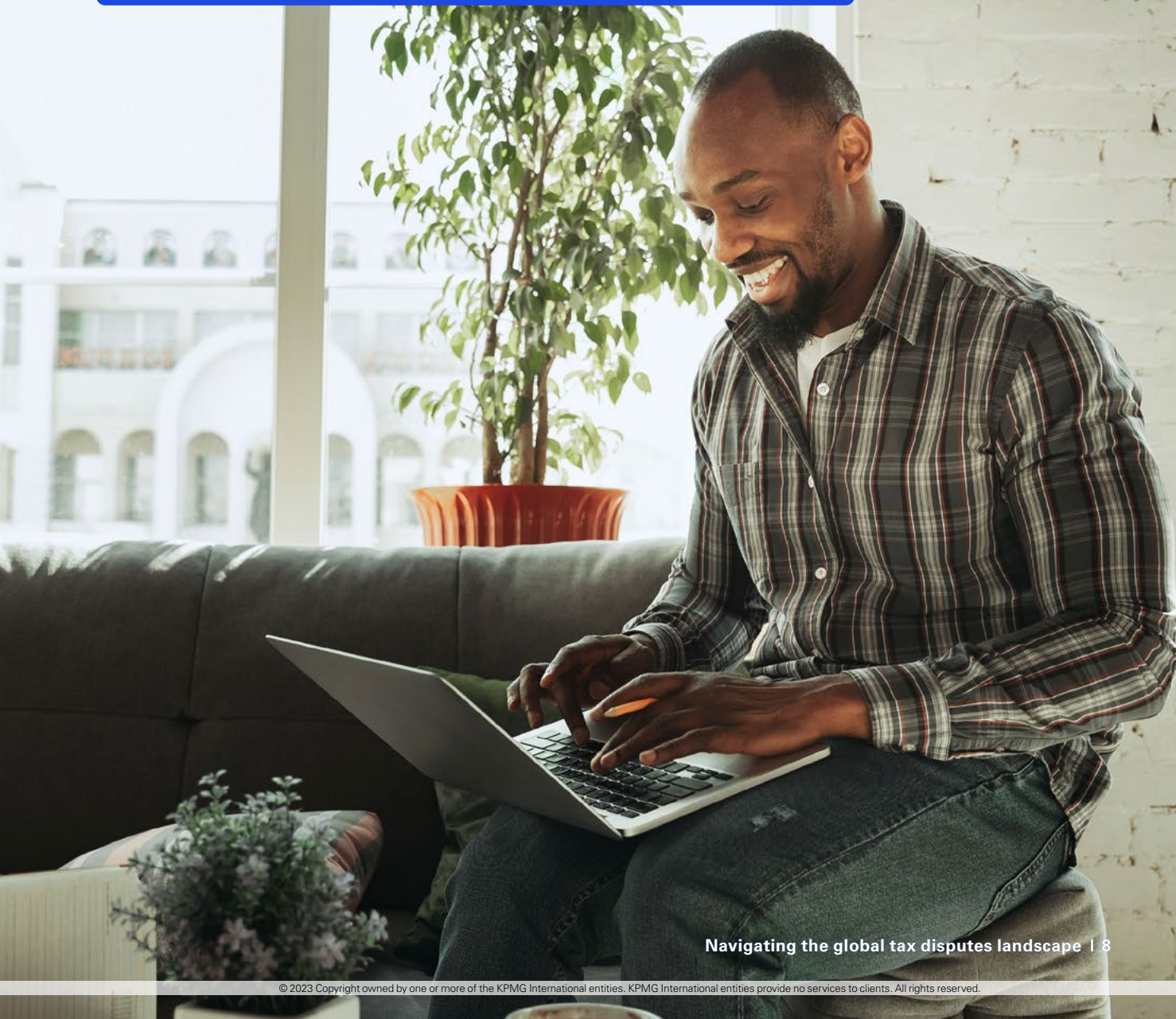
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Digitalization spreads across authorities' operations

Most respondents (83 percent) have seen an increase in tax authorities' use of technology, and some of those who have not seen an increase recently say their tax authority has already been relying heavily on technology for many years. Additionally, respondents say tax authorities are deploying technology across a broader spectrum of administration and enforcement activities.

In particular, technology is helping tax authorities better evaluate enormous volumes of available data that can help identify and address significant compliance risks. The most consistently cited use of technology by respondents is identifying compliance issues and taxpayers to be audited. Most respondents (83 percent) say their jurisdiction's tax authority uses technology for data and analytics, for example, to develop issues and risk-assess taxpayers.

The use of technology-based processes within specific audits continues to evolve. Nevertheless, one respondent observed that 'every intervention now has a significant e-audit aspect.'

Some tax authorities are building data warehouses and using data analytics to match third-party information against a taxpayer's return positions. More advanced uses include implementing machine learning processes to upgrade audit selection algorithms.

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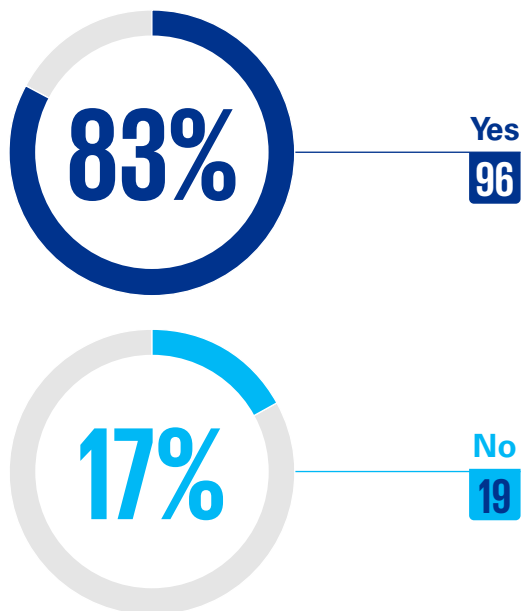
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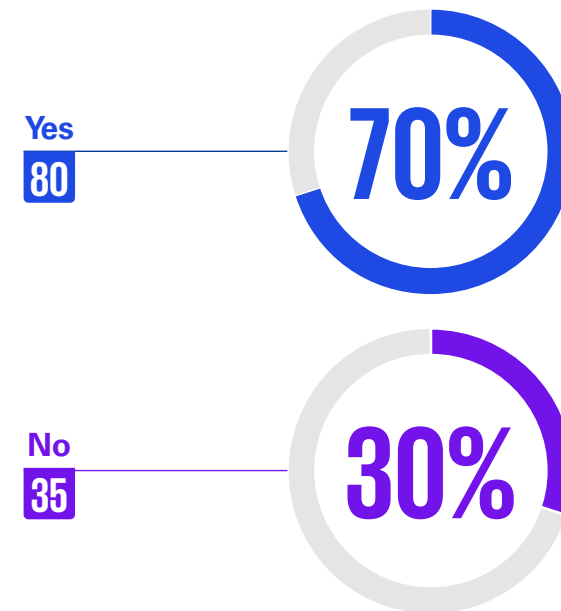
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Does your revenue authority use technology for data & analytics? (For example, to develop/risk assess issues and/or taxpayers?)



Does your revenue authority use technology to conduct the inquiry itself?



Many tax authorities are now using dedicated, secure portals for communicating with taxpayers and exchanging documents. For example, tax authorities use these portals to request and accept specific documents and information in audits. As more routine interactions between taxpayers and tax authorities become technology-assisted, these efficiencies can help accelerate the tax audit process overall.

Collaboration and information sharing



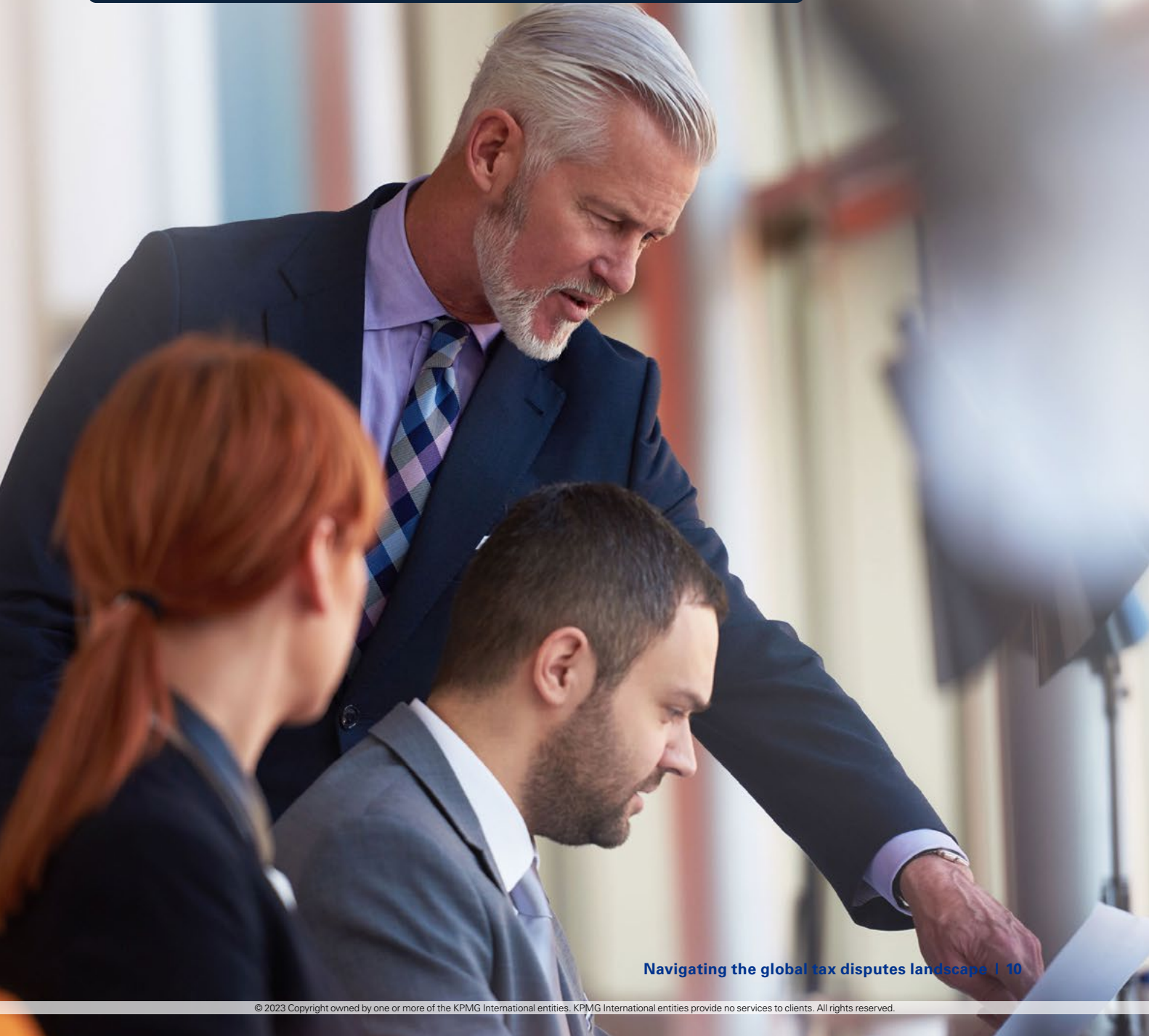
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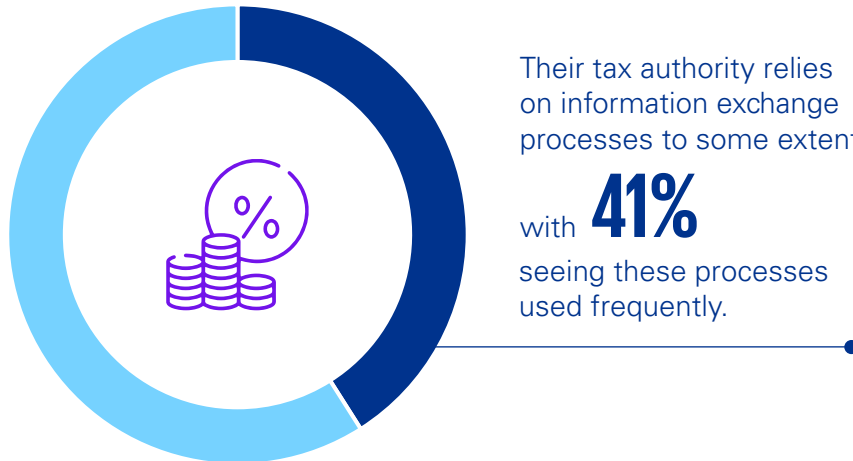
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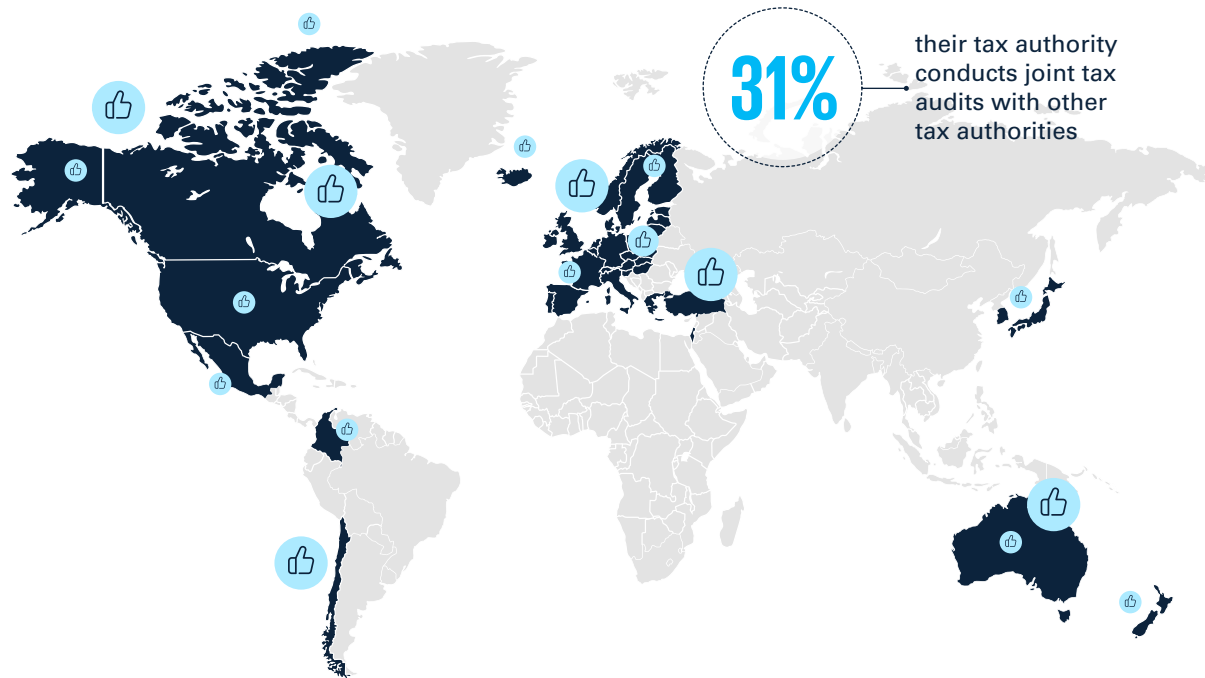


Collaboration and information sharing

Tax authorities today share more taxpayer information than they did in the past, as data from country-by-country tax reporting requirements, the Common Reporting Standard and the automatic exchange of information gives them much more access to company's international tax information. Most respondents said their tax authority relies on information exchange processes to some extent, with 41 percent seeing these processes used frequently.



Fewer respondents have noted other forms of increased collaboration among tax authorities, such as conducting joint audits, while only a minority of respondents (31 percent) say their tax authority conducts joint tax audits with other tax authorities, even among Organisation for Economic Co-operation and Development (OECD) countries.



Nevertheless, the information-sharing processes of OECD countries seem to be more aligned than other jurisdictions. Respondents in OECD countries tended to provide more positive responses on cross-border cooperation and the exchange of information between authorities. In non-OECD countries, exchanges of information seem to occur less frequently.

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Resolving disputes — settlements and alternative mechanisms

As noted earlier, respondents say that disputes are not only increasing in number, but they are also getting harder to resolve. While the majority of cases (62 percent) are resolved without litigation, respondents were more likely to say their tax authority favors an adversarial approach to dispute resolution over more collaborative methods.

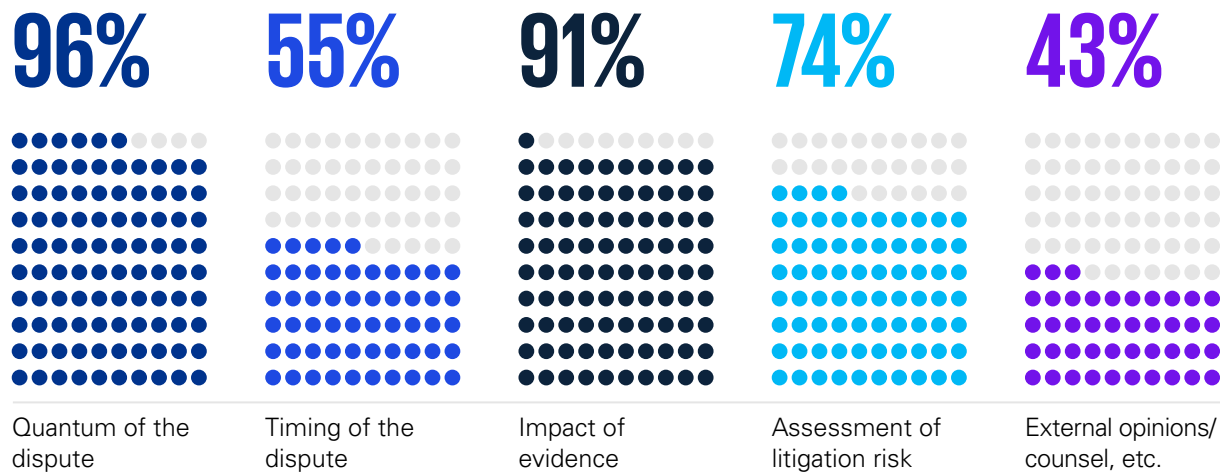
Pre-filing or pre-dispute mechanisms are available in most jurisdictions surveyed (63 percent). However, less than one-third said these mechanisms are used frequently, and just over one-quarter said they are used sometimes. Voluntary disclosure mechanisms are also in place in most jurisdictions (79 percent), but it appears voluntary disclosures are not being utilized to their potential to help prevent disputes.

While the environment is increasingly adversarial, dispute settlement remains possible in most jurisdictions. How many cases are settled is unknown in most jurisdictions, with only 30 percent of respondents saying their tax authority publishes statistics on settlement activity.

Most respondents said their tax authority’s approach to settlement varies depending on the stage of the dispute. In cases where negotiating a settlement is possible, a majority of respondents said that the tax authority tends to propose large adjustments and expects the taxpayers to concede the majority of the amount in dispute.

According to respondents, the most important factors influencing a tax dispute’s settlement are the amount of funds at stake, the impact of available evidence and the risk of litigation. In addition, the timing of the dispute and the advice of external advisors are also crucial.

What are the key factors which influence the settlement of a dispute? (Please check all which apply.)



The majority of respondents said their tax authority is open to mediation, arbitration or other alternative mechanisms for settling domestic disputes. However, only a handful of tax authorities were said to be very open to these prospects, while a sizeable minority is not at all open to them.

More tax authorities are somewhat or very open to using mutual agreement procedures (MAP) for settling cross-border disputes. Again, however, a sizeable minority said their tax authority is not open to taking part in MAPs whatsoever.

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Rising tax authority aggression, increasing digitalization, collaboration and sharing of information among tax authorities can lead to more potential for tax disputes.

In this environment, companies can better position themselves to meet tax authority aggression by investing in their tax dispute management functions. Based on the experiences of professionals from KPMG's Global Tax Dispute Resolution & Controversy Services, leading tax dispute management functions are building up their operating models to help ensure they have:



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Contact us

For more information about how KPMG professionals can help your business handle and resolve tax disputes efficiently and effectively, please contact the Head of Global Tax Dispute Resolution & Controversy Services below.



Aldo Mariani

Head of Global Tax Dispute Resolution & Controversy Services

KPMG International

T: +31 (88) 909-1078

E: mariani.aldo@kpmg.com

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