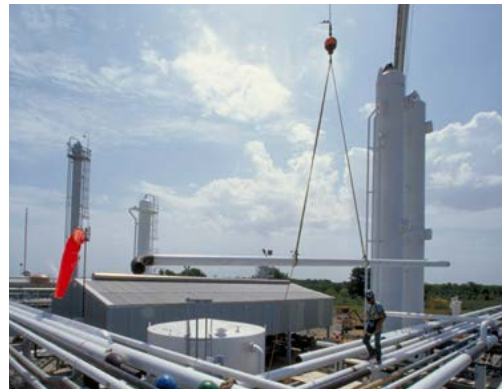


17th Annual Global CEO Survey: Tax strategy, corporate reputation and a changing international tax system. *The search for growth^{p6} / Barriers to growth^{p8} / Tax as a headline issue^{p12} / Towards a better tax system^{p15} / Recommendations^{p18}*

Building trust and growth



Introduction

Our 17th Annual CEO survey says that business leaders are feeling the pressure as growth returns to many markets. They are operating in a dynamic environment and are searching for the sustainable long-term growth that benefits everyone. In doing this they must balance the needs of a wide group of stakeholders, from employees, investors and customers to the wider society in which they operate. 49% of CEOs name a lack of trust in business as a barrier to growth, indicating that building trust with stakeholders is clearly part of a sustainable growth plan.

Business leaders know they have to stay competitive, they have to innovate for the future and attract the skills and investment they need. Against this backdrop, tax matters even more.

The reality is that tax is a cost as well as an obligation. Our work with the World Bank on our annual *Paying Taxes* study shows that countries all over the world realise that easing the administrative burden and cost of compliance (as well as the tax cost itself) plays a big part in attracting business investment. Uncertainty and risk are also major factors - businesses need to plan and make investment decisions for the long term, and stability and predictability in tax regimes across the world are crucial to that.

The current backdrop – with the OECD leading important work on reform of the international tax system, and increasing political, media and public interest in tax – is a challenging one for Governments, tax authorities and businesses alike. Global trade involves the need to understand and comply with complex tax rules across multiple countries so it is perhaps not surprising that 70% of CEOs are now worried that the tax burden is affecting their ability to grow.

CEOs also understand that their business tax footprint, and failing to explain it, can impact their reputation and brand. Concerns over the international tax system not being fit for purpose for today's world impact public perception and trust. 65% of CEOs feel that the international tax system is in need of reform, and balancing that need whilst maintaining a system that encourages rather than inhibits global trade is one of the most demanding, and important, challenges faced by the OECD and Governments.

CEOs are now focused on tax

70%

70% of CEOs are now worried that the tax burden is affecting their ability to grow

65%

65% feel that the international tax system is in need of reform

The main findings

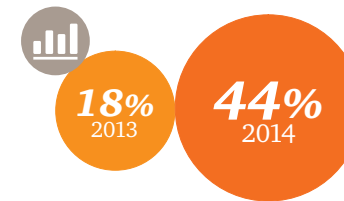
A difficult search for growth

CEOs are far more optimistic about the global economy – 44% believe that the economic environment will improve in the next 12 months, compared with just 18% in 2013 – but are less convinced that their own organisation will be able to capitalise on the improvement. Just 39% said they were ‘very confident’ that their organisation’s revenue would increase in the coming year. This is undoubtedly because the search for growth has become far more complicated, with a few developed economies recovering strongly while growth in some BRIC nations has slowed.

Rethinking global strategy

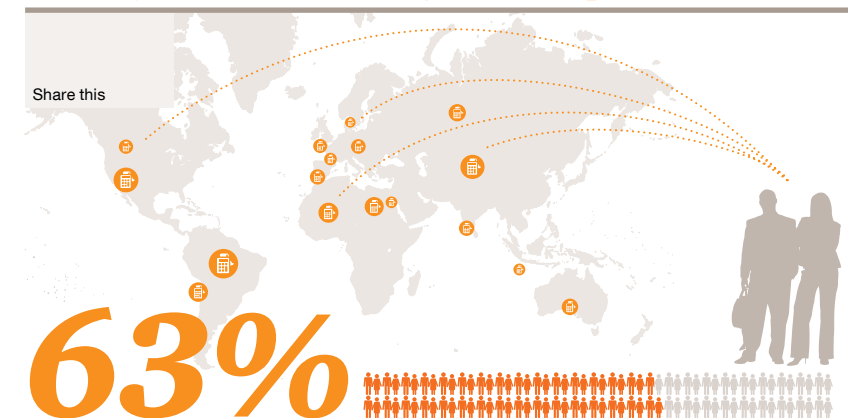
CEOs are reviewing where they do business. The US, UK and Germany have become more attractive while the attractiveness of some BRIC nations has waned. Many CEOs are looking further afield to Indonesia, Mexico and Turkey as locations for investment. Many things impact decisions on location, such as resources and skills, infrastructure, customer demand and political stability. But CEOs are very clear that the tax regime of their target business location is also an important factor – 63% said they consider the competitiveness of the local tax regime when deciding where to operate. This has led to tension for Governments, who have had to balance the need to attract investment, long-term growth in jobs and sustainable sources of tax revenues while also generating short-term tax receipts.

A strong outlook on growth



44% of CEOs now believe that the economic environment will improve in the next 12 months, compared with just 18% in 2013.

Tax is a factor when deciding where to operate



63% of CEOs said they consider the competitiveness of the tax regime when deciding where to operate.

Tax matters

The need to manage total tax costs has become a primary concern for multinational corporations in an increasingly competitive global market. As CEOs expand their operations at home and abroad, the tax burden (not only the tax cost itself, but the cost of compliance) is seen as a major potential barrier to growth; 70% of CEOs name the increasing tax burden and its potential to affect growth as a concern, an increase from 62% last year. Of course whilst much of the public commentary on taxation is on profits taxes, what is important to businesses (as both a cost and contribution) and to Governments (as a vital revenue source) is the total taxes paid by business.

A fine balancing act

While the tax burden is a serious concern, CEOs are extremely aware of the ongoing need to rebuild and nurture the trust between business and stakeholders. 49% said that a lack of trust in business was hampering their prospects for growth, an increase from 37% last year. Many CEOs are emphasising the importance of promoting a culture of ethical behaviour in business decision-making as a result, and tax has a part to play in that.

Three-quarters agreed that it was important that their company was seen to be paying its 'fair share' of tax. What is or isn't a 'fair share' is of course open to wide differences of opinion. Ultimately, Governments decide on what they believe are the right policies to underpin a fair tax system. Companies can do much to improve the public perception of their tax footprint by choosing to explain it in the specific context of the nature of their business and in a way people can understand.

Calling for reform

As far as business leaders are concerned, tax reform is the single biggest issue that needs to be addressed; 65% said that the international tax system hasn't changed to reflect the way multinationals do business today. Add to that the need to rebuild public trust in the system and initiatives like the OECD action plan – and the active participation in it by business and Governments – become all the more important.

In this year's CEO Survey, 80% of CEOs questioned expressed an opinion on tax issues when asked indicating that tax is moving up the corporate agenda. And "creating a more internationally competitive and efficient tax system" came joint 2nd in CEOs' views on the areas Governments should prioritise in the country where they're based. Many were supportive of the principle of greater transparency around tax as a way of building trust and over half were open to proposals put forward by the OECD and G20.

75%



Three-quarters agreed that it was important that their company was seen to be paying its 'fair share' of tax.

Ensuring financial sector stability and access to affordable capital



53%

Creating a more internationally competitive and efficient tax system



50%

"Creating a more internationally competitive and efficient tax system" came joint 2nd in CEOs' views on the areas Governments should prioritise for action in the country where they're based.

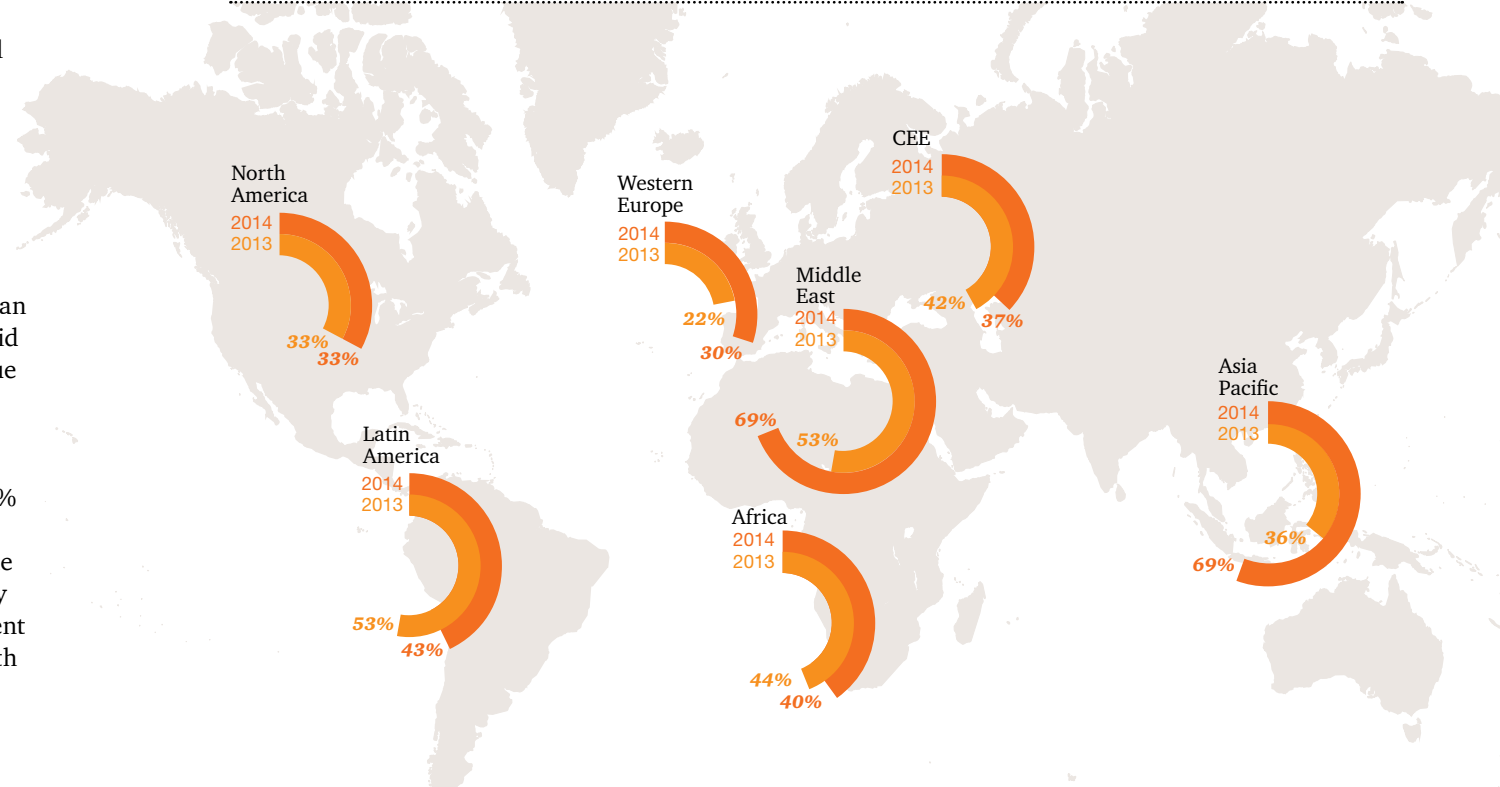
The search for growth

After years of economic hardship, cost-cutting and pessimism in developed countries, this year's CEO survey finds the world's business leaders in a more optimistic mood. 44% said that they believe the global economy will improve in the next 12 months, compared with just 18% in 2013.

But while CEOs are happier with the prospects for the global economy, they're less convinced that this will translate into revenue growth for their own organisation. For the first time since we began this survey, CEOs have more confidence in the recovery of the global economy than they have in their own company's prospects – just 39% said they were 'very confident' that their organisation's revenue would increase in the coming year, up from 36% in 2013.

There are also marked regional differences that suggest nervousness about some emerging markets. Last year, 53% of CEOs in Latin America said they were very confident that they could increase their company's revenues over the following 12 months; this year, only 43% say the same. By contrast, 69% of CEOs in the Middle East are very confident that they will see revenue growth this year, compared with 53% in 2013.

Figure 1 CEOs' confidence in their company's prospects varies by region
How confident are you in your company's prospects for growth in the next 12 months?



Base: All respondents (2014=1,344; 2013=1,330)
Source: PwC 17th Annual Global CEO Survey

Where will growth come from?

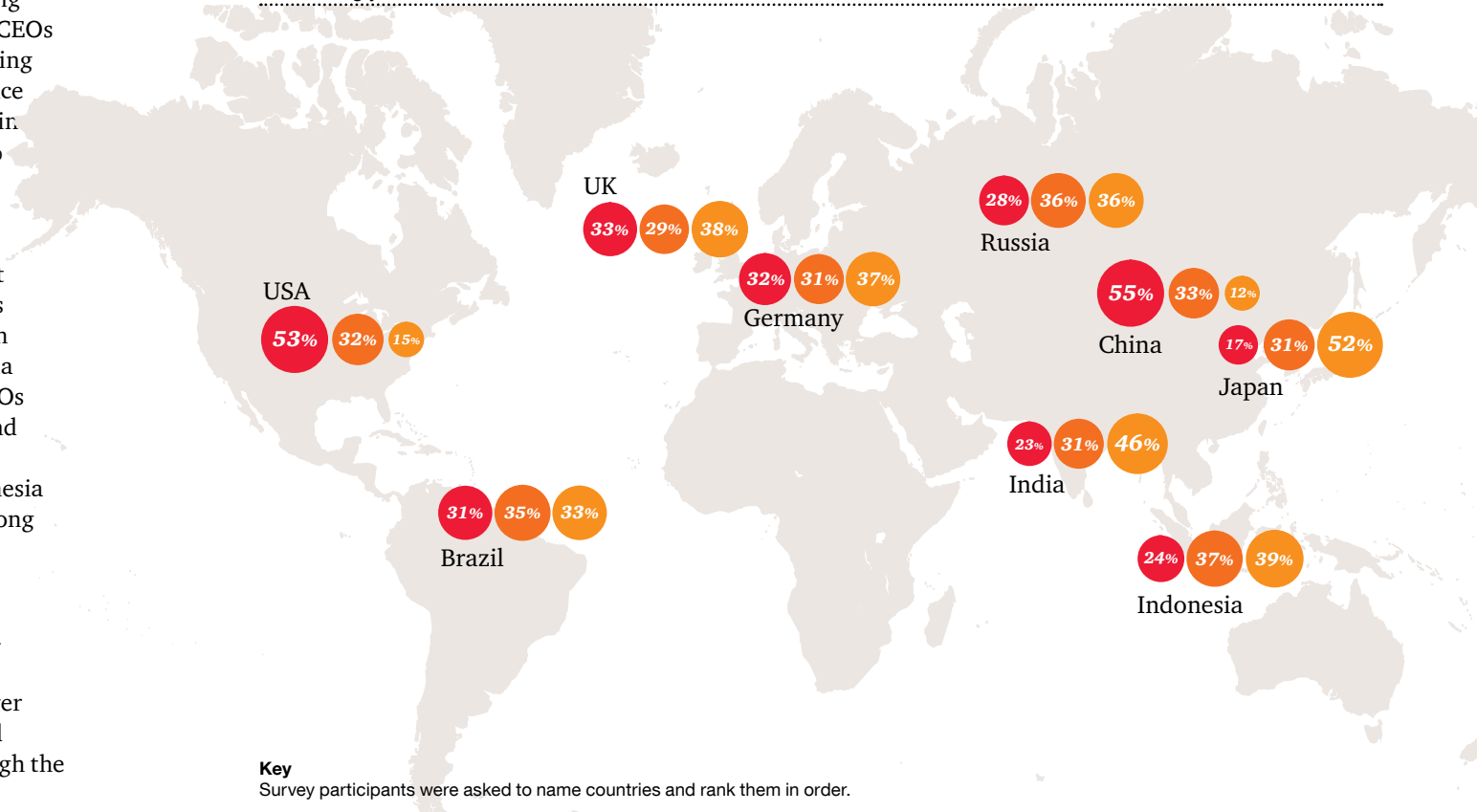
The search for growth is increasingly complicated, with some developed economies (notably the US) recovering while growth in some of the BRIC nations is slowing. CEOs say they are focused on increasing their share in existing markets and looking for growth from product or service innovation; 35% of CEOs said they saw this as the main opportunity for growth this year, compared with 25% in 2013.

It's also clear that CEOs are reviewing where they do business. When asked which markets saw the greatest opportunities for growth in the next 12 months, CEOs named the US, UK and Germany more frequently than in recent years and fewer CEOs identified Russia, India and Brazil as targets. Outside of the BRIC nations, CEOs are looking to Indonesia, Mexico, Turkey, Thailand and Vietnam over the next three to five years – although political unrest in Thailand and the labelling of Indonesia and Turkey as 'fragile' by financial analysts adds a strong note of caution.

While CEOs are still keen to look for growth in new markets, only 61% said they were considering a cross-border merger or strategic alliance, down from 73% ago. However, the survey data also indicate that merger & acquisition activity is on the rise in many developed markets which suggests that CEOs are thinking through the various options for capturing new market growth.

Figure 2 The BRICs are still growth markets, but so are some established economies

Which country, excluding the one you're based in, do you consider to be the most important prospect for growth in the coming year?



Key

Survey participants were asked to name countries and rank them in order.

- Percentage named as rank 1
- Named as rank 2
- Named as rank 3

Base: All respondents (1,344)

Source: PwC 17th Annual Global CEO Survey

Barriers to growth

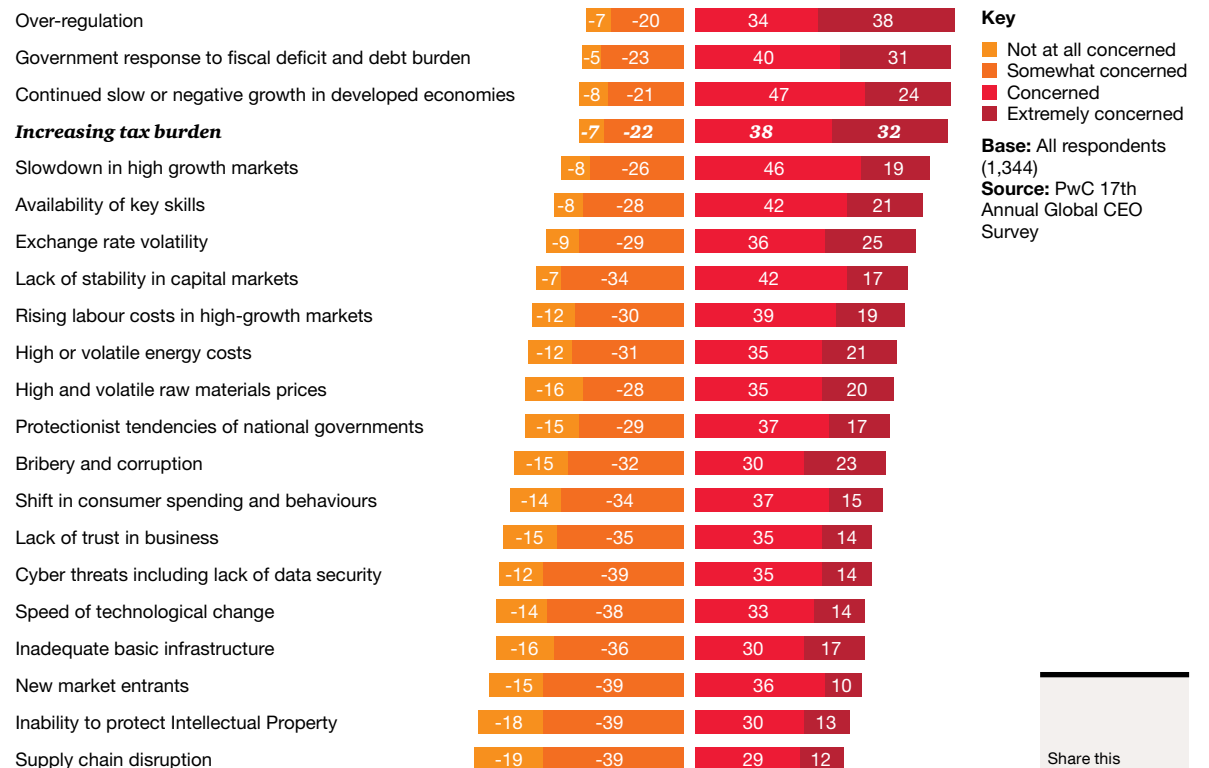
The uncertainty over some geographical markets and how to access growth from them isn't the only concern. CEOs see many barriers to their search for growth – as the chart opposite shows.

Of these, the increasing tax burden comes is 4th with 70% naming it as a primary concern, compared with 62% in our 2013 report and 55% in 2012.

That burden of course is across all taxes, not just profits taxes, and is impacted not only by tax rates themselves but also the time and cost to comply, the level of uncertainty in tax regimes and the relative efficiency in how they are administered.

Figure 3 Tax is increasingly seen as a barrier to growth

How concerned are you about the following potential economic and policy/business threats to your organisation's growth prospects?



The concerns on tax will inevitably take different forms in different countries. In the US, for example, the need for domestic tax reform is high on the business agenda, while for other CEOs the main worry is that individual governments may take unilateral action to address what is commonly termed base erosion and profit shifting (BEPS), rather than working through coordinated multilateral approaches such as the OECD's BEPS initiative. The major concern underlying this is the prospect of a period where international trade can't be done without either double taxation or tax authorities being unable to reach agreement on their respective taxing rights.

There were also marked differences in the response from sector to sector. 83% of CEOs in the energy and mining sectors, which are often subject to windfall and environmental taxes, felt that the increasing tax burden was a barrier to growth, compared with 59% of CEOs in the technology sector. The relative mobility of technology companies, plus the various incentives a number of territories offer for research and development activity, undoubtedly play a role in the result.

 Mining **83%**

 Technology **59%**

83% of CEOs in the energy and mining sectors, which are often subject to windfall and environmental taxes, felt that the increasing tax burden was a barrier to growth, compared with 59% of CEOs in the technology sector.

“Brazil's future growth depends on solving issues that are bottlenecks to competitiveness, such as labour reform, tax reform and investments in infrastructure.”

Marcelo Odebrecht,
Odebrecht, Brazil

Figure 4 Increases in the corporate tax burden continue to concern CEOs

How concerned are you about the following potential economic and policy/business threats to your organisation's growth prospects? (percentage agreeing)

	Over regulation	Government response to fiscal deficit and debt burden	Continued slow or negative growth in developed economies	Increasing tax burden	Slowdown in high-growth markets	Availability of key skills	Exchange rate volatility	Lack of stability in capital markets	Rising labour costs in high-growth markets	High or volatile energy costs
North America (212)	77	88	81	75	68	68	49	63	51	41
Western Europe (329)	70	67	70	67	52	50	44	57	44	52
Asia Pacific (445)	72	67	73	69	74	64	74	60	69	62
Latin America (165)	75	65	60	81	63	63	67	50	65	58
CEE (113)	67	67	62	67	57	73	56	60	43	58
Middle East (35)	63	71	51	54	60	66	57	69	69	54
Africa (45)	87	87	62	67	82	91	82	67	71	78

Base: All respondents (1,344)

Source: PwC 17th Annual Global CEO Survey

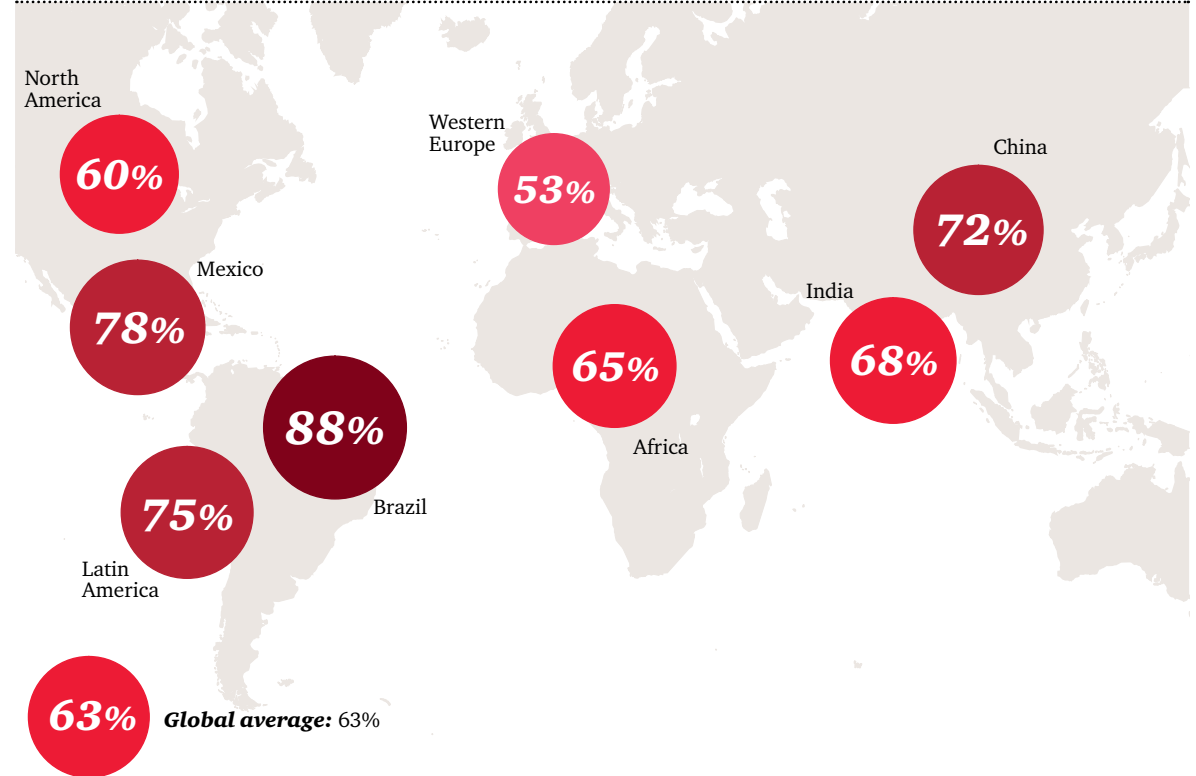
Tax really matters

63% of CEOs said they look at the competitiveness of the tax regime when deciding where to operate, and those that had the widest choice of where to operate were more likely to agree. Mining companies, for example, must follow available resources and 57% of CEOs in that sector took the tax regime into account. But in the asset management sector, which is less restricted in its movement, 70% of CEOs looked at the tax regime in making their decision on where to operate.

The tax regime in this context means much more than solely direct tax on corporate profits – a typical multinational will pay a range of taxes including employment and benefits taxes, property taxes, indirect taxes such as VAT and sales taxes, and a host of other direct and indirect taxes and tax costs (including the cost of compliance). All of these contribute to the total tax picture in any jurisdiction, as well as the stability of the tax regime and the degree of confidence that tax issues will be handled fairly and transparently by the tax authorities.

Figure 5 Tax is one factor when CEOs make decisions about where to operate

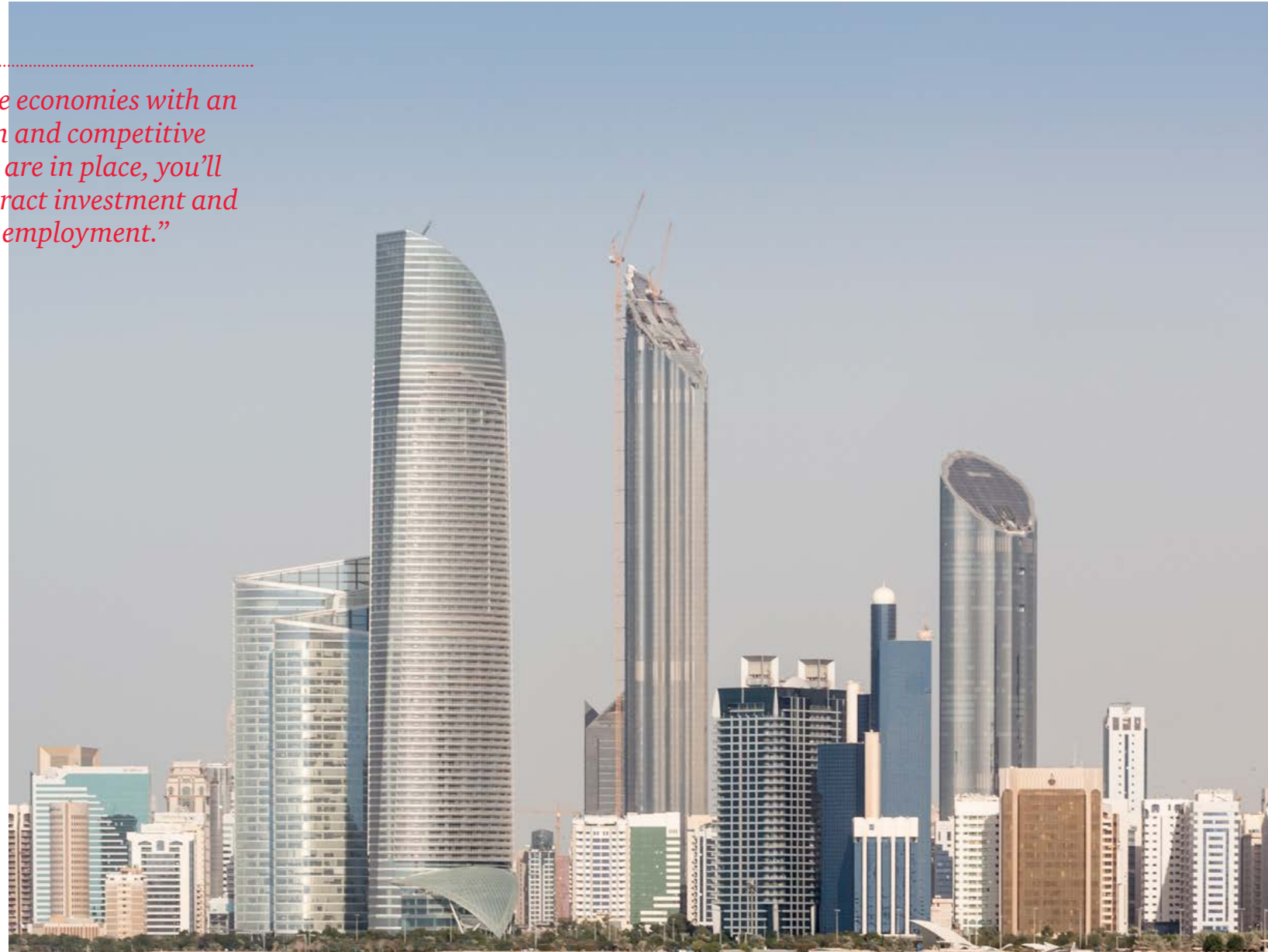
Percentage of CEOs agreeing that government tax policy and the competitiveness of local tax regimes are a key factor in their organisation's decision about where to operate



Base: All respondents (1,344)
Source: PwC 17th Annual Global CEO Survey

“Investment occurs in competitive economies with an attractive and secure legal system and competitive taxation etc. If all these elements are in place, you’ll attract stable currency, you’ll attract investment and the country will grow and create employment.”

Juan Béjar, CEO, FCC, Spain

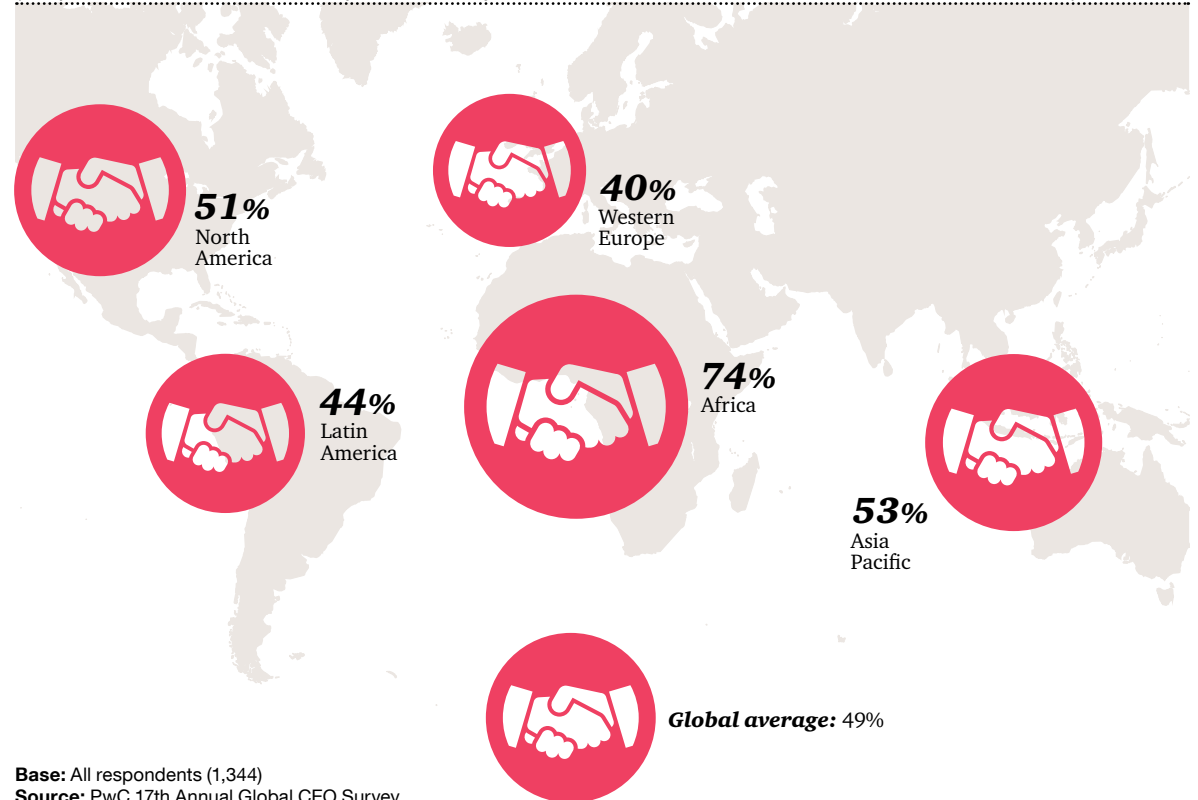


Tax as a headline issue

In recent years, the taxes paid by companies (which is often limited to a discussion of direct taxes rather than the total tax contribution) has become a headline issue as certain stakeholders continue to ask whether multinationals are paying their 'fair share' of tax in the countries in which they operate. As discussed earlier in this report, what is fair is open to a wide range of opinion and different countries will not necessarily take the same view on this. That said, it is a commonly held view that the international tax system has not kept pace with today's way of doing business and 65% of our CEO's agreed, saying there is a need for reform. The intensity of the public debate on tax began in Western Europe and quickly gained in strength, culminating in the finance ministers from the UK, France and Germany calling for coordinated international action to address weakness in the system. This is what drove the OECD's BEPS Action Plan.

Figure 6 Stakeholders' lack of trust in business threatens growth

How concerned are you about the following potential business threats to your organisation's growth prospects?
(Respondents who stated that they are extremely or somewhat concerned about the lack of trust in business)



Base: All respondents (1,344)
Source: PwC 17th Annual Global CEO Survey

The impact on trust

49% of all CEOs said that a lack of trust in business was hampering their prospects for growth, an increase from 37% last year. There were some regional and sector variations – CEOs in Africa (74% agreed) and the Middle East (69% agreed) were most likely to name trust as a problem, as were CEOs in financial services (59% agreed).

Over the longer-term picture, over half of CEOs said that they had seen an improvement in the level of trust between their business and their customers and clients in the five years since the beginning of the financial crisis. The relationship between business and government, however, is less positive – 31% of CEOs said trust levels had deteriorated since 2008 over 24% who said that it had improved.

There are clearly many factors that contribute to trust, or lack of trust, in business, and tax is one of them. A number of companies are recognising the reputational impact of the decisions they make on tax, elevating tax strategy to its rightful place as a board issue and starting to think through whether and how they can improve public perception by being ready to provide meaningful information on tax in a way that people can understand.

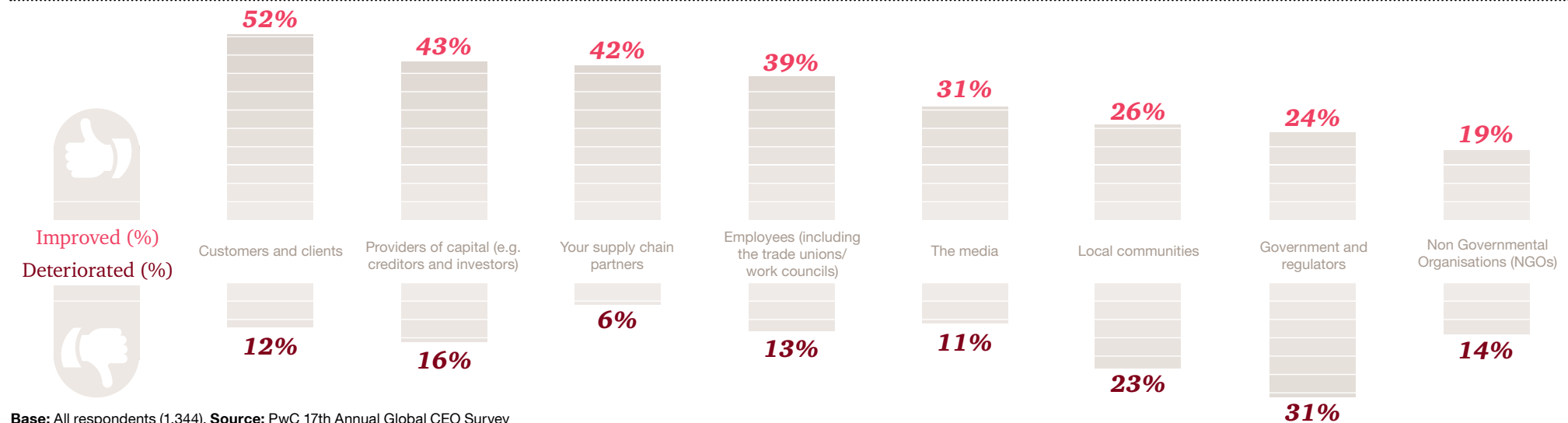
Overall, this reinforces the argument that multinational corporations must be willing and able to articulate their tax story properly, and place it in the context of the broader business model and purpose. There are widely differing views, both politically and among the general public, of what constitutes ‘fair’ tax payment. Too often, the discussion is limited to direct profit taxes – a clear and reasonable discussion of the total tax contributed by multinationals is essential.

“Why is generating trust important? Because people who trust you work with you more, they buy your products, they lend you money and, as a result, you do better as a business.”

Badr Jafar, Managing Director, Crescent Group, UAE

Figure 7 CEOs see stakeholder trust in their industries increasing ... but with exceptions

To what extent has the level of trust the following stakeholders have in your industry changed in the past five years?



Base: All respondents (1,344). Source: PwC 17th Annual Global CEO Survey

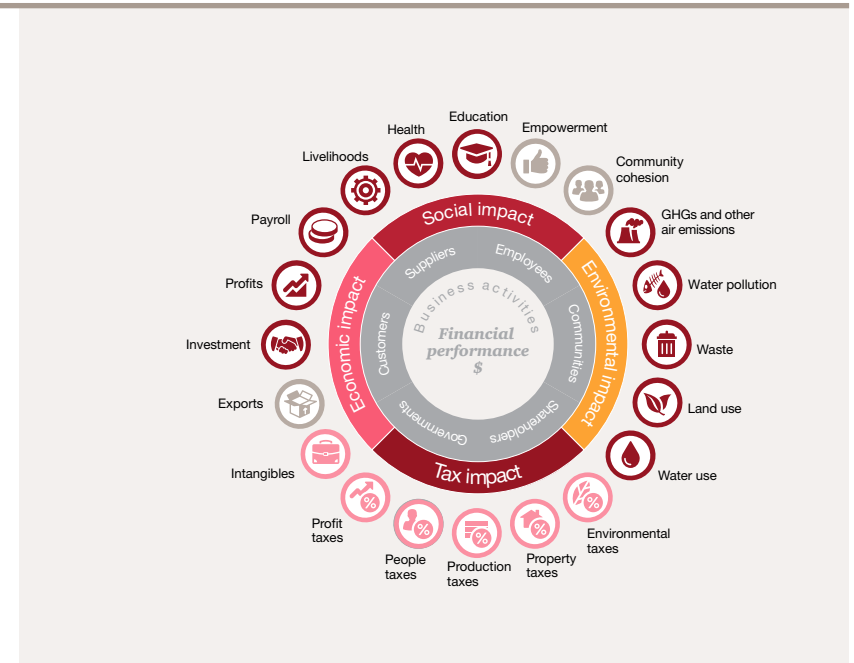
Understanding the total impact

In this year’s survey, 74% of CEOs agreed that measuring and reporting the total impact – financial and non-financial – of the business contributed to long-term success. While financial return is at the core of a business’s performance, there are inputs other than the financial and manufactured resources such as human, intellectual, natural and social, and the outputs or products/services of a company in turn have an impact on stakeholders and the resources used by the company. Integrated thinking requires all these factors to be considered in a holistic manner, such that a company can understand and make decisions based on the overall impact it has on all its stakeholders and generally on society, the environment and the economy. Clearly, many business leaders are considering how best to tell their own story, not just that required by legislation.

In order to tell the full story around their tax contribution, companies should consider tax impact measurement. Tax impact measurement identifies and measures a business’s overall tax contribution by assessing all the taxes that a business; that is, those taxes that represent a cost to the business, such as corporation tax, while the taxes collected are those that are generated by a business’s operations, but don’t impact on its results, such as sales and payroll taxes.

74%

74% of CEOs agreed that measuring and reporting the total impact (financial and non-financial) of the business contributed to long-term success. This feeling was strongest in...



Towards a better tax system

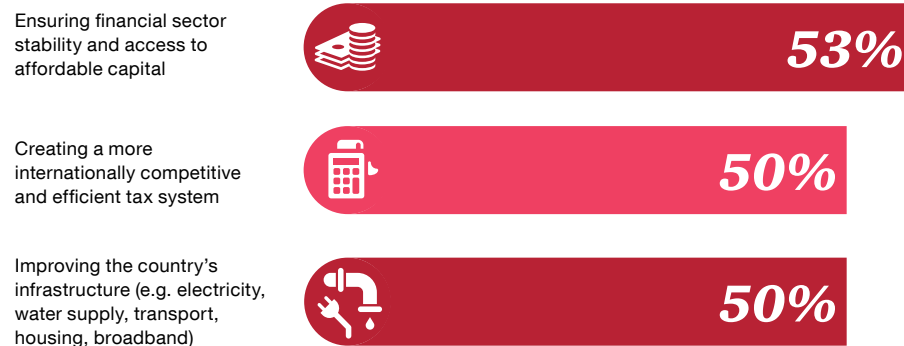
The debate over the taxes paid by companies is, in effect, evidence of an international tax system that has not kept pace with today's world.

CEOs agree that the need for tax reform is pressing; 65% said that the international tax system doesn't meet the needs of multinationals, with only 6% disagreeing. In figure 11, there is clear contrast between the views of CEOs based in countries such as the US, UK and Germany where the push for reform has been strong, and CEOs based in countries such as Switzerland, which has long had an advantageous tax regime for multinational investment.

CEOs feel so strongly about the need for international tax reform that they identify it as the second most important priority for their government, more important than taking steps to address the skills shortage that is affecting many multinationals. In the US and Central and Eastern Europe, CEOs named international tax reform as the top priority for government.

Figure 8 A more internationally competitive tax system is high on CEOs' wish list for government

Top three areas that CEOs say should be government priorities in the country in which they are based

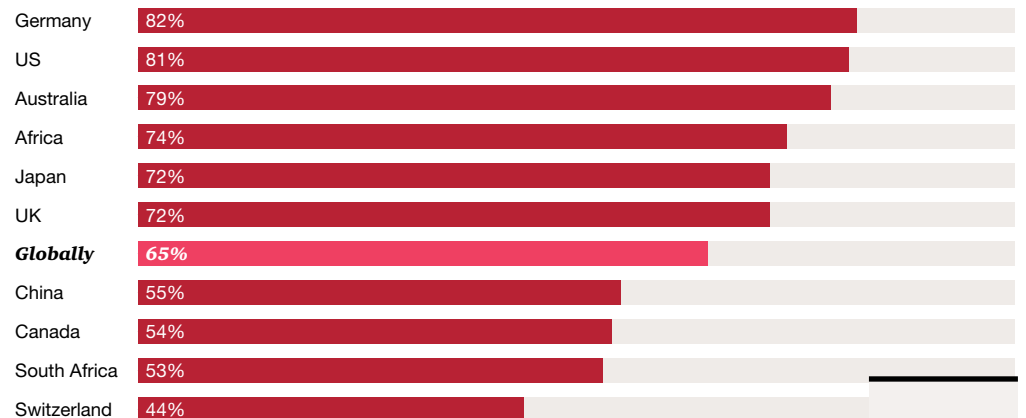


Base: All respondents (1,344)
Source: PwC 17th Annual Global CEO Survey

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Figure 9 CEOs say that the international tax system is no longer fit for purpose

Percentage of CEOs agreeing that the international tax system does not meet requirements of multinationals



Base: All respondents (1,344)
Source: PwC 17th Annual Global CEO Survey

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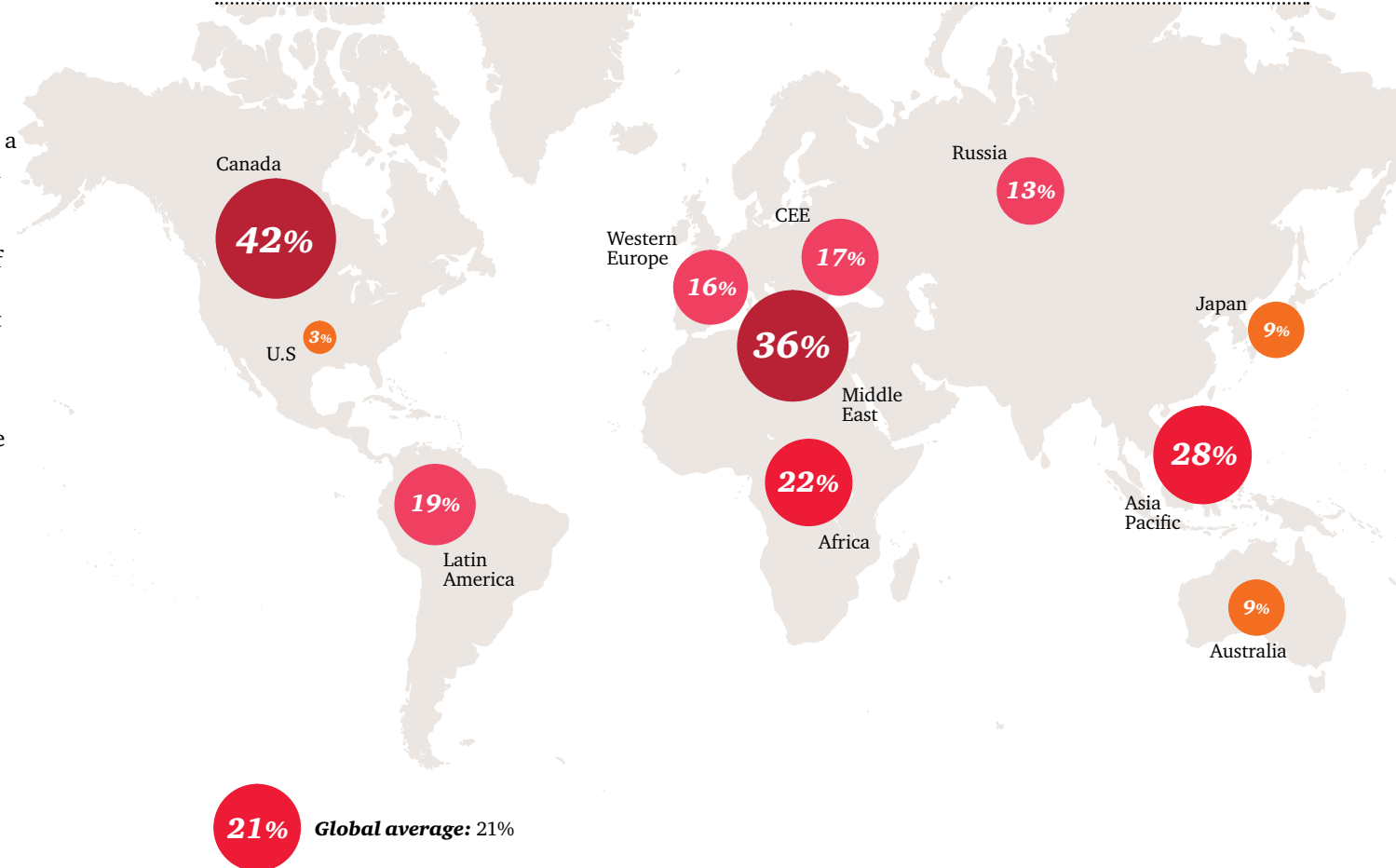
The role of government

While just under half of CEOs feel that government intervention had helped to address the impact of the financial crisis (globally, 46% said government had been effective or very effective in ensuring financial sector stability and improving access to capital), they're less impressed with governments' efforts on tax reform. Just 21% said their government had been effective in creating a more internationally competitive and efficient tax system and 51% said their government had been ineffective.

CEOs in the more developed nations were more critical of the efforts of government than many CEOs in emerging economies – just 16% of CEOs in Western Europe felt that government had been effective – but in no region did more than half of CEOs feel that government had created a tax system that supported their business efforts. As far as business leaders are concerned, tax reform is the single biggest issue that needs to be addressed.

Figure 10 CEOs are critical of government efforts to create a competitive and efficient tax system

Percentage saying government has been effective or very effective in creating a more internationally competitive and efficient tax system



Base: All respondents (1,344)
Source: PwC 17th Annual Global CEO Survey

The momentum for reform

In the summer of 2013 the OECD gained agreement from the G20 nations for an internationally co-ordinated attempt to reform the international tax system. Plans include country-by-country reporting, tighter rules governing the transfer of high-value intangible assets to low-tax jurisdictions, and a timetable to tentatively allow for the automatic sharing of information by tax authorities in the G20 nations by 2015.

In principle, CEOs aren't opposed to some of the proposals under discussion and the fact that 80% of those questioned were prepared to offer an opinion reinforces the view that tax reform is a board-level issue. 58% of CEOs agreed that it's appropriate for tax authorities around the world to share among themselves the information they've collected on multinationals, although those in Western Europe (with the exception of Swiss CEOs) were more likely to agree with information sharing than others – only 36% of CEOs in Japan, 44% in the US, 45% in the Middle East agreed. CEOs in different sectors also had different opinions about information sharing.

Similarly, and perhaps surprisingly to some, almost six out of ten CEOs (59%) agreed that multinationals should be required to publish revenue, profit and tax disclosures on a country-by-country basis, although 36% of US CEOs (compared with 19% globally) disagreed. That 59% of CEOs agreed is surprising given what are believed to be widely held concerns that mandatory “country by country” disclosure requirements will focus on data that is costly for businesses to generate and is not easy for the reader to understand. Perhaps this reflects the acknowledgement by CEOs that the provision of some kind of meaningful information on tax is a key part of building greater understanding.

But while the will for reform exists, CEOs have little confidence that the proposals put forward by the international community will ever go ahead. Just 27% felt that a consensus could be reached among G20 members in the immediate future. Perhaps thinking of their own state of political deadlock, CEOs in the US were the most pessimistic, with just 7% saying that consensus could be reached.

Even so, it's clear that international tax reform is needed and will bring benefits, for international business and for countries around the world. A better international tax system, provided it continues to support global trade, will help to rebuild public trust and improve the global business environment.

27%

Just 27% felt that a consensus could be reached among G20 members in the immediate future

Recommendations

CEOs have a difficult balancing act ahead. The increasing tax burden is a serious concern to them as they endeavour to balance their responsibilities to a wide group of stakeholders – employees, investors, customers, suppliers, tax authorities, regulators and the wider societies in which they operate. There is no limitless pot of money to fund capital investment, research & development, skills growth, return to investors and choices need to be made on how to manage costs and remain competitive for the long term.

Those choices – including where and how to invest – will impact their tax footprint across the world.

Compliance with tax obligations wherever they do business is crucial, as is the management of tax risk and uncertainty. That makes tax a board issue, and clear understanding of tax policies – at board level and throughout the operation of the business – crucial.

Tax policies that are perceived as aggressive can present a serious risk to corporate reputation. Tax issues, including the degree of transparency in public reporting, need to be considered more seriously and communicated more carefully within an organisation than ever before.

A well thought through tax strategy balances business cost pressures, national fiscal needs and international tax norms in a sustainable way.

The tendency for the public debate about corporate tax to focus on profit taxes continues to hamper progress. The truth is that companies, and particularly multinationals, contribute far more to the public purse than direct taxes. The total tax contribution – including all direct and indirect taxes, taxes collected and paid – is an important and relevant measure for governments.

It's vital that companies are able to explain the full story and the role that it plays in their tax decision-making. Perhaps the most important message is clarity of purpose. If company boards are clear on their tax strategy and on the policies that flow from that strategy, this in turn informs not only business operations but the drive towards transparency and the decisions made about external communications. This is no time to treat tax as an afterthought.

So what should CEOs do? There are five critical actions that we're encouraging our clients worldwide to consider:

1.

Understand the different perspectives and priorities of your various stakeholders and your cultural and societal context – from investors to customers, and from media to governments.

2.

Set a clear, comprehensive and explicit policy for the most critical aspects of tax planning, discussed and agreed by the board.

3.

Decide whether greater transparency around your tax affairs is appropriate and, if so, how best to communicate the important messages.

4.

Put in place governance and controls which give the board comfort that the tax approach and risks they have agreed align with what actually takes place on the ground, right across the business operations.

5.

Avoid surprises. Across the world, legislation and social attitudes around tax are in flux, and companies need to monitor these carefully, constantly stay ahead of events and adjust to stakeholder expectations.

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