

# Minimal change to corporate tax rates expected in spite of global tax infrastructure reform says RSM research



Sydney, 1 December, 2014 – The majority of tax advisers globally expect corporate tax rates to remain relatively unchanged over the next three years, according to research by RSM, the seventh largest global network of independent audit, tax and advisory firms. This is in spite of global tax reform led by the OECD aimed at targeting tax avoidance by multinational corporations.

RSM analysed the views of its tax partners from 54 countries in its report, *The Evolution of Tax*. The report was developed in light of the increasingly global economy, which necessitates cross-border business. An international view of tax is vital for organisations to thrive.

Transfer pricing, increased information sharing between countries and a revision of the tax treaty framework are just three of the main areas where major changes are likely, according to the report. And while the focus of international tax authorities is currently on multi-national corporations, businesses of all sizes will need to plan their strategies accordingly.

Rob Mander, Director of Tax Services for RSM Bird Cameron in Australia, anticipates that the corporate tax rate will remain approximately the same in Australia over the next three years, which is in line with the majority of international advisors. Only eight per cent forecast a tax increase while 20 per cent expect tax rates to decline.”

In Australia, total tax revenue increased gradually as a percentage of GDP in the 35 years to 2000 but has fallen significantly since.

Rob Mander said: “Tax revenues have fallen following the impact of the global financial crisis in the late 2000’s and the subsequent challenge for the Australian government has been to find new sources of tax revenue to fund its expenditure requirements. Consequently we expect the highest marginal tax rate for individuals to increase by up to 5 per cent as governments deal with this revenue challenge.”

## OECD tax reform challenges

Tax experts recognise that there will be huge challenges in implementing the OECD’s tax proposals. There is concern about the practicalities that governments will face because tax policy is a key component of their economic management and the OECD’s proposals involve giving up some of that national control in favour of a more global policy outcome. Detailed negotiations between countries on double tax agreements is also expected to be difficult.

Companies will be burdened by issues such as the requirement to disclose their transfer pricing policies in far greater detail. They will also be challenged by proposals to neutralise the impact of hybrid tax mismatch arrangements, where double deductions are obtained for the same amount, for instance, which require detailed cross-border understanding and agreement between countries.

Jean Stephens, Chief Executive Officer of RSM International, said: “The global tax system was built for an industrial age dominated by western powers and is no longer fit for purpose in the increasingly globalised, internet-driven, economy. We applaud the OECD’s unprecedented reform objectives and its inclusion of developing economies in its proposals, but it is clear that agreement and implementation will be very tough for governments and companies across the world.”

Changes will be required to domestic Australian tax laws as well as the international tax rules. These international changes will not occur evenly across various countries, and this will significantly increase the risk of double taxation.

Craig Cooper, Director of Tax Services for RSM Bird Cameron in Australia said: “The scope of the OECD’s Base Erosion Profit Shifting (BEPS) project is nothing short of a complete re-creation of the international tax architecture. Internationally active organisations need to be planning for the forthcoming changes, or risk being caught out with superseded and ineffective tax structures and arrangements.”

Much of the global tax debate has been about how to tax the ever-pervasive digital economy appropriately. RSM’s tax partners fully anticipate

changes to the taxation of the digital economy to be part of an overall package of reform. Nearly three quarters (70 per cent) of the tax partners agreed with this statement.

Craig Cooper said, "Given the ability for digital businesses to extract significant value from a source country's economy, without the need for any, or any significant physical presence in that country, it is no longer acceptable to many countries to exclude the 'market' as a right to tax a foreign company interacting remotely with that jurisdiction's economy."

Rob Mander said, "Locally, we'd like to see a Tax Ombudsman established to take up the cause of taxpayers unable to get a fair hearing from tax authorities in relation to requests for the reduction of corporate tax instalments and invalid tax assessments driven by tax audit revenue-targets.

"Globally, international tax is in a process of evolution that will bring many changes over the next few years. At a practical level, countries, administrators, businesses and advisers will face the challenges of dealing with major tax changes that seek to manage the global economy and digitisation far more effectively. Tax has a key role in assisting economic growth, and it will be critical that, whilst working to shape a new global tax infrastructure, governments don't remove incentives to innovate, invest and grow business."

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In September 2014, RSM was awarded the prestigious Network of the Year 2014 award at the International Accounting Bulletin annual awards. The award recognises networks that have demonstrated strong growth and operational excellence over the past 12 months. Last year, at the March 2013 International Accounting Bulletin annual awards, RSM was awarded the prestigious Editor's Special Award for Global Initiative of the Year for its worldwide initiative - RSM World Day – which was praised for being a unique and powerful cross-network initiative that enhanced both employee and client engagement.

RSM International actively engages in promoting and celebrating the very best in entrepreneurship, championing the role of the entrepreneur in today's world economy. RSM International is the lead sponsor and corporate champion of the European Business Awards promoting commercial excellence and recognition of entrepreneurial brilliance.

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