



2019 GLOBAL TAX MARKET ASSESSMENT

The annual Global Tax Market Assessment (GTMA) is the leading forecasting and predictive analysis of top trends in staffing and retention facing corporate tax departments.

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2019 KEY TAKEAWAYS USA

TAX REFORM

Tax Reform was a major topic in 2018, and we expect it to be **the single most impactful factor tax departments face in 2019.**

While our initial belief that the quantity of international tax professionals would diminish and transfer pricing would go away didn't hold true, **a hybrid of new tax codes and the '86 reform added new layers of complexity.** As a result, both U.S.- and foreign-owned companies have seen an **increased need for international tax professionals.** We remain uncertain as to future tax staffing needs, as there are still several unresolved areas that will impact short- and long-term demand for both U.S.- and foreign-owned companies.

DECONSOLIDATION/SPIN OFFS/M&A Mergers, acquisitions, spin offs, and deconsolidations were abundant throughout all of 2018. We expect this multi-year trend to continue, with 2019 being just as active from a corporate transactional perspective. This trend will remain one of the many factors that add to the increased demand and low supply for tax resources across the U.S.

AGING IN-HOUSE TAX POPULATION

Has your tax department started to feel the impact of our aging corporate in-house population? If not, hang on, because **we firmly believe this will be the most significant issue after Tax Reform in 2019.** Looking ahead to **2020 and 2021, we anticipate that this will become the #1 trend affecting corporate tax and finance leaders, with the tax technology issue looming next on the horizon.** Potentially more than **one-third of the current heads of**

tax will be retiring with the #2s not far behind.

In this year's GTMA, we will discuss important issues such as putting **"Succession Development"** plans in place; and utilizing the retiring Baby Boomers' experience and leadership to bridge the gap as new Gen-Xer's take their place, as well as utilizing them for a department's "just-in-time" labor needs.

TAX TECHNOLOGY

The hype continues to grow around technology, and this year is no exception, as we continue to **have more questions than we do answers.** While the impact of technology will be felt, we do not believe that technology will be the most significant trend affecting the corporate tax department in 2019. However, **over the next three to five years, technology will become increasingly more impactful,** especially as we start to get some answers to those questions.

EU VOLUNTARY DISCLOSURE DIRECTIVE

In May of 2018, the EU adopted a directive that requires a mandatory disclosure and exchange of cross-border tax planning. **This new directive should not be taken lightly, especially since some countries have begun to implement it.** Currently, we're still waiting to see what this means for U.S. tax departments, but unfortunately, the more we have discussions about this topic in the market the more questions arise. Until there is more insight into how each EU country will adopt legislation to adhere to the directive, there will still be many unknowns. We want to make sure tax leaders are keeping an eye on this from a U.S. perspective, as we firmly believe there will be an impact in the future.

EUROPE KEY TAKEAWAYS

Many companies now have the backing for tax transformation and are undertaking a roadmap to transform processes, systems and compliance. With that comes the challenge of ensuring people can adapt to the partnering skillset -- becoming business advisors who know about tax, rather than tax advisors to the company. To do this, tax professionals need to embed themselves within the business. As more processes become standardized and automated, tax business partners should have more time to adjust their activities to add more value. This will require them to become more rounded advisors and further build their commercial awareness. This also means finding more of a reason to partner with the business to convince them to structure new initiatives in tax efficient ways, as well as identify tax savings through value chain management that meets substance requirements.

MIDDLE EAST AND AFRICA TAKEAWAYS

Due to increased scrutiny, this region will find TP taking a more significant role in tax executives' agendas than in the past. Furthermore, the push for 'revenue mobilization' efforts will continue into 2019 and beyond, and we can expect a busy period for tax leaders. Finally, in 2019 we expect the biggest development from a recruitment perspective, with a greater demand for international tax professionals with transfer pricing expertise.

ASIA PACIFIC KEY TAKEAWAYS

Companies will need to review and update existing group tax and TP policy and strategy to prepare for the latest global and regional tax developments and changes. The right resources, -- IT systems such as tax technology -- will need to coordinate with external tax consulting firms with practical ideas. They'll also be called upon to proactively communicate and co-operate with local tax authorities, especially in jurisdictions like China.

TP documentation requirements will be due for filing by the end of 2019 across many Asian countries. As a result, in order to set TP policy for Asia, many enterprises are hiring TP specialists in advance. Increased tax audits are likely to be a major task of the Tax Department for 2019, with a focus on transfer pricing issues.

LATIN AMERICAN KEY TAKEAWAYS

2019 will see further discussion and implementation of AI/robotics in the Tax function. 2018 saw several major companies in LATAM embrace new technologies, and we predict this trend to continue in 2019. Companies will need to have a solid risk management system and a strong talent pipeline to address more evolved, complex matters. They will also need to find resources that possess more than traditional tax skills and/or look for IT professionals to form part of the Tax team.





GLOBAL TAX MARKET ASSESSMENT RECAP

Each year, TaxTalent reflects upon the previous year and evaluates our accuracy in forecasting the market. In 2018, TaxTalent had the following predictions. *(Please refer to the 2018 Global Tax Market Assessment for more details.)*

[Download TaxTalent's 2018 Global Tax Market Assessment Now.](#)

Prediction One – We expect the tax industry to see an accelerated rate of Baby Boomers retiring.

Analysis: We were accurate in our assessment, as there was an increased trend of Baby Boomers retirements in 2018. We witnessed many retirements and even saw several companies experience “surprise departures,” wherein tax leaders retired earlier than expected. Throughout 2018, our firm has preached about the demographic “time bomb” that is ticking in tax and even released the publication “Keys to Avoiding Crisis as Corporate In-House Tax Leadership Prepares to Retire,” which can be downloaded below. Our 2019 predictions indicate this topic is expected to have long-term implications for the tax market for years to come.

[Download TaxTalent's Demographic White Paper Now.](#)

Prediction Two – In 2018, Tax Reform will have different impacts on U.S.-based companies and foreign companies. We predicted that U.S. domestic and U.S. multinational companies would increase their

domestic assets through M&A and divestitures.

Analysis: M&A and divestitures activity was in line with our expectations for 2018. While the market leaned more towards spin offs and divestitures than M&A, both were active during the year, which was no surprise after the latest tax reform. DowDuPont, Honeywell, and United Technology Corp. are some examples of divestiture activity this past year. In 2018, acquisitions from a global perspective occurred at a record-breaking pace. The U.S. alone experienced major acquisitions, with Amazon acquiring Whole Foods; Sprint merging with T-Mobile; CVS merging with Aetna; Dell acquiring VMware; and Keurig Green Mountain acquiring Dr. Pepper Snapple, just to name a few.

Prediction Three – 2017 ended with a lot of hype around new technologies. In 2018, tax professionals should focus on better understanding RPA's and AI as we enter into this new age of technology.

Analysis: Due to the distractions with tax law changes, the industry did not implement and execute as much on the technology side as we would have hoped. That has not ceased the hype from continuing, as the Big 4 accounting firms continue to put out marketing materials touting how tax technology is going to impact the tax industry. While we did not see the results of this in 2018, we believe tax departments will turn an eye back to technology soon, as the modern-day tax department continues to transform.

TAX REFORM

Increased staffing will be required in the international tax area for both U.S.- and foreign-owned companies

Initial thoughts on tax reform were that international tax demand would diminish, while transfer pricing would be a dead issue. This is not what unfolded in 2018, as the tax reform act continued to expose increased layers of complexity. The '86 act was neither reversed nor eliminated, removing the traditional tax planning tools. Instead it's remained in place, causing more complications than expected. For now, the jury's out as to whether this will remain a part of current reform for the next two to three years as the U.S. tax code continues to be politicized.

Due to the latest tax reform, a blend of old code and new regulations, U.S. companies can expect to encounter a high demand for international tax planning and tax operational professionals.

Transfer pricing professionals will also be in demand, contradicting the idea that these roles would be reduced or even eliminated when tax reform was first released. You may recall in previous Global Tax Market Assessments, we predicted an increased need for transfer pricing professionals. We were early on this prediction, and you will start to see the increased demand for supply chain transfer pricing roles as tax reform continues to unfold.

Last year, tax reform analysis centered around the impact from a planning perspective, whereas this year, companies are dealing with the reporting impact of tax reform and the various calculations that now need to be accounted for in their 2018 tax returns.



Nearing the end of 2018, TaxSearch began having discussions with companies that are seeking resources to help them set up and prepare for compliance with the new laws in mind. The increase in the need for tax operations skills is now being felt, as we must account for the regulations put in place in. While tax planning skills continue to be in demand in 2019, we expect these individuals will remain active as companies continue to implement planning strategies for this complex hybrid tax code.

Non-U.S. companies will also see an increased need for staffing internationally based U.S. professionals to address the compliance and reporting areas. However, this could all change later in 2019 when a decision is made regarding the Brady Bill. If the law remains the same, these foreign-owned companies will be faced with large workloads that they are not yet prepared for. If the new bill passes, the same foreign-owned companies will not need the manpower that was predicted.

We're currently unsure how the current tax law changes are going to affect the demand for international tax professionals long-term. However, while companies are adjusting to the new rules, the demographic issues facing the industry, and the bubble that is progressively moving up the experience ladder of tax, the high demand for international tax professionals is expected to continue.

DECONSOLIDATION/SPINOFFS/M&A

As mentioned in the 2018 recap, last year was a busy year for M&A activity. Additionally, we continued to see a multi-year trend of large conglomerate companies deconsolidate and split into separate companies, while pieces of large companies were spun off into separate companies. This activity contributed greatly to the overall demand for tax resources and the trend is expected to continue in 2019.

Merger and Acquisition Activity

2018 was a record year for M&A activity and is showing no signs of slowing down.

Only a few weeks into the new year, and major M&A deals have already been announced, like the Bristol-Myers/Celgene transaction. If this is any indication, the momentum from 2018 seems to be continuing. While M&A by itself does not net a lot of new jobs (particularly in the corporate sector), it does help keep the utilization rates high for service providers. They are continually looking to add staff, which amplifies the strain on supply and demand. On the corporate side of the fence, M&A provides long-term opportunities to add tax jobs. There has been a continual multi-year trend toward large companies acquiring companies with the intention of deconsolidating altogether after the merger(s). We discuss the deconsolidation further in the next section.

Deconsolidation versus Consolidation with the intent to Deconsolidate

The tendency of businesses to use a wide variety of other types of transactions to unlock shareholder value was prevalent in 2018, and, like M&A, we expect this trend to continue throughout 2019. Last year was an active year for large companies spinning

off smaller divisions into separate companies and creating new tax functions from scratch. One example of this is Danaher, the large healthcare conglomerate, severing its dental division.

These separations continue to be a net positive for tax careers. There is usually a 50% increase in the need for overall tax resources to fully staff the new entity spinning off.

This results in either adding additional staff to the company or increasing the budget for external help until permanent staffing decisions can be made. As this trend persists, it will continue to feed the demand for tax professionals both in professional services and in corporate environments throughout the year.

In addition to these company divisions, there has also been another interesting trend that combines the M&A and spin-off situations. The U.S. market has experienced a number of large companies splitting themselves into multiple separate companies, like the division that Honeywell announced. At the same time, these large companies have also been acquiring additional assets with the long-term intention of dissecting the larger company.





The Dow/DuPont merger, with their near-immediate announcement of a multi-year plan to split the company into separate pieces, is one example of this type of deconsolidation. Another example of this is United Technologies acquiring Rockwell Collins in 2017, and then announcing in 2018 the intent to divide the company into three separate entities. GE acquiring Baker Hughes only to unwind its stake in that business, while also spinning off its healthcare business, is yet another case in point. This trend is something we will pay close attention to throughout 2019, as these large deconsolidations and consolidations have had a tremendous impact on the demand for tax resources. M&A transactions often cause a net loss of corporate jobs in the short term, as we discuss above, however these deconsolidations provide a great need for additional resources, as businesses must be positioned as standalone entities.

The transaction itself allows the company to eliminate duplicate resources, and the uncertainty also creates some unexpected turnover. On the flip side, as we also discussed in the spin-off section,

the deconsolidation creates demand for additional headcount and increasing consulting budgets to meet the needs of establishing these multiple entities.

The net takeaway from all of this transactional activity indicates a continual drive for additional tax resources in a market that is already tight. Moreover, we will soon see a lack of experience in the workforce as several senior level professionals retire. As outlined in our outsourcing whitepaper, the demand for senior level resources is only going to continue to grow as more retirements take place and companies look at the generations below the Baby Boomers to fill the void.

This natural decline in available resources, coupled with a continual increase in demand (in part) due to transactional situations, means companies will need to focus on their retention policies for their key tax leadership throughout 2019.

[Read TaxTalent's full White Paper on outsourcing now.](#)

IMPACT OF AN AGING IN-HOUSE TAX POPULATION

Due to a mass wave of retirements, we anticipate the shrinking pool of aging, in-house tax executives to create a crisis within the next few years.

Approximately 64% of current heads of tax are ages 55 and older. Further, 52% of other senior level tax professionals, presumably in line to step into lead roles, are 55 years of age or older.

Over the last five years, corporate in-house tax departments have gradually started feeling the effects of this aging demographic. 2018 proved to be a tipping point but was only a mere glimpse of what is to come in **2019 through 2024, when potentially more than one-third of the current heads of tax retire or leave their positions.** Additionally, the tax industry faces an even bigger dilemma, as those in #2 positions are nearing retirement.

Because of the talent drain that is going to be created, there will be a high demand for tax professionals who are willing and able to step into lead roles. It is imperative that companies recognize that Baby Boomers must be kept around in some compacity as Gen Xer's are going to need help transitioning and leading tax departments. Additionally, Millennials are going to require support to get them up to company standards as quickly as possible.

While the majority of Baby Boomers will not want to move back into full-time roles, they can take advantage of the "just-in-time" labor market, which will allow them to take on select, expertise-focused, short-term contract opportunities.

TaxForce, our sister company, provides deeply screened, quality candidates from this pool of

professionals that can help bridge the gap.

While the demographic issue could wreak havoc on the tax industry, with proper planning, companies can expect a smooth transition. This can be accomplished in a few ways. First and most importantly, focus on succession planning. It is critical to identify talent not only at the Gen X level, but in the Millennial and Gen Z groups as well. Additionally, you need to know that Gen Xer's are going to be extremely hard to hold on to, as other companies will be looking for them to fill their critical upper-level tax positions. Our advice is to retain as many of these Gen Xer's as long as you can.

SUCCESSION IN TAX

AGE	HEAD OF TAX (HoT)	#2's REPORTING TO (HoT)
55-59	30%	24%
60+	34%	28%
Total Pool of 55+	64%	52%
Total # Surveyed	1428	6598

Next, find and start grooming the top 10-20% of Millennials and keep them as long as possible. The top performers who have the work ethic, I.Q and E.Q, are going to move into leadership roles much earlier than the Baby Boomers and Gen Xer's before them. Finally, you will want to take advantage of the Baby Boomers' experience and maturity to fill those "just-in time" labor needs.

Companies that take time to put in specific succession development plans will be much more relaxed as these top tax leaders retire. In addition, particularly over the next few years, the benefits of having had them pass their knowledge onto those under them as this crisis unfolds will be invaluable.

[Read TaxTalents full White Paper on the aging of corporate in-house tax professionals.](#)

THE FUTURE OF TAX TECHNOLOGY

As the Hype Continues, the Questions Mount

While the potential of tax technology still holds great promise, 2018 raised more questions than it answered. Moreover, the demands of tax reform pushed most company's technology projects to the back burner or postponed them for a year or more.

With that in mind, what's in store for tax technology in 2019?



To start, we anticipate the familiar questions surrounding what platforms companies should use and how they should go about implementing them, but also expect plenty of new topics to arise. These will likely include queries about robotic process automation (RPA) and the future of AI, particularly the opportunities for machine learning, including deep or hierarchical learning methods. Additionally, most companies will want to explore whether to outsource or build these technology functions in-house (see 2018 GTMA).

This new era of tech-led innovation can address not only tax operations and planning costs, but improve processes and increase accuracy. However, **it's important to note that the Big 4 professional service and public accounting firms are the driving force behind technology implementation in the corporate tax space, creating an inherent dissonance.**

That is because most of the professional service and public accounting firms' revenue is based on the fruits of consulting engagements, such as billable hours and utilization rates. As they attempt to morph into providing a technology platform for their clients in tax, there's a likely potential they'll cannibalize their own service hours.

This phenomenon has already impacted the audit side, as technological advances and automation have streamlined the Big 4's processes and minimized the number of billable hours. In addition, the service providers are unable to achieve as much leverage from their junior employees, which directly impacts their tax-based revenue. At the same time, the unfunded pensions at the Big 4 U.S. firms are creating tremendous, additional financial strain. This trifecta of pressures has resulted in an exigent demand for a consistent revenue stream.

We have seen this happen before with Arthur Andersen in the 90's when they spun off their IT Consulting practice, now Accenture. Trying to maintain different businesses under the same model can be challenging. The only reason the other accounting firms didn't do the same was largely because of the financial pressures of the aforementioned pension plans.

The tension caused by providing successful servicing in one area of the company, while simultaneously attempting to transform into another business model can be insurmountable.

Similarly, while traditional brick-and-mortar retailers like Target and Walmart frantically try to compete with digital platform-based Amazon, most would agree their online interface and product offerings are inferior to the internet-based giant's.

Examples of Tension

1. Why is Amazon succeeding when Macy's and Sears are going out of business?
2. Why didn't General Motors start the Uber business?
3. Why didn't a major hotel chain or global property management company start Airbnb?

As professional service firms and public accounting companies work to increase their technology offerings despite the pressure of their internal conflicts, it is quite likely a pure tech-focused company will seize the opportunity and take market share. In addition, an enterprise resource planning titan such as Oracle or SAP is far better positioned to commoditize any relevant technology, which can be expected to service not only tax, but all corporate finance functions. While this may not become a reality in 2019, we would not be surprised if it happened in the next few years, and is well worth keeping an eye on.

This new era of tech-led innovation is certain to transform the tax and corporate finance functions. As financial leaders continue to raise questions and explore the potentialities, the answers -- as well as the eventual provider of the ideal technological solution -- remain to be seen.



EU VOLUNTARY DISCLOSURE DIRECTIVE



In May of 2018, the EU adopted a directive that requires a mandatory disclosure and exchange of cross-border tax planning. With tax reform in the U.S. being the most pressing matter from a regulatory and legislative perspective, combined with the fact that member states are not required to transpose this directive into national legislation until 2020, we have heard very little about this new development.

That being said, **this new directive should not be taken lightly, especially since some countries have begun to implement it.** We address the Disclosure Directive again from a European perspective later in the Global Tax Market Assessment, however, we do want to bring up some points that we believe tax leaders should be considering from a U.S. perspective. While we recognize that it's still early for anyone (including the firms) to completely understand mandatory disclosure's impact on tax departments and tax staffing long-term, we feel it is important to start a discussion and raise awareness about the directive now.

What does this mean for U.S. Tax departments?

Unfortunately, the more we have discussions about this topic in the market, we've found we encounter more questions than answers. Nonetheless, there are a handful of trends we see potentially happening.

- The directive is a clear example of the global initiative to attack any kind of tax avoidance planning. As we've seen previously, there have been attempts to stop the ultra-aggressive planning tactics. However, the wide net cast with this directive appears to be an endeavor to capture more planning, rather than less.
- There seems to be an erosion of client privilege taking place with this directive, wherein law firms will be required to participate in this disclosure process. The long-term ramifications of that are still unclear.
- MDR does squarely put the onerous of disclosure on the advisors. This might create some tension on how and when advisors should be used. We recommend keeping a very close eye on this determine the utilization strategy that should be pursued moving forward.
- There could be an impact on in-house corporate tax staffing, as there is more demand created in the strategic tax planning area. It may also be prudent to have a focus on strategic advisory vendor management from a risk mitigation perspective.

Until there is more insight into how each EU country will adopt legislation to adhere to the directive, there will still be many unknowns.

We want to make sure tax leaders are keeping an eye on this from a U.S. perspective, as we firmly believe there will be an impact in the future.



EUROPEAN TAX MARKET ASSESSMENT

2018 REVIEW

1. Tax technology

Last year, we predicted that developments in tax technology products would cause a shift in the required skills of tax professionals. **We've seen tax technology rise in the agenda, with a few approaches developing.**

The most economical way to accomplish this is to select an existing tax team member with an interest in technology and have them take the lead. Give them a few projects and some space to learn and link them with the IT and/or finance department, in order to provide a data analyst to support your tax technology champion. Alternatively, some companies hire a data analyst - typically with no tax experience - to work in the team permanently and develop tools together. How much this changes the skills and structure of the team depends on which route you take.

This initiative is driven by the increasing pressure to improve the efficiency of the Tax organization, which includes moving more resources to low-cost locations. An increased understanding of all end-to-end process for all taxes in all territories serves to:

- a) Deliver better governance.
- b) Deliver more standardization and consistency.
- c) Identify opportunities for automation.

This trend will obviously continue. We're seeing several companies preparing business plans and partnering with technology firms to improve processes and increase efficiency. This is also linked to the 'digitization'

of tax administration, which will have more of an impact in the future. The tax and technology space are changing at a dramatic speed. Robotics and tax engines mean processes that used to take many months can be halved, thereby improving accuracy and freeing up tax professionals to partner with the business. The challenge will be building the business case around tax transformation and getting the investment to embrace the automation that is now possible.

2. U.S. Tax Reform

For many European businesses with sales and operations in the United States, it was a year of working through U.S. tax reform. With this, **we have seen an increase in U.S. tax roles appearing in Europe.** We predicted higher volumes of M&A deals in 2018. Although the initial euphoria over U.S. tax reform drove many companies to do deals early in the year, that gave way to nervousness about a rise in protectionist policies and worsening conditions in the credit markets in the second half of 2018.

3. Digital Tax

2018 was a year of digital tax hitting the political agenda, and 2019 is set to be the year of action, particularly in Spain and Italy, with the OECD and EU expected to launch their proposals. The OECD is taking too long to reach a global agreement on how to tax the digital economy, and the European Union's proposals are too broad, so countries are taking unilateral action on digital taxation. The U.K. has been leading attempts to deliver international corporate tax reform for the digital age. Progress is painfully slow, so the U.K. will now introduce digital services tax, but will revert to the international

standard once the OECD has reached a consensus. Italy led the way in unilateral action, swiftly followed by Spain. Italy introduced a web tax in January 2019, and a separate tax on digital transactions is expected to go into force in 2020. The indirect tax on certain electronic services applies to companies making more than 3000 business-to-business digital transactions in a year, and they will be charged three percent (3%) on revenues. This is a global trend, with other similar paths being pursued by Taiwan, Israel and Saudi Arabia.

4. Uncertainty

A big challenge in 2018 has been trying to do business as usual, whilst dealing with a wide range of uncertainties such as tax reforms, trade wars and, of course, Brexit.

There is also uncertainty coming from the EU commission with State Aid cases, as it's difficult to understand what they are trying to achieve or the related consequences. The number of EU State Aid cases on tax matters (such as Amazon, Engie and McDonalds) has forced businesses to reevaluate and disentangle business models. This also sets precedence for future tax planning, where more scrutiny will be placed on how authorities may react to future planning ideas.



Some of the biggest changes in 2018 have been U.S. tax reform and macro political uncertainty across many of the territories in which companies operate. U.S. reform introduced the most far-reaching changes in over 30 years, which had a material impact on the tax rates, cash tax and the future efficiency of the supply chain. This change also required immediate analysis and understanding, in order to brief senior stakeholders and update the market.

Companies also have to deal with emergency/short-term tariffs due to trade wars and protectionism. The further macro political ambiguity of trade tariffs and Brexit has created significant uncertainty, which impacts investment decisions and requires deep analysis. This is to ensure companies remain nimble in delivery of strategic objectives, while also insuring against future tax risk through tariffs or a change in tax policy.

5. Audits, Controversy and Transparency

Tax authorities are using new rules or adjusted TP principles (following BEPS) to initiate audits and make more aggressive assessments. As in previous years, companies continue to negotiate and settle historic exposures to manage down audit risk in line with published tax strategy. Local audits have proven difficult from a business perspective, especially when dealing with certain European tax authorities that can be difficult to "satisfy." This becomes a further problem when trying to do business in good faith.

There has been an increase in tax audits due to tax authorities investing heavily in technology capabilities to allow for quick manipulation of data. This not only increases tax controversy, but puts additional pressure on companies to keep up to date with the latest technological trends.

Tax authorities are now demanding information in real time. We are already seeing this in Spain and in other EU territories, such as Italy and Hungary. Tax authorities are demanding more information at the outset, and it is only a matter of time before other countries must adopt similar processes once the technology is up to speed. The implementation of digital VAT tax in the U.K. is a prime example of not only submitting the return, but also the accompanying information from ledgers which support it. This allows for the manipulation of the data at the outset. Then there is the effect of country-by-country reporting, with the first report, for 2016, submitted last year. Tax authorities are sharing information and performing analytics to ask further questions.

6. TP and Indirect Taxes

There has been a need to take a more coordinated approach to improve the management of transfer pricing and indirect taxes. Many mid-sized multinational companies have been recruiting their first ever TP and indirect tax leads.

7. Talent

Attracting and retaining talent has been a continuous challenge. As the tax industry seems to approach full recruitment, **the fight for talent has never been fiercer, especially at the Manager and Senior Manager levels.** Finding the necessary skill set and leadership needed for in-house roles is a constant battle, especially as the in-house positions demand rounded tax professionals able to partner with the business and drive value.

8. EU's new world of tax

Increased disclosure requirements have been introduced through the Mandatory Disclosure Regime which, again, increases the level of

transparency in cross-border planning arrangements. There is an increased focus on naming and shaming "harmful countries" from a tax perspective. Therefore, companies typically will stay away from these countries to minimize reputational risk. There is also an increase in legislation through the Anti Avoidance Directive (ATAD), which minimizes planning opportunities that lack substance through the new CFC regime, as well as hybrid legislation, to name a few.

The recent publication detailing how the EU should work together on TP audits provides greater powers and reduced barriers for cross-jurisdictional audits. For example, Germany allows foreign tax officials to come to Germany to observe, but we will see each tax authority embedding more powers into legislation to allow for joint audits and a common control framework.

The Common Consolidated Corporate Tax Base has been on the agenda for many years, but has recently been revived largely due to BEPS, wherein the tax base of each country is assessed on a metric and taxed at the same rate. Double taxation treaties are almost becoming irrelevant where you have tax authorities assuming taxing rights based on new measures. This is part of the BEPS project, and there will be an increased trend to boost these sorts of measures for different types of income.

9. Changes in tax planning

Business models are changing as companies match tax planning to areas where tax incentives are greater, rather than traditional lower tax rate countries or taking advantage of such things as R&D relief and patent box relief. Further tax savings are generated by looking at an organization's value chain, and working with the business at the outset to see how tax savings can be generated by evaluating the KPIs of the operating model.

FOR MANY, 2018 WAS ABOUT

- 1) Implementing a documented tax strategy and setting out a consistent approach to compliance, as well as planning and interaction with tax administrations.
- 2) Adopting a tax corporate governance framework that formally documents the business's policies and procedures, while providing senior management and/or the board oversight as to tax risks.
- 3) Putting tools and processes in place to consistently manage ongoing and potential tax controversies at a global, strategic level.
- 4) Developing a plan that defines the circumstances under which disputes will be resolved, litigated or otherwise handled.
- 5) Evaluating the pros and cons of various dispute resolution mechanisms, such as appeals, mediation, arbitration, litigation and MAP, along with striving to build better relationships with tax authorities.



1. Pressure on business partnering

Given cost pressures (noted above) there will be an expectation to do more with less. In addition, as more processes become standardized and automated, tax 'business partners' should have more time and capacity to adjust their activities to add more value to their businesses. This will require them to become more rounded advisors and further build their commercial awareness. This means finding more of a reason to partner with the business and convince those in command to structure new initiatives in tax-efficient ways, such as identifying tax savings through value chain management that meet substance requirements.

2. Tax Transformation

Many companies now have the backing for tax transformation efforts and are undertaking a roadmap to convert processes, systems and compliance agendas. It is very exciting, and there is no doubt the tax compliance processes in force today will be transformed in 12-18 months' time. With that comes the challenge of ensuring that people can adapt more readily to the partnering skill set; becoming business advisors with a tax hat on, rather than simply tax advisors to the company. To do this, tax professionals need to embed themselves within the business.

3. Technology

There will likely be a trend towards better utilizing existing enterprise performance management technology to deliver tax solutions, rather than the more traditional approach of buying solutions from tax technology providers. Companies need to keep pace with the investments being made by the tax authorities, in order to prepare for real-time information requests in a world where VAT is now immediately calculated in countries like Italy.

4. The debate on taxing rights

Governments are still unhappy about the balance of taxing rights, and we should expect more unilateral measures or a big debate at the OECD about how the balance of tax rights should change. It is possible we will see a shift to more source-country taxation and less cooperation between governments.

5. Brexit

The outlook of the UK's future trading platform with other countries is uncertain. As we go to print, the UK will leave the European Union on 29th March 2019. The Withdrawal Agreement negotiated by the UK government with the EU, was voted down by the UK Parliament in January 2019, inflicting the biggest defeat in modern history on Theresa May's government. There are many possible outcomes, but the likely ones are:

- 1) The UK leaves the EU and trades on World Trade Organization rules (as it does with the US)
- 2) It leaves with some sort of agreement. Due to the size of the government's defeat, an agreement to satisfy the UK Parliament and 27 other countries is not looking likely, but no-one should underestimate the ability of the EU to reach an agreement at the eleventh hour.

Some will be re-evaluating double taxation agreements to ensure free movement of capital can exist, post-Brexit. There is the cost of hiring staff to deal with Brexit analysis and modelling impact based on several scenarios. As a result of the uncertainty of Brexit, one key issue has been the way in which HM Treasury and HMRC have been so tied up with Brexit preparation that much of the usual policy & development work has been on hold. Policy areas which could have been advanced have been put on the back burner, legislation which could have been developed has not been presented to Parliament (because Parliament is

also so busy with Brexit) and technology which could have been developed to help individuals & businesses use digital and web based tools more with HMRC have also been postponed because of the need to prepare for the new Customs system & Making Tax Digital. It all represents an opportunity cost to the UK in the short term. A quick resolution is needed, but not in sight.

If the future trading relationship between the UK and EU is more distant, this is likely to have a significant impact on customs duty and VAT, in particular.

Its impact on direct tax remains muted. While Brexit brings challenges, it also provides opportunities for the country. The UK is generally known to be a pro-business environment and, as it leaves the EU, it will need to be focused on building out the proposals put forward in the Industrial Strategy, to ensure that the UK remains an attractive place to do business.

6. Transfer Pricing

Transfer pricing is becoming more complex with the implementation of BEPS actions in domestic legislation. Countries are still having difficulty reaching a consensus on the fundamental issues needed to advance the OECD's planned update to the transfer pricing rules for financial transactions. Even very basic issues, such as the role of the arm's length principle in evaluating capital structures, remain unresolved. The report also contradicts fundamental transfer pricing principles, which will also need to be addressed.

7. Diversity

We will continue to see a drive to have more women at higher levels in the tax organization. Pipeline and mentoring play key roles in this area. Also important is the integration of different generations in one Tax function, especially in companies with large tax teams.

8. EU Mandatory Disclosure

European-based Tax leaders of American multinational corporations will continue to address these issues. Since June 2018, most cross-border arrangements need to be disclosed. While it appears to be targeted at external tax advisors, but it's so broad that any U.S. MNCs that meet the hallmarks and engage in tax planning in Europe should expect their advisor to report. If for any reason they do not do so, the burden will fall on the MNC itself. Companies need to be tracking any schemes caught since the middle of 2018 and need to be certain their advisors are doing so too.

Poland is one country where this has already been put into legislation, but most countries and companies are not ready. We expect this to be like country-by-country reporting, whereby the tax authorities will receive an avalanche of disclosures and won't know what to do with them all.

As each European country's requirements become clear, U.S. MNCs will have to make sure they are complying with requirements. This raises many questions and potential problems. This could include the possibility of the erosion of client privilege and a prospective backlash in the use of external advisors. As a result, U.S. MNCs may decide to recruit more in-house tax staff to ensure they are mitigating risk, creating an even greater imbalance between supply and demand.

On a separate but similar note, HMRC in the U.K. has announced details of the proposed new Profit Diversion Compliance Facility. This is aimed at U.S. MNCs with small, but growing operations in the U.K. that might be in violation, but have not realized it. Notably, HMRC is apparently writing to some companies instructing them to appoint better advisers.

9. MLI

To date, 15 countries have deposited with the OECD their instruments of ratification of the BEPS multilateral instrument (MLI). These are Austria, Isle of Man, Jersey, Poland, Slovenia, Serbia, Sweden, New Zealand, United Kingdom, Lithuania, Israel, Slovak Republic, Australia, France and Japan. In addition, 84 jurisdictions have signed the agreement. The MLI entered into force on July 1, 2018, and went into effect on 47 matched agreements on January 1, 2019. MLI involves implementing a series of tax treaty measures to update international tax rules and lessen the opportunity for tax avoidance by multinational enterprises.

10. Automatic exchange

First exchanges under the Automatic Exchange of Financial Account Information standard began on September 30, 2018. More than 100 countries have commenced exchanges, including countries known for their strict bank secrecy, such as Singapore and Switzerland.

We expect the trend of hiring tech-savvy tax professionals at increasingly senior levels of the tax department to continue. Transfer pricing and indirect tax skills will become more closely aligned, with some companies adding direct tax skill responsibilities, including transfer pricing, to indirect tax positions. There will also be continued demand for tax professionals with the soft skills required for effective business partnering and change management.



MIDDLE EAST AND AFRICA REGION

2018 REVIEW

In last year's report, we discussed the higher price of oil compared to previous years and predicted the positive economic and societal impacts. In addition, diversification of the economy was another important development for creating jobs and improving prospects for future generations, for example, 'Saudi Vision 2030.'

In early 2018, Saudi Arabia and the UAE became the first GCC Member States to introduce VAT systems. They have been followed by Bahrain on January 1 of this year. Oman may possibly introduce VAT in 2019, while Kuwait is expected to follow by 2020. Meanwhile, implementation in Qatar during 2019 looks unlikely, based on recent media reports.

The increasing role of technology and the integration of robust internal controls, processes and documentation has meant that people with different skills, other than purely tax technical, are in increased demand.

Compared to 2017, when several businesses were preparing for the implementation of VAT, we predicted that practical recruitment volumes would stabilize in 2018. We also believed there would be an increase in 'in-house' vacancies, as businesses shifted from pre-assessment to implementation and post-implementation phases. However, multinational companies have not increased their hiring spend in tax as we had hoped, although we are continuing to see 'Head of Tax' roles being signed off by GCC-parented multinationals, where VAT is clearly the driver.

Other key themes in last year's report were the strengthening capacity of tax audits, the various "localization" initiatives and increased collaboration between tax authorities. All of these factors were increasingly on the minds of tax leaders and their staff. We forecasted that these factors would result in increased emphasis on furthering investments in technology, people and process improvements. This proved to be the case.

Building co-operative, rather than adversarial, relationships with the tax authorities has been and will continue to be of great importance for tax leaders with responsibilities across this region.

2019 PREDICTIONS

The International Monetary Fund (IMF) has raised the 2018 and 2019 economic forecasts for GCC countries in its latest World Economic Outlook Report. This has been attributed to an increase in non-oil economic activity (as predicted due to economic diversity initiatives), as well as a projected increase in crude oil production.

Governments continue to announce reforms to support the economy and to facilitate business. Some commentators maintain the implementation of the minimum standards for BEPS will contribute to this goal, particularly in Saudi Arabia, Egypt, Oman, UAE and Bahrain. They further feel putting the right frameworks in place will position the region for further investment.



This development will likely involve changing or amending the tax regulatory landscape in the region to ensure compliance and expand governance. One impact of this will be the increased focus on transfer pricing across the region. This is something we have seen internationally, as it dominates the attention of tax authorities (and payers) everywhere. Due to increased scrutiny, TP will be higher up on this region's tax executives' agenda, more than ever before.

The effective use of technology and analytics continues to demand attention. As such, people with this skill-set will be in increased demand. We believe the hiring of VAT professionals will stabilize rather than increase, compared with the last couple of years. Of course, VAT is not the only area where we are seeing companies hire.

In 2019, the biggest development from a recruitment perspective will be a greater demand for international tax professionals with a transfer pricing focus.

This is in response to the recent developments from a BEPS perspective.

Tax leaders in Africa highlight how important it is to manage and build good relationships between businesses, local tax authorities and host governments.

The fluid nature of tax policies and legislation, as well as the need to overcome the perception that larger companies are not paying as much tax locally as they perhaps should be, are some key challenges tax leaders will face in the Africa region.

When we look at the statistics in Africa, tax revenues as a percent of GDP have increased roughly 18% since 2000, but this is lower than other regions (22% LATAM / 32% OECD). On that note, perhaps the increased frequency of tax audits is justified?

With the push for further 'revenue mobilization' efforts to continue into 2019 and beyond, we can expect a busy period for tax leaders. In December 2018, it was reported that Nigeria's FIRS (inland revenue) is set to reach a record high, generating N5 trillion this year. Looking back to last year's report regarding untapped revenue in the region, this is not surprising, and the need for robust in-house tax resources to address it is critical.

Finally, based on searches in the region during 2018, we are pleased to report that there continues to be an increasing pool of excellent local candidates coming through the various accounting firms. Companies have a greater number of options available in the local market, and this lessens the need to hire expats with the required skill set. As we can see, tax is increasingly on the agenda, and having the right in-house expertise really matters.



ASIA PACIFIC TAX MARKET

2018 REVIEW

Tax Technology and robotics were hot topics in 2018, with many companies strengthening their Tax function, both in terms of staffing and the tech tools employed.

We saw a 20% increase in demand for additional staff; particularly tax people with supplementary technical skills or IT professionals with a good understanding of how tax processes work.

In China, the focus was very much on B2V, big data collection by the tax authorities and the implications of U.S. Tax Reform.

On that note, it has become more challenging to defend tax audits in China with the authorities further equipped for big data analysis. We predicted Tax people would need to understand the value chain, which we are beginning to see, with tax departments reinforcing their teams across APAC with TP and indirect tax professionals.

2018 saw many U.S. and European-parented multinational companies with a strong Asian presence, recruit tax professionals for the first time, while others reinforced or grew their Tax team by recruiting TP, VAT and corporate tax advisory specialists (particularly in Shanghai, Beijing, Hong Kong and Singapore). This recruitment is the result of the need to support business operations, handle historic issues and attempt to keep ahead of legislation changes, three areas that are becoming increasingly complicated. Companies are taking

steps to adopt tax reforms and update business arrangements to comply with BEPS requirements, which also drives significant changes in the global tax landscape. Furthermore, both the legal changes and any new regulations that come into force cause the overall business environment to become dynamic and uncertain.

Governments are under pressure to secure their tax base by lowering corporate income tax rates, but are also looking to maximize revenue through tax audits. Tax audits are very active (and aggressive) in the region via tax assessment, inquiry, inspection, and questionnaires with numerical targets for revenue collection.

Tax reforms, or anticipated reforms, in countries with large economies such as China, India and Japan, require the tax director to not only keep up with the legislation developments, but also stay close to the business to ensure their awareness of the potential implications of rule changes.

2018 saw Golden III systems become more mature, and as a result, transactions could be identified and selected for further analysis. In addition, the State Administration of Taxation (SAT) also implemented the "1000 Enterprises Initiative" to perform in-depth tax governance of the 1000 largest companies in China. These enterprises are being scrutinized by the tax authority through various means, including increasingly detailed document submission and heightened on-site visits in order to enhance tax

compliance and identify potential tax exposures. With the support of the big data analysis of Gold III, the tax authority tends to adopt a “tax assessment” instead of a “tax audit” process to monitor an organizations’ operations. The tax authority’s system establishes certain parameters for the tax and financial data submitted, and enterprises that trigger the alarm set for the data will be required to submit a reasonable explanation.

The international trade war became more intensified in 2018. SAT has issued new policies to cut taxes, increase competitiveness and promote foreign investment in China, including:

- 1) Lowering the VAT rate
- 2) Easing personal tax burdens
- 3) Granting tax benefits for R&D activities
- 4) Providing tax refunds for certain issues
- 5) Deferring withholding tax for dividends re-invested in China.

APAC tax advisors have been glad to see such new policies, which actually increase China’s competitiveness from a tax perspective.

Customs audits also became a hot topic in 2018. The in-house tax advisor must be involved in the negotiation on customs issues, because most customs audits are related to the reasonableness of the importation price, which may conflict with the company’s transfer pricing.

The in-house tax advisor must also have a clear idea on how to balance the complexity of operations and the budget to set up such a system. Some large-scale enterprises have already implemented these tax management systems and embraced tax technology. The Tax function needs to respond through implementing new streamlined end-to-end processes with new technology, developing

new processes to improve the compliance and data control, and applying cost-saving measures in their operations. The Tax department also needs to be close to the business, in order to act as a partner and add value to the operation.

More companies have begun to use RPA (robotic process automation), for example, handling VAT invoices to improve the efficiency of tax work or for preparing tax returns. However, it is critical to manage the transition. So far, we have not seen headcount reduced for tax compliance professionals because of robotics. Meanwhile, in 2018 the Big 4 in China acquired local IT companies to speed up the development of the tax-related technology.

2018 saw complicated tax rules under U.S. tax reform, with more and more jurisdictions – the most recent being Hong Kong -- in the APAC region introducing and implementing BEPS action plans. In addition, CbCR, formal TP doc requirements and reactions from SAT in China in response to U.S. tax reform resulted in the introduction of various tax incentives and measures to cope with the capital outflows, but also imposed stricter compliance requirements.

The trade war between China and the U.S. made many manufacturing businesses start planning to move their production bases from China to other Asian countries like Vietnam, Thailand and Cambodia.

The increased need for transparency requires a good documentation system and timely communication among different functions outside of Tax.

One of the biggest issues in 2018 involved coping with the rapidly changing regulatory environment globally, as any regulatory changes required updates to company systems, processes and team resources.

Transfer pricing is emerging at the forefront of the Tax function and has a high profile in the finance department now, thanks to many years of hard work.

Tax authorities are also becoming more coordinated in analyzing transactions from tax, TP, customs and indirect tax perspectives. As a result, tax professionals need to have a basic grounding in all areas.

U.S. tax reform has greatly changed global tax structures. U.S. tax authorities are now seen as more aggressive compared to before, so companies will have to be more careful about recharges to the U.S.

Changes in overseas tax compliance and declarations, especially in countries like India, Cambodia and the Philippines, means there are many tax compliance obligations being imposed on taxpayers. These include GST/VAT; withholding taxes (payers from both local and overseas); and personal taxes and other non-tax related contributions, for example, social security for employees stationed overseas. With these tax compliance obligations, overseas tax service fees tend to be higher and more expensive.

The recent U.S.-China trade tensions and weaker Chinese economy have seen the Chinese government generate more tax incentive policies in 2018 compared with 2017, such as VAT rate decreases, VAT rebate increases, individual income tax law changes, and CIT refunds for re-investment from foreign investors. On January 1, 2018, the Environmental Protection Tax Law came into effect, requiring Chinese companies to pay an environmental protection tax for producing air, water or noise pollution.

Meanwhile, the pilot reform of the water resource tax has been expanded to nine provinces (cities), including Beijing. At the same time, the Chinese tax authority strengthened tax audits, especially on the

film and TV industries and high-income entertainers. Looking at the tax audit cases incurred in 2018, it's clear Chinese tax authorities intend to impose more penalties on tax evasion. This has alerted private companies to pay attention to tax work and recruit additional tax professionals.

2019 PREDICTIONS

Tax Departments will need to further develop their strategic partnerships with other business groups.

In 2019, we'll see tax technology continue to be a key issue. **Tax departments will need to develop an automation and/or technology strategy with clear objectives to ensure accessibility to financial results;** high-quality compliance work; and continuous improvement in terms of deadline, accuracy, efficiency and costs. At the same time, they'll also need to ensure proper TP management and support for tax audits.

It is expected that the tax authorities will strengthen enforcement of tax administration, including TP audits and investigations into potential BEPS schemes, to ensure tax revenue collection. Some big group companies will have to upgrade their robotic systems in-house or outsource routine functions to third parties. So, in addition to normal tax technical issues, tax personnel will need to be equipped with the basic concepts of the company's tax technology vision.



Externally, the tax data of individuals and companies will be more transparent to the authorities, along with the global TP and CRS reporting and information exchanges. It is therefore reasonable to forecast that more tax inspections will be ordered. The solution will include internal tax risk reviews and internal adjustments, along with remediation measures, where possible. Internally, limited tax resources and a lack of professional tax staff will still pose challenges to MNCs for tax risk management. Encouraging tax professionals to think about business operations and models is one way to identify issues in advance, thus alleviating some potential tax risks. Investing in tax resources and building a solid tax team is necessary from a long-term perspective, and we will see more of this in 2019.

Companies will need to review and update existing group tax, TP policy, and strategy to prepare for the latest global and regional tax developments and changes. They will need to put in place the right resources, such as IT systems and tax technologies. They will also need to work with external tax consulting firms with practical ideas, while proactively communicating and co-operating with local tax authorities, especially in jurisdictions like China.

TP documentation requirements will be due for filing by the end of 2019 across many Asian countries. Now many enterprises are hiring TP specialists in advance, in order to set TP policy for Asia. Increased tax audits are likely to be a major task of the Tax department for 2019, with a focus on transfer pricing issues.

Another key factor for 2019 will be the relationship between the U.S. and China, along with any emerging economic conflicts in all regions across the world. The entire current international tax framework, including transfer pricing, is built upon WTO and OECD foundations. It is anticipated that the Tax world will be reshuffled in the coming years. This will add many uncertainties for tax practitioners.

2019 will be a busy year for tax professionals as the new IIT Law begins implementation and Chinese tax reform continues.

Furthermore, tax deduction is still the theme for 2019, and the uncertainty of U.S.-China Trade will likely cause the Chinese government to develop further tax policy changes.





LATIN AMERICA TAX MARKET

2018 REVIEW

The impact of BEPS, the interaction of taxpayers with the authorities, the use of technology in the Tax function, and an increasing number of audits (both in volume and complexity), all continued to take center stage in 2018.

BEPS has been the catalyst for legislation changes, as it has caused businesses to realign structures and TP policies, as well as re-evaluate how they engage with the tax authorities.

For 2018, we predicted there would be better, and more extensive, communication and cooperation with the tax authorities. We also forecast that new digital platforms would significantly reduce physical 'face time' and that the topics being addressed would become more complex, all of which we have seen come to pass throughout the year.

As the issues became more intricate, the **Tax Department and its leaders have had to integrate themselves far more into the commercial business strategy by learning to speak both 'business' and 'finance', as well as 'tax'.**

This is particularly relevant to the TP team, and it's critical to ensure that they're as well informed as possible on all key business activities, in order to support the wider company effectively.

In addition, Tax departments have had to develop a greater understanding of BEPS; achieving this by immersing themselves in all key projects and business restructuring. Recently, most LATAM

entities are required to file information about BEPS, plus BEPS-related tax returns are now mandatory. A major challenge in 2018 has been quickly adapting to the increased demand, not only from domestic tax administrations standpoint, but all global tax initiatives. This increase in workload is having a significant impact on the size and shape of tax organizations.

Many countries in LATAM have changed their legislation to implement new TP reports based on OECD guidelines. Most companies have had to review or implement their TP policies and, in some cases, change their intercompany flows. Significant challenges in 2018 have included understanding these new obligations, along with updating internal TP policies and profit allocation to ensure the business provides the information the tax authorities need. In a number of cases, the changes implemented by the authorities have exceeded what is required by BEPS Action Plan 13 guidance. In the case of total or partial non-compliance, significant penalties have been imposed, and some businesses have even been closed. For many, the potential imposition of such sanctions poses a high risk to a business, as well as its reputation with governments and customers.

We have seen several major multinational corporations outsource tax compliance in 2018, in the hope that the in-house tax team can then focus on more value-added work. In the tax world we currently live in, this shift in mindset is inevitable, but it takes time and is difficult to implement, especially in LATAM jurisdictions where tax legislation is so complex.

We predicted that 2018 would be the year of discussions around the merits of robotics and how technology and data can be used to improve tax effectiveness. Interestingly, **as tax departments accelerate their digital agenda with respect to the automation of tax compliance, they have realized that individuals with more than just tax technical backgrounds are required.** Rather, tax professionals also need to possess process, procedures, project management and change management skills in order to lead and implement the business' automation agenda.

In addition, these automation processes are unable to manage tax audits, proving there will always be a need for people with these skills in the tax department.

From a recruitment perspective, we have seen many multinational corporations recruit regional tax managers and country tax leaders with the new skills required to be a modern-day tax professional. Many of the tax searches we completed in 2018 were in Brazil, Mexico and Panama, as well as Costa Rica, Chile and Peru.

U.S. Tax Reform has been inspiring a number of LATAM countries (in particular Argentina and Columbia) to replicate the reduction of income taxes and other measures to simplify their tax structure.

Many jurisdictions are implementing electronic accounting mechanisms to control invoicing and facilitate the tax authorities' ability to perform electronic audits. Companies are now required to issue electronic invoices and payment slips. This means the authorities can control both the income and cash flow of companies, and can use this to

estimate taxes, perform remote audits and determine tax through an electronic mechanism.

After more than a year, the U.S., Canada and Mexico reached a trilateral free trade agreement, replacing NAFTA. This creates a modernized free-trade system addressing critical issues, such as the harmonization of regulatory systems including taxes, trade tariffs, e-commerce and the protection of intellectual property.

In general, **LATAM is becoming a region that must provide more substance on transactions in order to deal with BEPS.** The tax advisor of the future will be one that knows the business and can merge a tax-efficient structure with the way business is done; encompassing manufacturing, distribution, administrative and leadership perspectives.

2019 PREDICTIONS

2019 will see further discussion and implementation of AI and robotics in the tax function. **In 2018, we saw a number of major companies in LATAM embrace new technologies, and we envisage this trend continuing in 2019.**

Companies will need to have a solid risk management system and a strong talent pipeline to address more evolved, complex matters. To achieve this, they will need to find resources beyond typical tax staff and look for IT professionals to form part of the Tax team.

BPA acquired a tax technology recruitment business in 2017 in order to cater to demand in this sector. We have been speaking with many companies looking for advice on how best to make use of technology, while also understanding the types of tax and technology professionals they need.

Brazil's request to join the OECD may lead to new local TP policies, more aligned to arm's length principles.

In Chile, for example, the main challenge will be the implementation of technology on tax compliance procedures. Everyone wants to be first. Chile, like many countries, is facing upcoming tax reforms. Most importantly, as Chile is an OECD member country, BEPS is a must.

Countries will be competing to attract investment, and this will be an opportunity for tax policy. We are also expecting to see cash constraints on developing countries, which will lead to more tax disputes and legislation changes.

Latin America is changing the way it does business, shopping, bank transactions, and digital services. Digital technologies, iCloud-based services, e-commerce, and 3D printing are empowering and creating new products and services. The region is receiving investment from innovative digital companies, while entrepreneurs are actively seeking new opportunities within Latin America.

Due to government changes in many LATAM countries, tax reforms are expected for 2019 in nations such as Brazil, Costa Rica, and Colombia. Some changes have already been formalized.

In Chile, an integrated corporate tax regime is replacing the current dual regimes. There are also new regulations for the digital economy, as well as new rules for international tax provisions.

In Peru, there are new thin capitalization rules, changes to Indirect foreign tax credits and revised definitions for Permanent Establishment.

Meanwhile, the changes in Ecuador include tax amnesty, incentives for new private investments



and reinvestments, and new rules and conditions for those looking to apply foreign WTH tax as a tax credit.

For 2019, tax experts will need to improve their knowledge of technology, digital services and e-commerce to better understand business needs,

and application of law and new regulations, as well as provide greater input on the way business is being conducted in LATAM. They will also need to continue to improve virtual and digital communication skills with customers, suppliers, and tax authorities. These days, more than 50% of communication is virtual, so tax professionals will need to improve their understanding of transfer pricing and the impact at a global level, along with tax planning, including transfer pricing implications and the digital world. They will also need to ensure that cost optimization proposals avoid triggering any tax risk or exposure, such as via tax shared service centers and robotic process automation.

From a tax recruitment perspective, we already know the plans of many MNCs in the region and the key needs appear to be for staff at all levels in TP, indirect tax (including customs), tax audit, and tax technology fields.

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