

Navigating the rise of the flexible workforce era

Overcoming BEPS Pillar Two and country-by-country reporting challenges

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Introduction

The rise of remote and flexible work has revolutionized the way organizations operate, enabling employees to work from anywhere in the world. While this new paradigm offers numerous benefits, it also presents significant challenges in terms of cross-border tax compliance. In this whitepaper, we will explore the impact of remote and flexible work on global mobility structures and compliance strategies, with a particular focus on the OECD BEPS project and its Pillar Two implications. We will also discuss the importance of accurate employee data, country-by-country reporting, and the use of special purpose entities for managing global workforce and payroll. Finally, we will provide insights on aligning talent and tax strategy, implementing technology-enabled processes to track employees and payroll costs, and staying informed about international tax regulations.



The Rise of the Flexible Workforce Era

The demand for flexibility from employees has driven the adoption of remote and flexible work arrangements. This trend not only impacts talent attraction but also facilitates business growth and global reach. However, managing a dispersed workforce poses compliance challenges. To address these challenges, organizations must understand their global presence and establish effective data collection processes.



Understanding OECD BEPS

The BEPS project aims to reform the international tax system and combat tax avoidance strategies. Key action items include addressing tax challenges of the digital economy, preventing artificial avoidance of permanent establishment status, and emphasizing transparency through country-by-country reporting. These actions require companies to reevaluate tax structures and compliance processes to ensure adherence to the BEPS initiative.



BEPS Pillar Two and the Global Minimum Tax

Pillar Two is perhaps the most significant reform to the international tax system ever. However, in a survey from a recent KPMG TaxWatch on this topic, over half of participants (55%) were either not aware of Pillar Two or were not certain how Pillar Two impacts their organization.

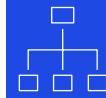
Pillar Two seeks to establish a 15% global effective tax rate for multinational enterprises by imposing a

“top-up” tax where the effective tax rate (ETR) paid by group entities within a jurisdiction is less than 15%. Employee data plays a crucial role in calculating the ETR, whether any top-up tax is payable or whether a multinational enterprise qualifies for any safe-harbor relief. Technology-enabled processes are essential for efficient employee and payroll data collection and compliance.



Country-by-Country Reporting

In addition to the data requirements for compliance and reporting for Pillar Two, Country-by-Country Reporting (CbCR) mandates the preparation and filing of reports sharing financial and operational data with tax authorities. Reporting employee data presents challenges, including determining the number of full-time equivalent employees for each jurisdiction, especially for organizations with mobile or cross-border employees. The trend towards public reporting emphasizes the need for accurate data to maintain transparency and accountability however, 57% of survey participants indicated their organization has not yet identified a solution for compiling employee data on a jurisdictional basis for Pillar Two and country-by-country reporting. Key concerns of survey participants included availability of technology, classification and location of employees and determination of total payroll costs on a country-by-country basis.



Special Purpose Entities and Employment Structures

Special purpose entities, such as global employment companies and employer of record structures, can be beneficial for managing a global workforce and payroll. These entities offer various advantages and disadvantages based on objectives, costs, and compliance requirements. Just under half of survey participants indicated their organization has utilized or has considered utilizing special employment structures to employ cross-border workers. Striking a balance between different structures is crucial to meet talent and tax objectives while ensuring compliance with substance and transparency principles.

Conclusion

In the era of the flexible workforce, organizations must navigate the challenges posed by BEPS Pillar Two and country-by-country reporting. By aligning tax and talent strategies, reviewing employment structures, and implementing robust policies and procedures, companies can effectively manage their global workforce and ensure compliance with the evolving international tax landscape.

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