

*Do you know who your mobile people are,
where they are going and what they are doing?*

Managing mobility in a world reshaped by BEPS

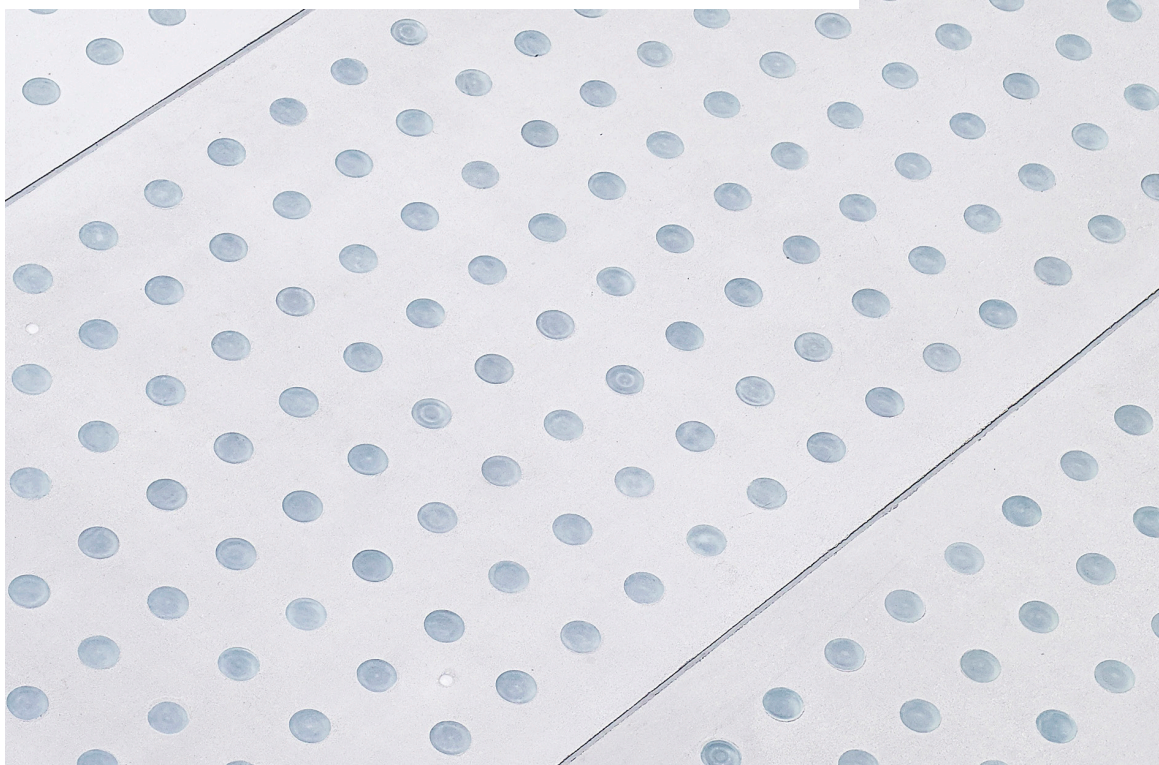
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Purpose of our study

Mobility is evolving, driven by advancing technology, transformations in the way people and organisations work and by a fundamental shift in the regulatory environment.

In particular, the OECD's Base Erosion and Profit Shifting (BEPS) project has sharpened the focus on the risks posed by global mobility. Where an organisation's people work and the activities they perform – even short term business visitors – can have far reaching tax implications.

Are you prepared for these risks? Do you have the processes and systems in place that can track and actively manage mobility in this new world?

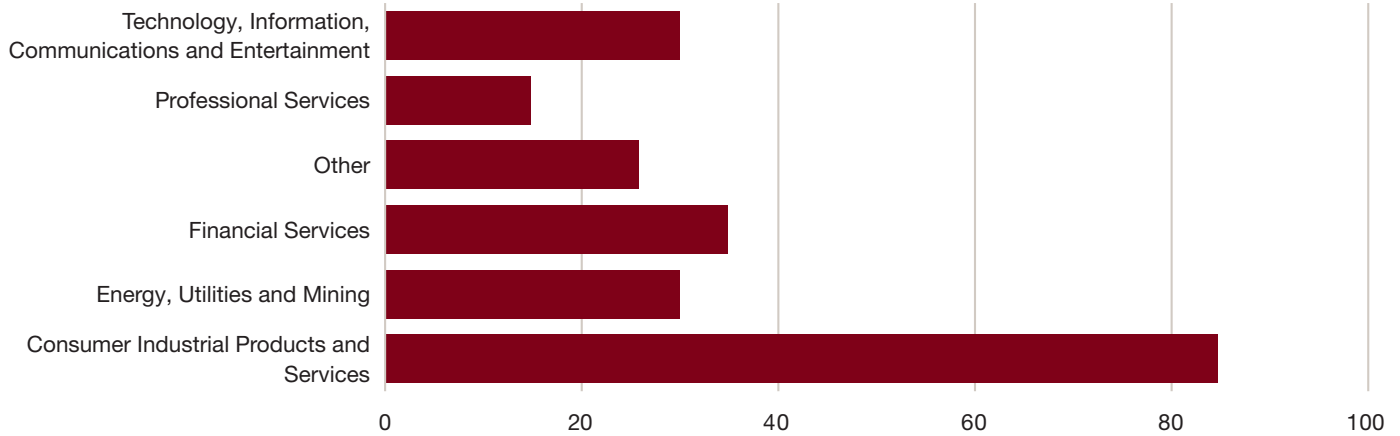
We wanted to understand better how organisations are tackling the challenges of global mobility; our survey of 224 companies in 26 countries suggests that there's still important work to be done.

About the survey

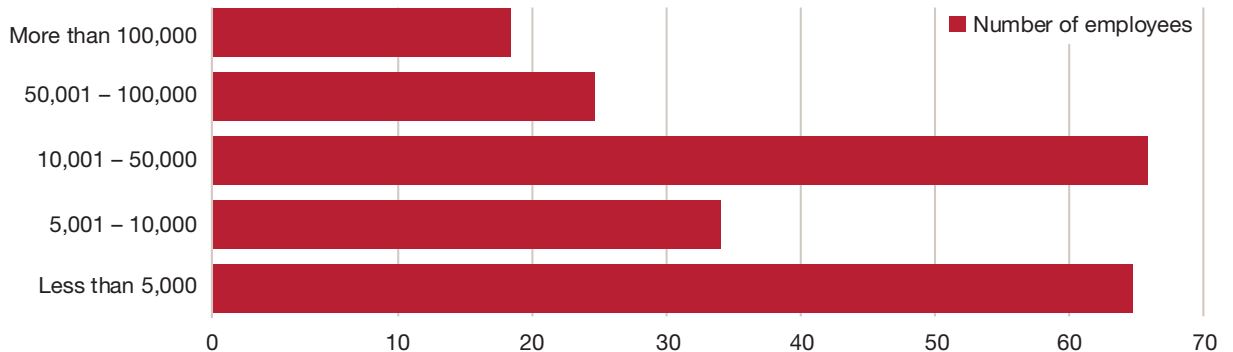
The findings set out in this report are based on an in-depth survey of 224 participants from organisations across the world, 79% of whom are HR or mobility professionals and 21% who are tax or finance professionals.

The survey was carried out during July to September 2016. The participants come from a representative cross-section of business types, industry sectors, sizes and global headquarter locations.

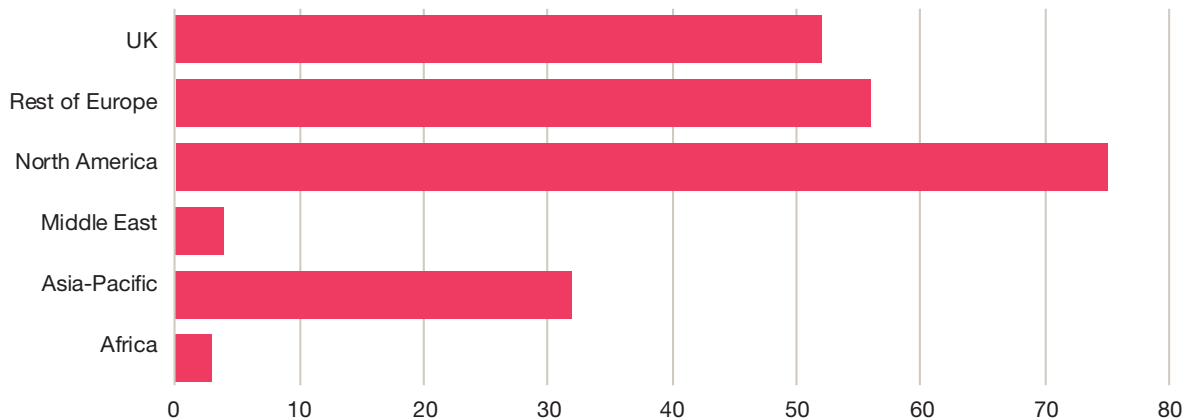
Industry sector



Organisation size



Company HQ location



All stats are related to this survey unless stated otherwise

Introduction

Mobility is evolving...

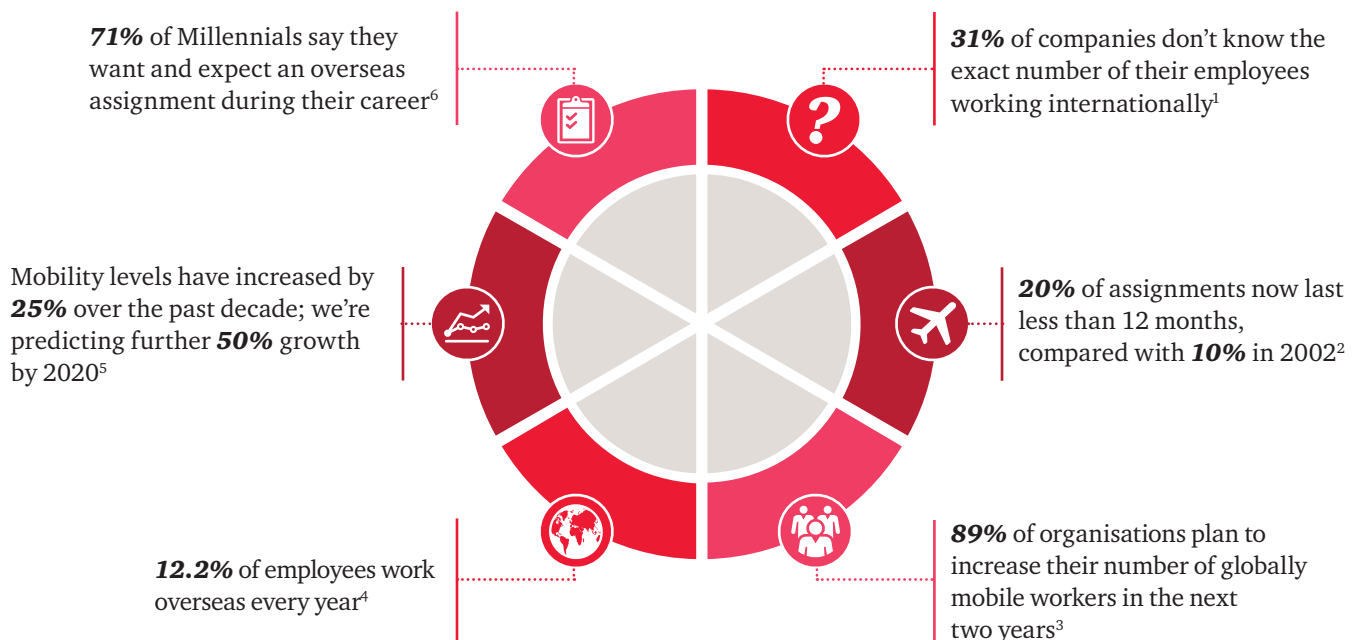
There's been a revolution in the concept of global mobility. People are moving in more fluid and informal ways, creating complex mobility challenges for their employers; our research shows that mobility is increasing sharply, with a greater emphasis on short-term assignments, frequent business visits, cross border commuting and virtual working.

The way people and organisations work and move around the world has changed beyond recognition in the past two decades. It was once thought that the development of

sophisticated communications technology would largely remove the immediate need for employees to travel; instead, powerful economic, social and demographic forces are encouraging a fundamental change in the way we work and in the way corporations organise their workforce.

“Our biggest challenge is the changing face of international mobility itself. Policy needs to adapt and change to deal with the risks associated with, for example, agile working from another country, informal mobility and split working arrangements.”

Global Mobility Manager, Multinational Law Firm Provider



¹ PwC Moving people with purpose <http://www.pwc.co.uk/services/human-resource-services/modern-mobility-survey/highlights-of-the-survey.html>

² PwC Global mobility effectiveness survey 2012

³ PwC Moving people with purpose 2014

⁴ PwC Moving people with purpose 2014

⁵ Talent Mobility: 2020 and beyond <http://www.pwc.com/gx/en/managing-tomorrows-people/future-of-work/pdf/pwc-talent-mobility-2020.pdf>

⁶ Millennials at work survey 2011

...but regulation has added a new dimension

Organisations across the world are coming under scrutiny from tax authorities, the media, shareholders and the general public, particularly when it comes to tax arrangements. The financial and reputational risks and penalties of falling foul of increasingly complicated international tax legislation can be punishing.

The importance of the tax strategy and its components is of more focus as a result. Tax risk management is no longer an issue purely for the tax function; cross-functional communication and analysis has become essential.

The OECD's BEPS project has been by far the most significant global tax development for global mobility. It's overarching aim is to ensure profits are taxed in the territory where the value creating activity is performed. Three key areas of BEPS have far-reaching implications for employee mobility and tax consequences:

Disclosure and transparency

The country-by-country reporting (CbCR) requirements introduced under BEPS include employee reporting, **making it crucial that organisations gather information on where their people are employed.**

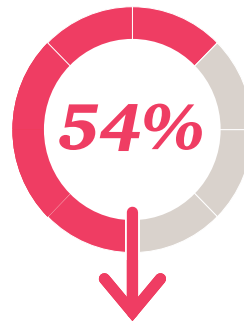
Transfer pricing

The transfer pricing elements of BEPS look at the substance of inter-company arrangements and, in the modern world, 'substance' is often created by people. Will we see more people, and particularly more valuable people, moving globally? Do transfer pricing arrangements adequately reflect the value these individuals create?

The Permanent Establishment (PE) rules

Tax authorities worldwide are paying closer attention to PE – or where an organisation is deemed to have a fixed place of business or (significantly in terms of mobility) an 'agency permanent establishment', through the actions of a 'dependent agent', in another country.

In this new landscape, globally mobile employees – from secondees to short-term business travellers – may pose a significant PE risk. Under BEPS, the threshold for what constitutes a 'dependent agent' has been lowered to include someone who takes a principal role that leads to the conclusion of contracts. As a result, PE risk isn't just created where a contract is signed – it could be created if a senior executive or sales manager is overseas negotiating a contract. **In other words, it's important to know not just where your employees are, but also what they're doing.**



Of survey respondents, overwhelmingly those within HR or mobility roles rather than tax roles, do not know if their organisation has taken steps to comply with CbCR requirements

Our point of view



PE risk is most effectively managed when tax and mobility functions **work collaboratively**. This allows the teams to agree a process or framework to govern how they identify, mitigate or manage the PE risk created by mobile employees, driving better behaviours throughout the business. By drawing upon the data you already hold, or implementing technology to support tracking, you can highlight higher risk people and/or territories upon which to focus your efforts.

Who could be creating PE risks?

There are numerous ways in which globally mobile employees could increase PE risk:



The headline findings

Informal mobility is on the rise – and it’s becoming increasingly difficult to track where employees are working:

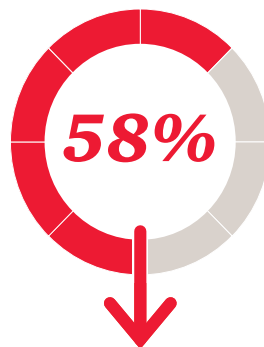


Whilst just over half of organisations are aware that the BEPS changes have significant implications for mobility and their tax position, they are unsure how best to deal with the challenges:

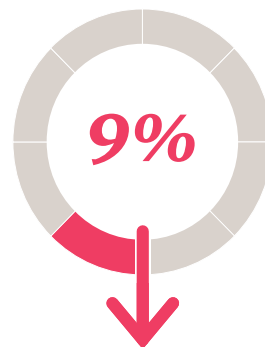
“There’s a worrying growth in the view that if it’s not a formal assignment, it can just be done quickly and without proper consideration of remuneration structures, policy documentation and process management.

When people talk to us before they press ahead, we can help them achieve what they want and ensure the correct governance.**”**

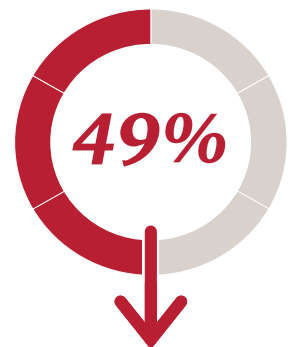
Head of Reward,
Multinational Insurance
Services Provider



58% are aware of the BEPS recommendations



But only **9%** have made changes to the way they manage global mobile employees so far as a result



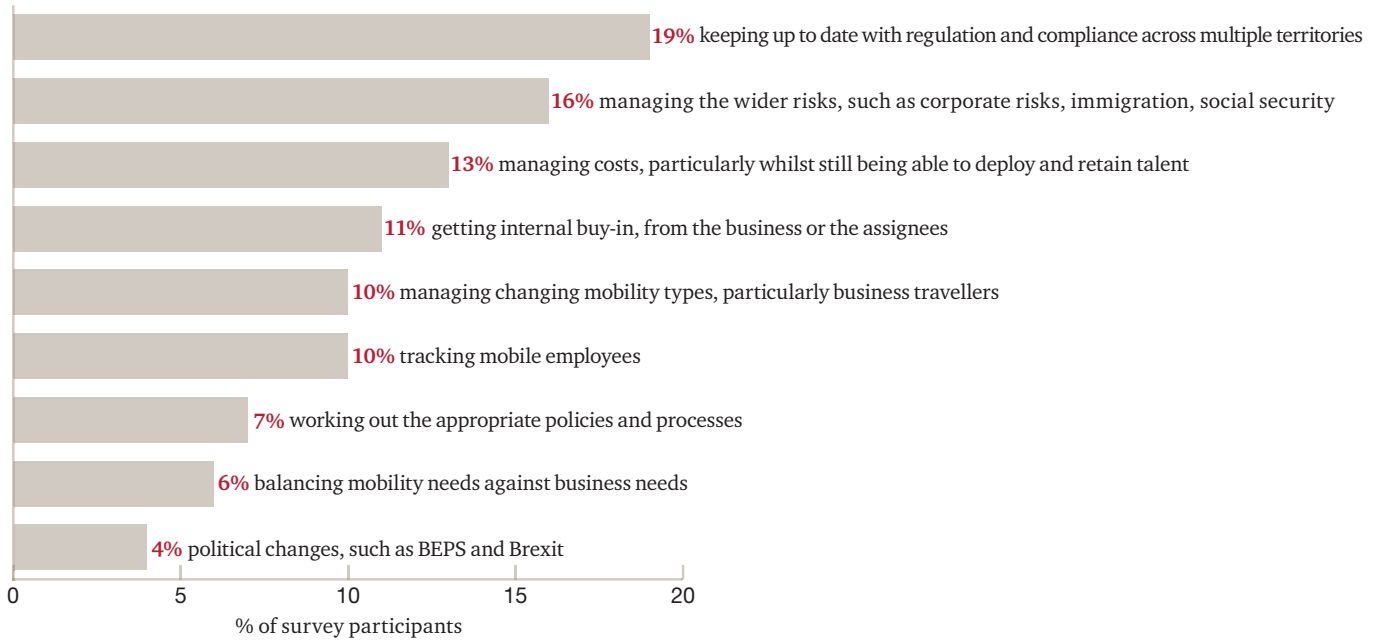
49% want to make changes but haven't yet done so

There is a clear distinction in levels of awareness between those in tax/finance roles (100% are aware) and those in HR/mobility roles (only 47% aware)

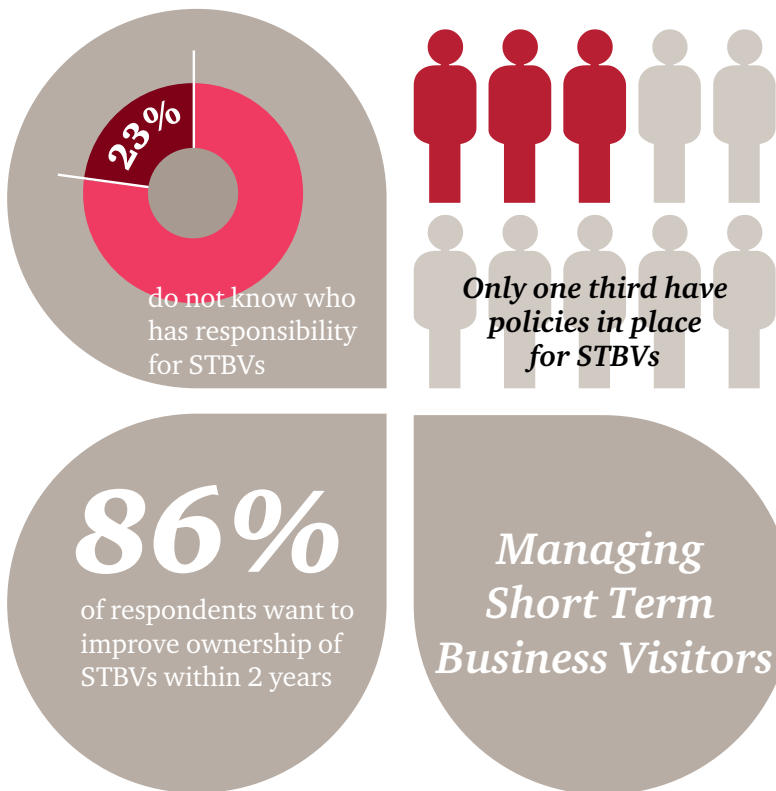
⁷ PwC Moving people with purpose 2014

⁸ PwC Moving people with purpose <http://www.pwc.co.uk/services/human-resource-services/modern-mobility-survey/highlights-of-the-survey.html>

The biggest mobility concerns for organisations: Keeping track of international regulation and managing the wider risks



Organisations are struggling to manage the informally mobile – a population that can pose particular challenges and risks



Our point of view



At the heart of the matter, if you understand **who** your mobile people are, **where** they are going and **what** they are doing, you will be best placed to identify the risks you are facing and articulate the steps you can take to manage the risks, costs and compliance obligations associated with mobility.

At the same time, gaining a better understanding of your mobile workforce will result in **operational efficiencies, rapid deployment of talent to meet business needs and improved employee well being.**

What are organisations doing in response?

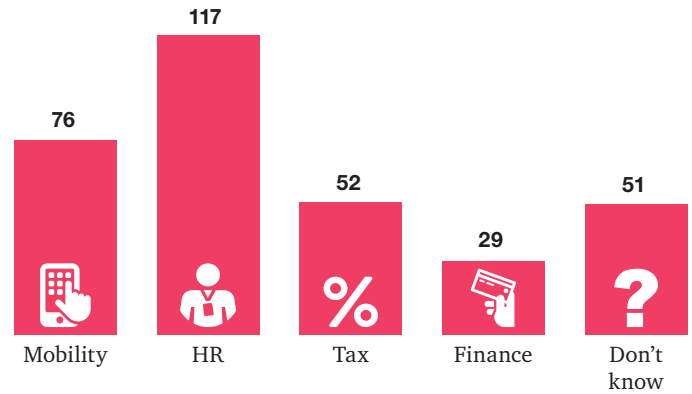
It's clear from the survey that while organisations are generally aware of the corporate risks associated with mobility, many are yet to convert their concerns into concrete action. 58% say they are aware of the BEPS recommendations, for example, but only 9% have made changes to the way they manage globally mobile employees as a result. Nearly half (49%) want to make changes but haven't yet done so. Those in tax or finance roles are fully aware of BEPS, whilst less than half of those in HR or mobility roles are – arguably there is a need for the teams to work together to ensure knowledge transfer.

Getting a grip on the informally mobile

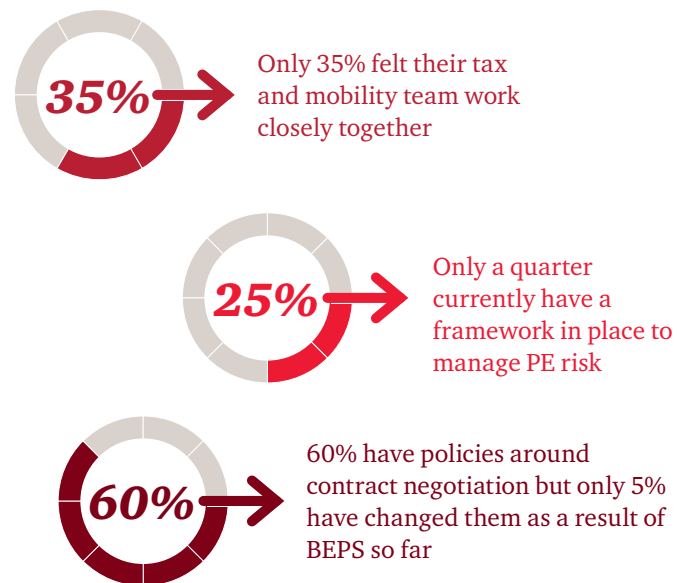
Overall, the survey results suggest that organisations don't have a good grasp on their less formally mobile employees; there is no clear consensus on which function takes ownership and 23% said they didn't know who within the organisation had responsibility for short-term business visitors.

It's also clear that mobility, HR and tax functions aren't working together as well as they could to best manage the associated compliance and risk raised by BEPS; only 35% of respondents felt that their tax and mobility teams work closely together, and not at all had a framework in place to manage PE risk. 60% had policies in place that set out what their employees can and can't do around contract conclusion, but only 5% had made changes to their policies in the light of the new PE definitions. And while 75% track mobile employees, they aren't capturing all the data that will help them flag PE risk.

Who has responsibility for the informally mobile?



Note: Number of respondents, more than one answer could be selected



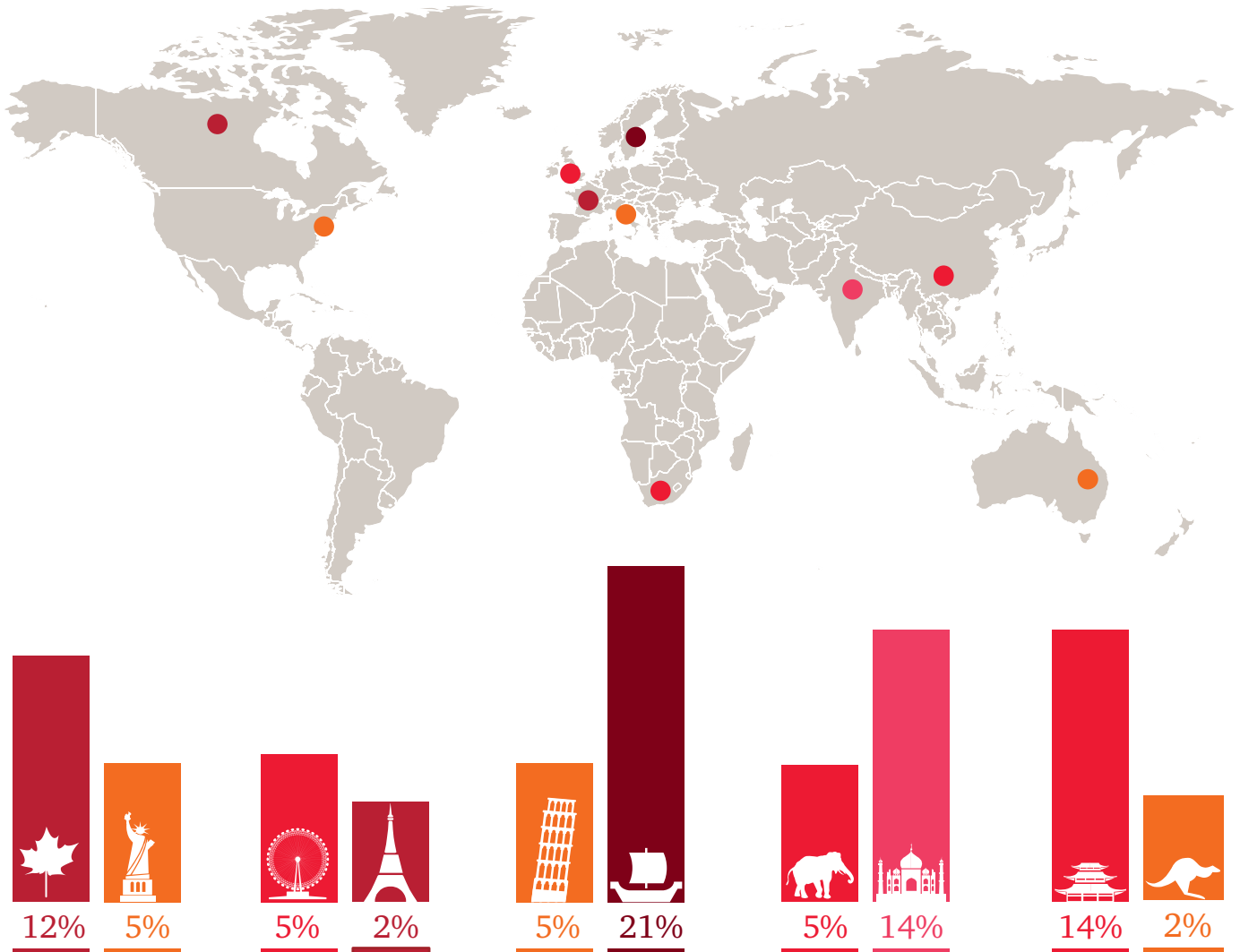
“We want to raise the overall awareness across the business of how ‘dangerous’ STBVs can be to the global organisation from a corporate tax perspective.”

– Mobility Specialist, Multinational Mining Services Provider

What did we learn?

Challenges from tax authorities related to PE requirements have increased sharply in the past two years. 24% of our survey respondents, for example, say they've received a PE challenge recently, with China, India and the Scandinavian territories most commonly cited.

Countries in which a recent PE challenge has been received (as a percentage of 24%)



“There are many challenges: a borderless workplace, cross border working from home, international commuting, and aligning PE, employment tax and immigration risk with the business need to enter new markets.”

Employment Tax Manager,
Multinational Telecommunications Services Provider

Our point of view



We've already witnessed a step change in tax authority behaviours. It's time now to act on BEPS. CbCR is already live in many territories and we expect the OECD to publish a multilateral instrument in December 2016 that will be the catalyst for countries to adopt PE and other BEPS measures.

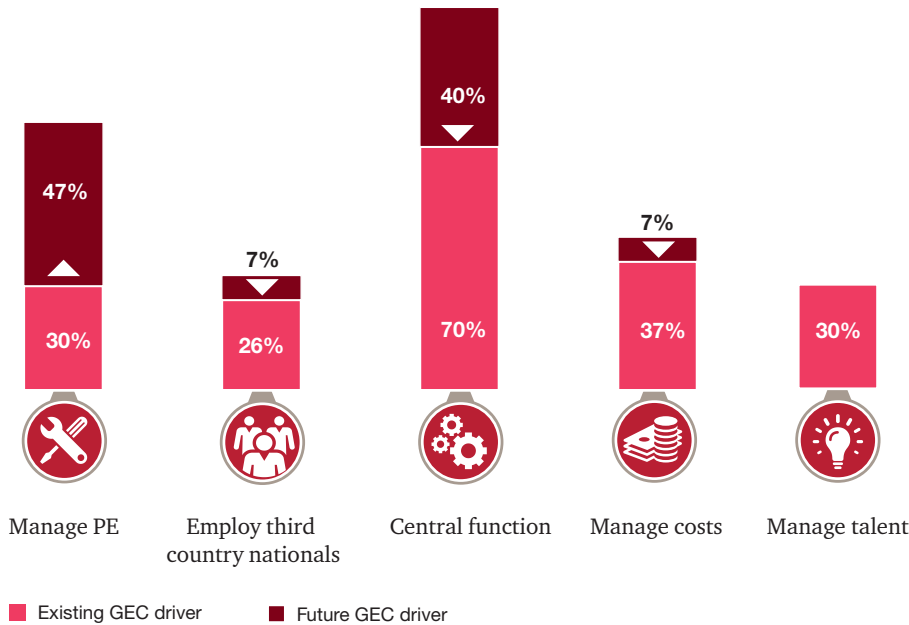
We will be operating in a new and very different international tax environment within the next 12 months, so be proactive and **take steps now to ensure you are ready to manage the corporate risks of mobility.**

Rethinking your global employment structure

This new regulatory landscape means that organisations need to think differently about global mobility. It's essential to ask if an existing structure set up for legitimate business reasons in the past, such as a Global Employment Company (GEC), is helping or hindering the organisation's ability to

manage PE risk. GECs have been viewed in the past as a way of centralising management of mobile employees, managing third country nationals, controlling cost recharges and improving transparency around reward.

Why are organisations choosing a GEC structure?



Our point of view



GECs are one way in which organisations with a mobile workforce can **help to manage their PE risk** profile as they can assist in monitoring the movement of employees.

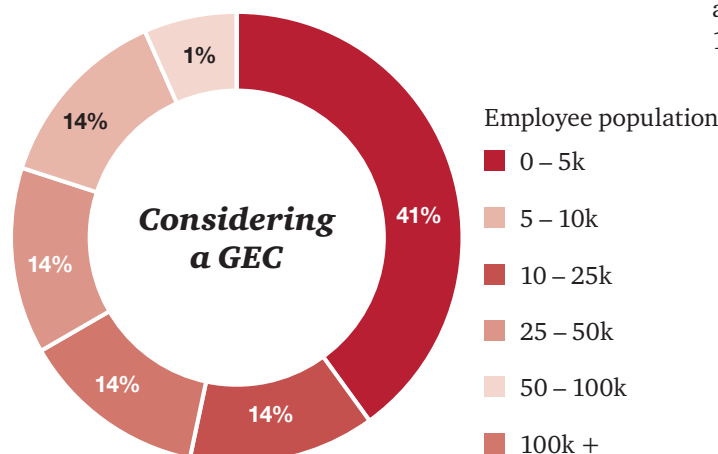
This ensuring compliance with international regulations if governance is implemented around identifying PE risk.

Of the 224 organisations that took part in our survey, 27 already have a GEC in place and a further 15 organisations are considering setting up a GEC in the future. What's interesting, though, is that the primary motive for setting up a GEC has changed.

The overwhelming majority of the organisations that already had a GEC in place said it had been created to centralise the mobility function or manage costs, while only 30% said the GEC had been set up to manage PE. When we asked the organisations that are considering setting up a GEC,

almost half (47%) said one of the main objectives would be to help manage PE – and the majority of these were smaller organisations (those with fewer than 5,000 employees), suggesting that a GEC is now seen as useful for more than just the very largest organisations, particularly those organisations that are growing rapidly and expanding into new territories. We believe GECs present an opportunity to consolidate the management and deployment of a highly mobile workforce, and they can help manage PE risk. However, they are not, in themselves, a solution to manage PE risk.

Organisation size



Organisations with a GEC in place are reassessing whether the structure is still fit for purpose in a post-BEPS world; 11% have already made changes to their GEC to account for BEPS, while 18% are planning to make changes but haven't done so yet.

Planning for change

As part of the survey we looked at the STBV (short-term business visitors) tax management maturity of the organisations taking part (see below), asking organisations to think about where they are now and where they would like to be in two years' time. The results show that more effective management of the tax risks associated with global mobility is high on the agenda.

86% of those questioned said they planned to have ownership of STBV standardised, managed or optimised within two years, compared with 39% that are at that stage today. And 68% expected to be effectively evaluating STBV risks within two years, compared with 31% today.

Introducing the Tax Management Maturity Model

Multinationals are coming under increased pressure from tax authorities around the world to strengthen their tax control environment and risk management. Management teams need to be clear about the effectiveness of the organisation's tax operating model and tax controls – if they understand the current state of their own controls, they can benchmark against their peers and develop a strategy for improvement.

We've developed an easy-to-use online tool, the Tax Management Maturity Model (T3M), which helps us work with companies to assess the current state of their tax operating model. T3M is compatible with OECD standards and is built around the widely-recognised standard published by the Committee of Sponsoring Organisations of the Treadway Commission (COSO), which sets out the main areas to consider when establishing a suitable tax control framework.

Maturity level definitions

- **Initial:** No formal process/policy, tasks and issues are dealt with on an ad hoc, reactive basis.
- **Informal:** No formal training/comms/standard method to follow. Person executing task is responsible so there is a dependency on their knowledge and may be potential for errors.
- **Standardised:** There are standard processes that are documented and communicated but there may be deviation and processes are not tested.
- **Managed:** Active monitoring of processes, deviations observed immediately. Processes continuously improved.
- **Optimised:** Processes based on best practice and continuously monitored/benchmarked. High quality and efficiency. Organisation is quick to adapt.

Questions asked in the survey	Current maturity level Aug 2016 (%)	Maturity level in two years time (%)
• Does the organisation effectively review the risks surrounding STBVs?	31	68
• Does the organisation have clearly defined roles and responsibilities for who manages STBVs?	39	86
• How well known is the risk tolerance level for STBVs and how well communicated is it throughout the organisation?	36	81
Managing immigration more effectively		
• Is there a formal process in place to ensure STBVs meet immigration requirements in the country they are visiting?	53	85

Percentage of responses where the maturity level was rated as standardised, managed or optimised

“Our biggest challenge is capturing the right data at the right time.”

Head of Reward, Drinks Manufacturer and Distributors Provider

Our point of view



To identify the potential risks and opportunities related to short term business visitors, companies need to **take a fresh, systematic look at what needs to be done and prioritise accordingly**. By considering where you are now against your ambition, you can determine the steps to close the gap.

Managing mobility successfully in a world reshaped by BEPS

Overall, it seems that organisations don't yet have in place the policies, processes or employment structures to help them manage the risks associated with informal mobility.

Organisations are clear that something needs to be done, but are less confident about how to address the issues.

There's no off-the-shelf solution to managing mobility in this new regulatory environment; one size doesn't fit all. But any successful strategy will be built on foundations that include three essential elements:

- **Stakeholder buy-in.** It's essential to have a comprehensive internal stakeholder conversation about the mobility challenges your organisation faces and commit to working collaboratively.

- **A clear objective.** What do you want to achieve in managing informal mobility?
- **The right data.** The pathway to better mobility management begins with data. Data analytics will help you pinpoint and understand your mobility challenges and the risks your organisation faces.

Once that foundation is in place, you can begin to build a framework for managing and reporting informal mobility and business travel – and think through the optimal policies, processes and structures that will help you meet the challenges head on.

How can we help?



Facilitate stakeholder meeting, bringing together your and our mobility and tax specialists to agree a framework for working together.

Example outputs: corporate risks of mobility framework, T3M analysis.



Gather, aggregate, track and assess data to determine your mobility risks/challenges and work with you to access and agree current maturity level and desired future state to manage or mitigate risk

Example outputs: business traveller health check report, T3M analysis.



Co-develop, design and implement optimal mobility processes, policies and employment structures. Stakeholder education and communications.

Example outputs: tracking processes, business traveller policy, GEC feasibility study, PE risk control framework.



Support with ongoing compliance and reporting requirements. Periodic fit for purpose health checks.

Example outputs: tax return support, STBV reporting, GEC health check, PE risk reviews.

It's time for action

It's clear from our survey that more organisations are moving greater numbers of people in more fluid ways. The recommendations of the BEPS Actions and the changing international tax environment mean that it's more important than ever to know where your people are, and what they're doing.

Organisations are well aware of this, and managing compliance efficiently and cost-effectively remains a priority. Managing mobility in the post-BEPS world means making the best use of data, but it also means far greater integration between tax, mobility and strategic decision-making.

It's time for action; tax authorities worldwide are beginning to share information with each other and the pressure for real-time reporting on compliance is growing. Mobility teams need to be sure that they have the right policies and systems in place to manage, monitor and report on their mobile employees, and to feed that information efficiently and effectively into the rest of the organisation.



Get in touch and find out more

We would like to thank the companies that took part in our study for their detailed answers.

This is a challenging area for organisations and one which is likely to become even more challenging as tax authorities and regulators worldwide begin to communicate with each other and share information. As we've said, there's no 'one size fits all' answer to managing mobility in a post-BEPS world but if you're concerned by the issues raised by this study, we'd be happy to help you assess the risks you face and work with you to find the way forward for your business.

Where to get more information

Website – www.pwc.co.uk/managingmobilitysurvey

myTaxPartner – <https://mytaxpartner.pwc.com/news/survey-managing-mobility-in-a-changing-landscape-2016/>

Moving people with purpose

(<http://www.pwc.com/gx/en/services/people-organisation/publications/short-term-business-visitors-governance.html>)

To talk more about managing the corporate risks of mobility



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