



the gandalf group

The 32nd Quarterly C-Suite Survey: Profit Shifting, Taxation & the 5th Anniversary of the 2008-09 Recession

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- ❑ This is the 32nd edition of the C-Suite Quarterly Survey, conducted on behalf of KPMG; published and broadcast by the *Globe and Mail's Report on Business* and *BNN*.
 - Previous quarters' surveys are available at GandalfGroup.ca.
- ❑ This quarter's survey asked executives about:
 - Profit Shifting & Base Erosion
 - Taxation Policies
 - The 2008 Crash – Five Years Since the Fall of Lehmann Bros.
 - The New Normal: Business & Borrowing Post-recession
- ❑ Methodology: telephone interviews with 154 C-Suite executives from ROB1000 companies between September 9th and 25th, 2013.



- ❑ Most executives said their companies declare at least some income overseas for tax purposes.
- ❑ There's little pressure from shareholders to shift more taxes overseas and very few said they face pressure to pay more or "their fair share" domestically.
- ❑ But most executives are interested in leveling the playing field and curbing efforts of some who try to avoid taxation by pushing activities to low-tax jurisdictions.
- ❑ The majority of the C-Suite supports a proposed OECD action plan to address tax base erosion and profit shifting to other countries.



- ❑ While the vast majority of executives predict growth for their companies and the Canadian economy, less than half believe their companies have fully recovered from the recession of 2008-2009.
- ❑ Most said the recession has changed the way they do business, with executives saying they keep tighter reins on spending and costs and exercise more caution around debt and borrowing.
- ❑ Concern about volatility in equity markets continues, five years after the crash of 2008. This continues to have a negative impact on most businesses.
- ❑ Overall credit conditions have improved but only somewhat since that time.
- ❑ Accessing credit continues to be a serious challenge for resources companies in particular, many of which are smaller companies.

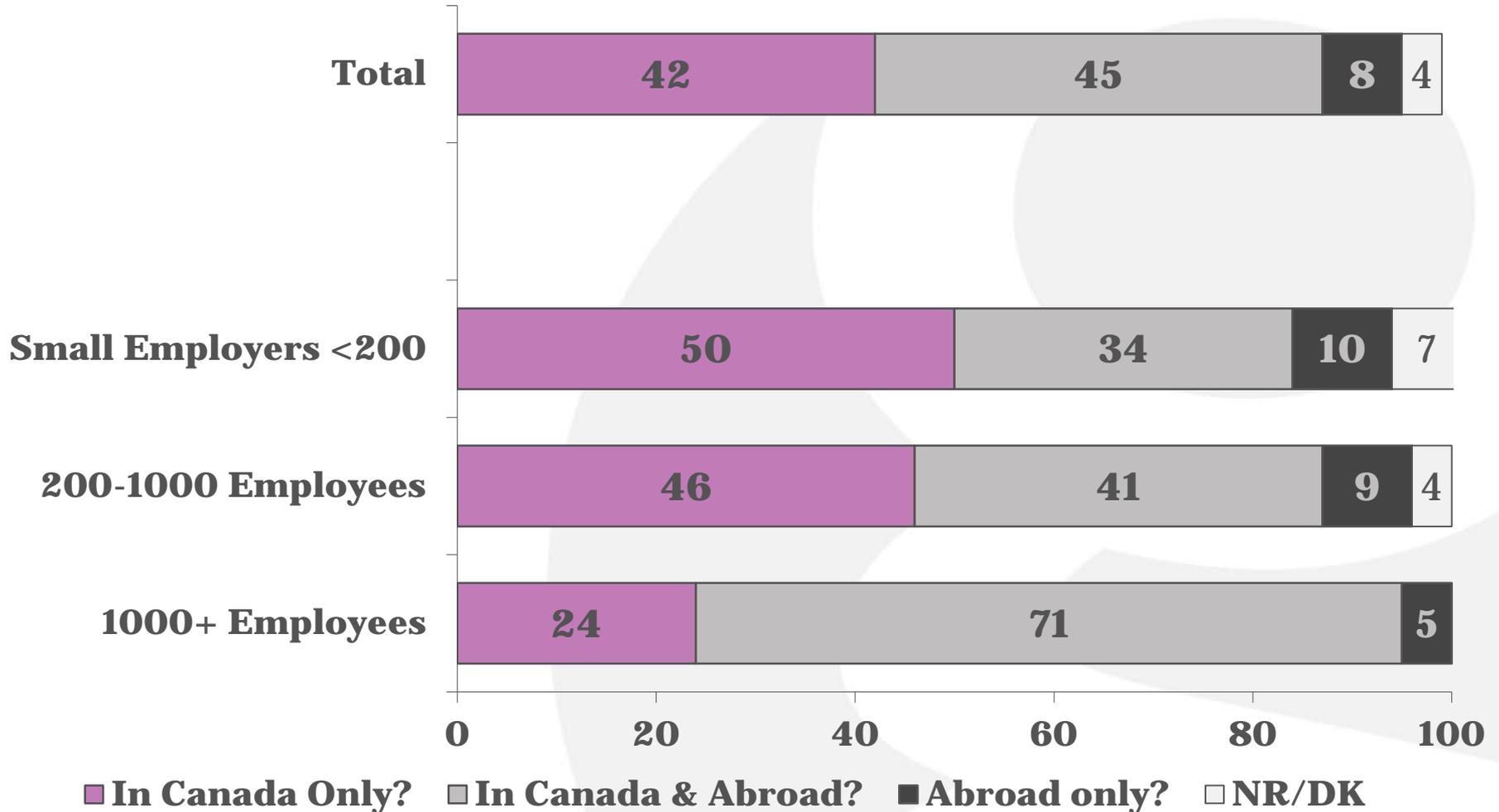


- ❑ Most in the C-Suite report that their businesses declare at least some income for tax purposes overseas.
- ❑ 42% said they declare all their income for tax purposes in Canada.
- ❑ 36% said their company has taken steps to address the issue of whether it is paying its "fair share of taxes."
- ❑ 21% of those who declare any income in Canada believe they could legally shift more income overseas than they do now.



Where Companies Declare Income

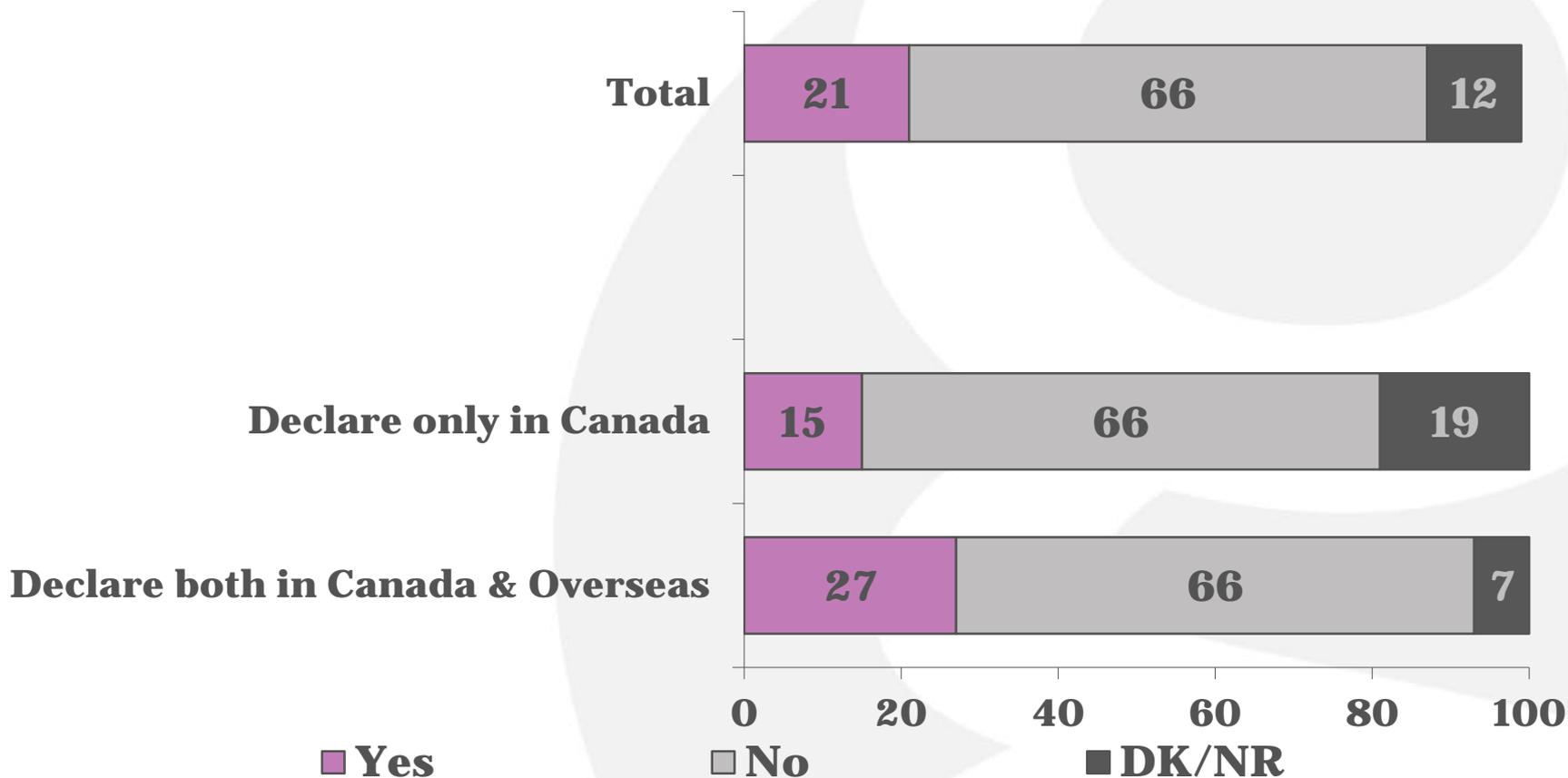
“Does your company declare income for tax purposes...” % saying each





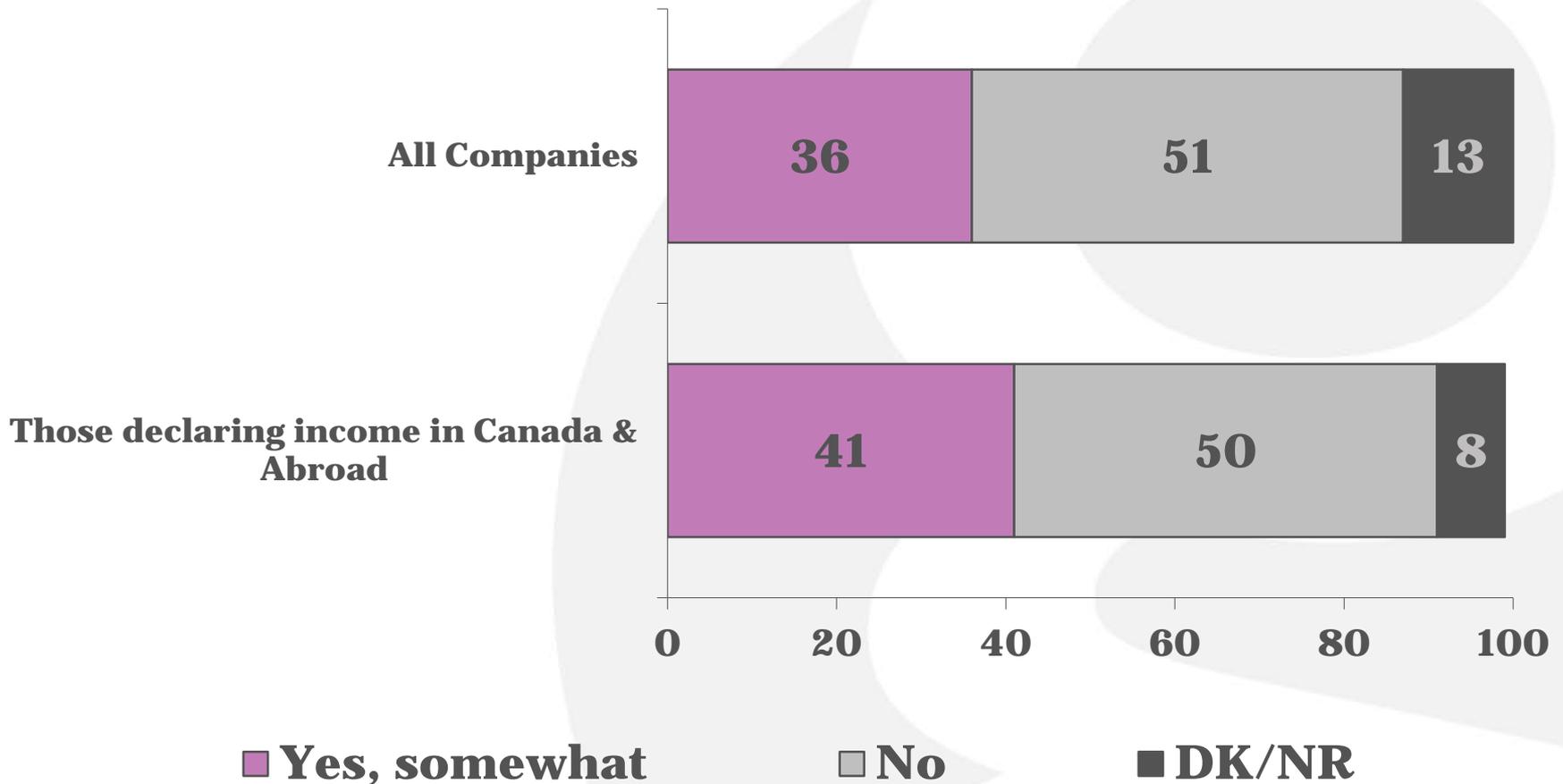
Can Your Company Shift More in Profit to Lower Tax Jurisdictions?

“If your company declares income in Canada or in both Canada and elsewhere, do you believe your company is legally able to shift more profit or income to low tax jurisdictions than you currently do for tax advantage?” (Asked only of those who declare tax in Canada, or in both Canada and another jurisdiction - % saying each)





“Have you or your Board taken any steps yet to address the issue of whether your company is paying its “fair share of taxes”?”



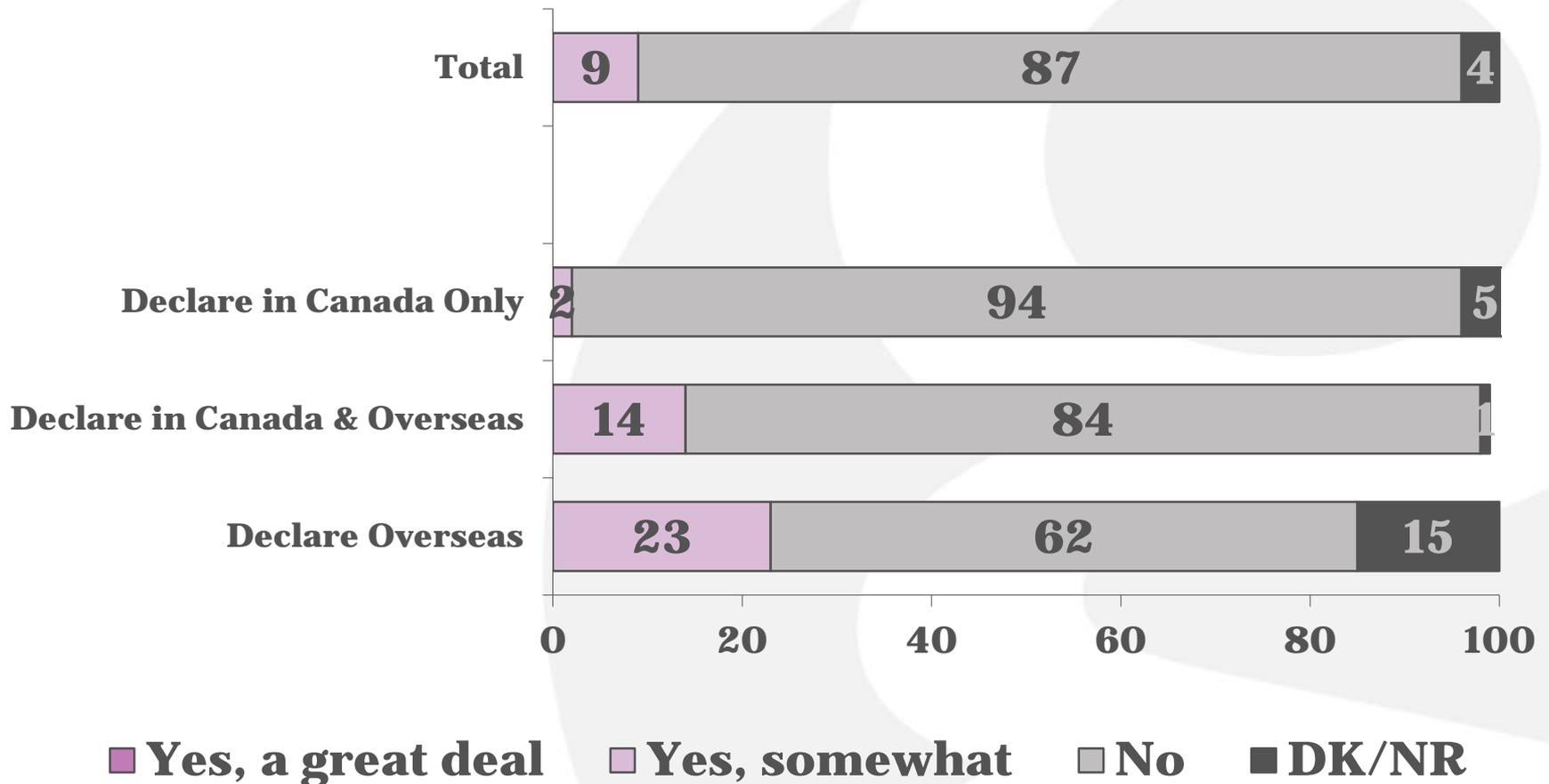


- ❑ Few executives report any pressure from shareholders to shift more profits overseas.
 - The few who do, tend to be companies that already declare income overseas.
 - Companies who declare all income in Canada report almost no pressure in this respect.
- ❑ Few executives said they face pressure from stakeholders or the government to declare more income than they do in Canada.
- ❑ Most would support an effort to reduce tax avoidance: 67% somewhat or strongly support a proposed OECD action plan to address tax base erosion and profit shifting to other countries.
- ❑ There is very little opposition to this – about 1 in 10.



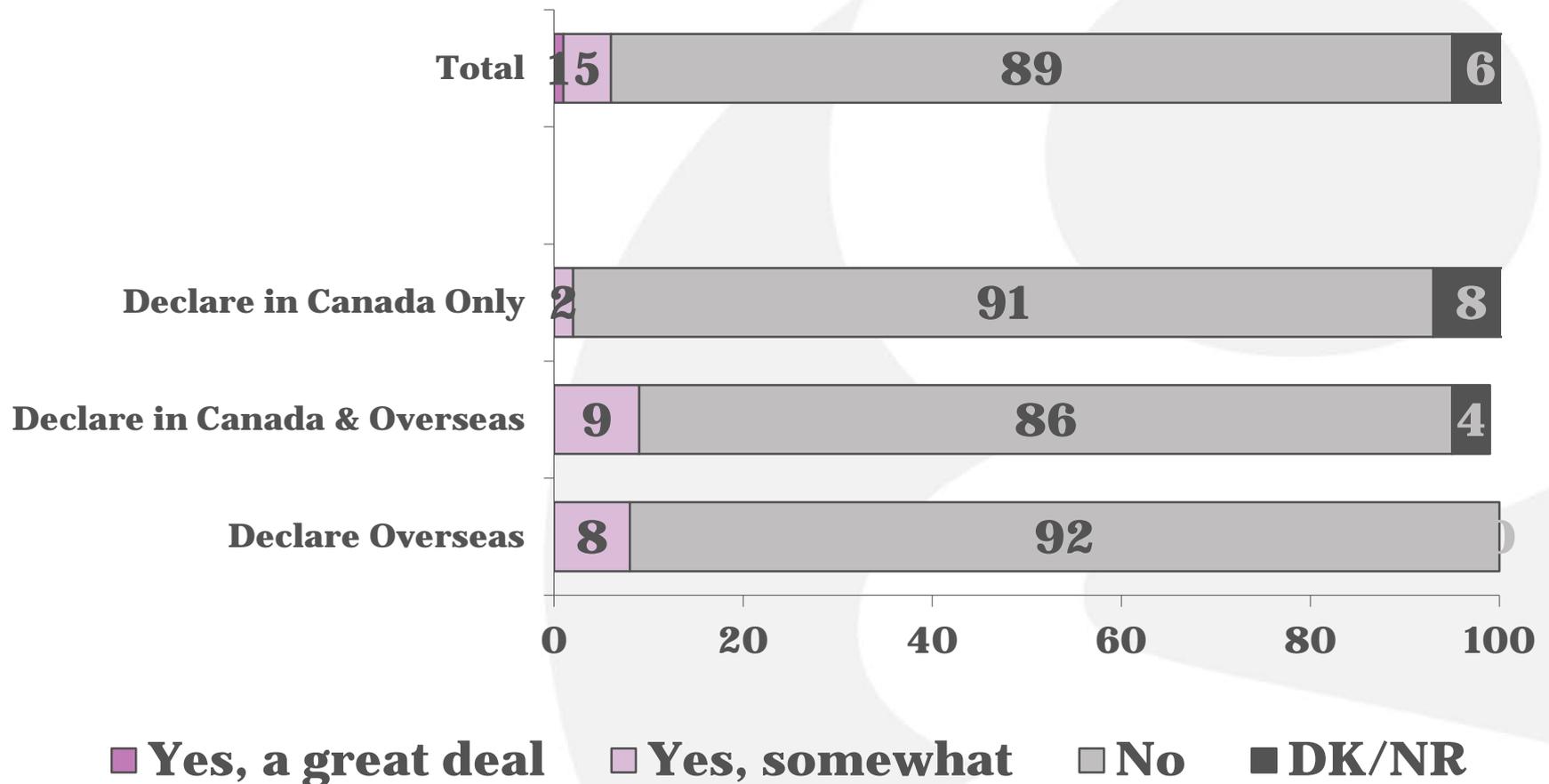
Shareholder Pressure to Shift Profit Overseas

“Has your company faced a great deal of pressure or some amount of pressure or no pressure at all from shareholders or the market to implement tax strategies that would reduce your company’s taxes by shifting income or profits abroad?”





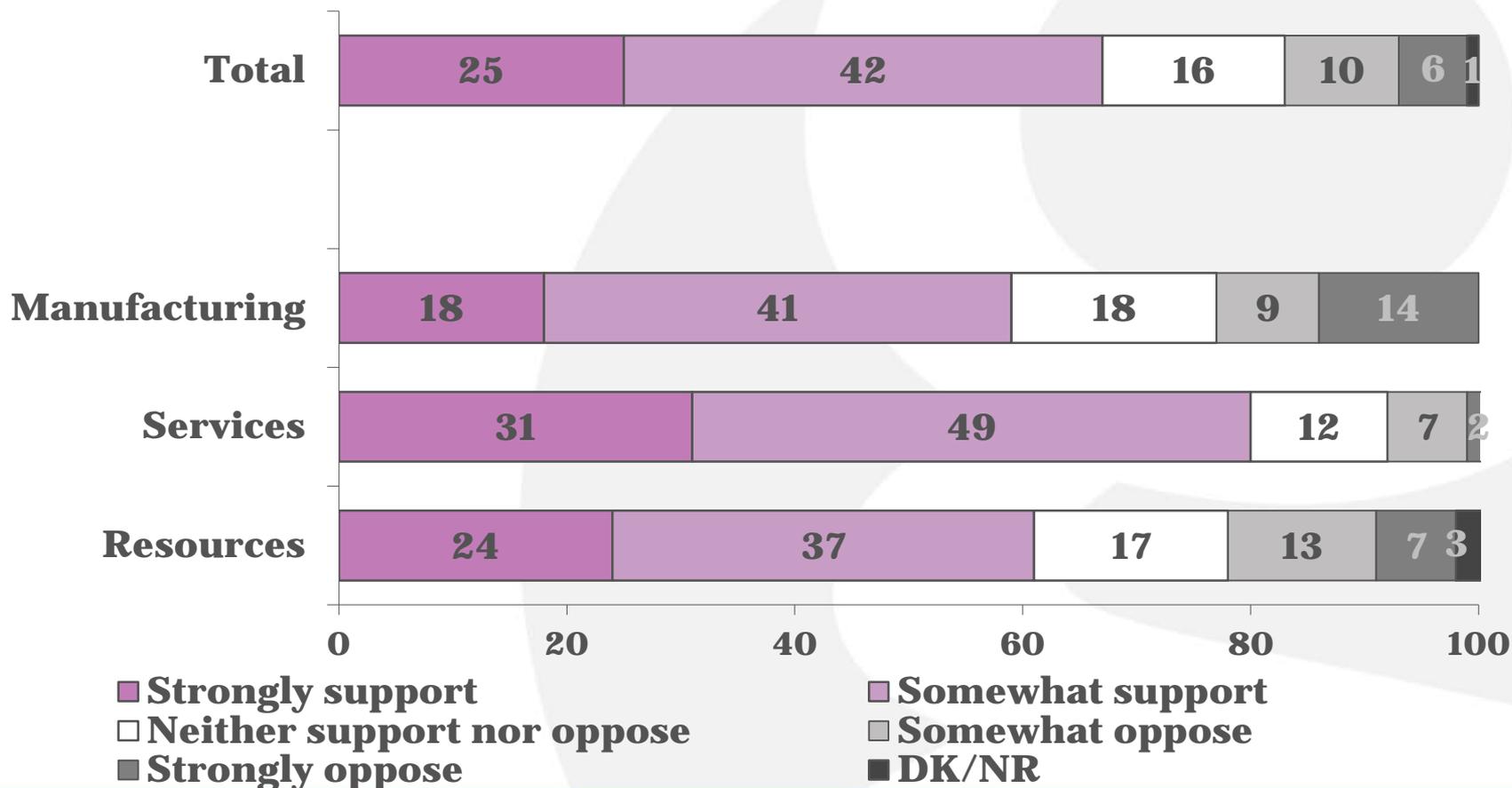
“Has your company faced some pressure or a great deal of pressure or no pressure from stakeholders, governments or the public to pay Canadian taxes rather than take advantage of legal options to shift income abroad?”





Support for OECD Action Plan on Tax Base Erosion

"The G20 recently asked the OECD to create an action plan to address tax base erosion, that is to say shifting profits to other countries and the perceived avoidance of taxation by some corporations who push activities to low tax jurisdictions. Under the plan, countries would close gaps in domestic laws or treaties that permit non-taxation or low taxation if profits were shifted and subjected to tax in such jurisdictions...would you say you strongly support, somewhat support, neither support nor oppose, somewhat oppose or strongly oppose implementation of such a plan by Canada and other countries?"



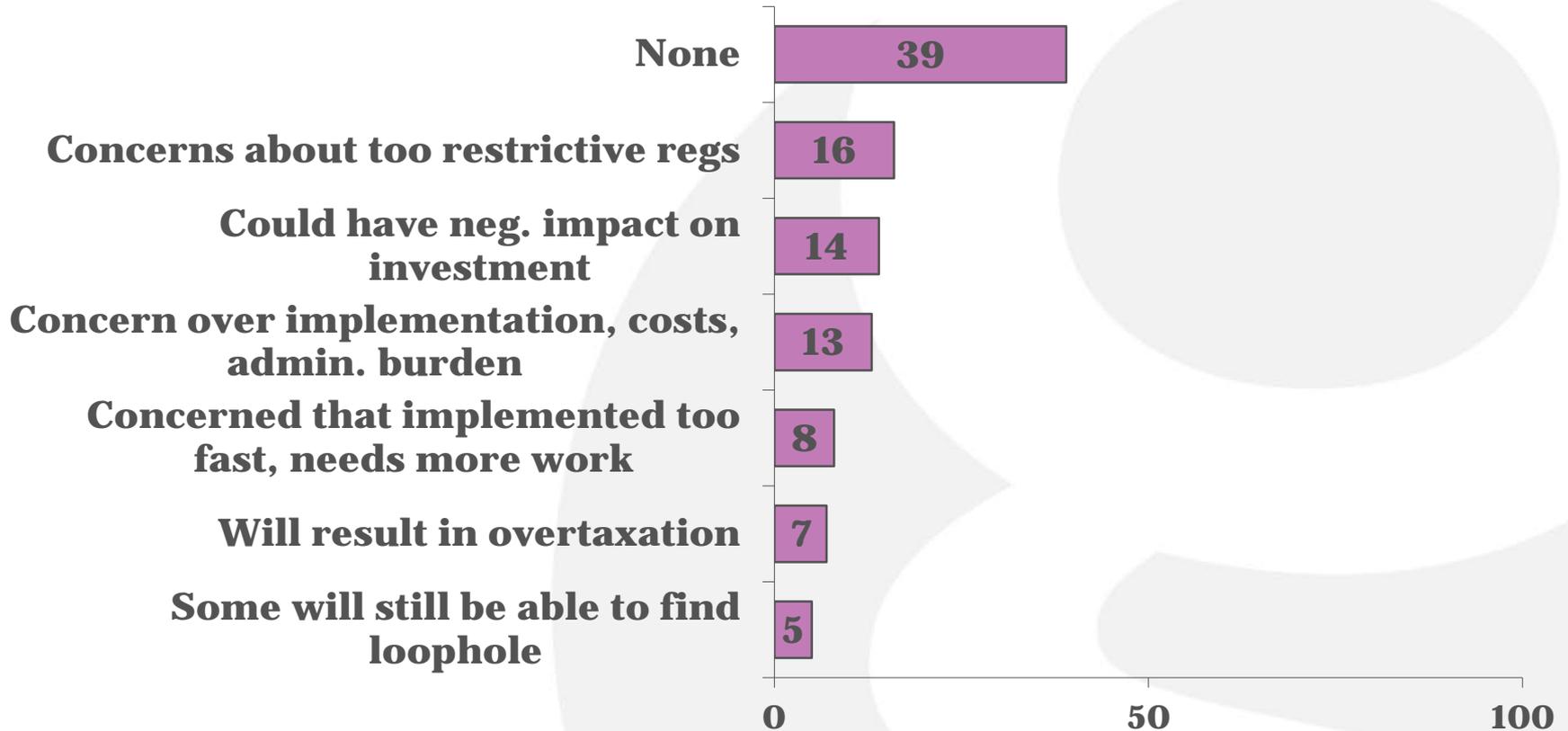


- ❑ Reasons why an action plan on profit shifting would be a good thing: fairness and reinvestment in the domestic economy.
 - “Fairness...”, “...level the playing field...” & “...tax base should be kept in the realm of where it's earned...”
 - “In the context of the Canadian setting, the potential for government income that is leaking currently could help government with its fiscal responsibility.”
- ❑ Concerns include questions about administrative cost, unintended consequences and negative investment flows:
 - “...if implemented quickly. Needs more work to be sure you are dialoguing with companies to get expected results...”
 - “...a loophole is either opened or left open that makes an uneven playing field.”
 - “Multinational companies pay low rates of taxes which has an impact on capital flows....”
 - “Additional administrative burden...”
 - “...if government regulates too tightly some companies may go to those other countries and Canada would lose the jobs...”
- ❑ Resources companies (many of whom are concerned about credit conditions) were more likely to mention impact on investment.



Concerns re Action Plan on Tax Base Erosion

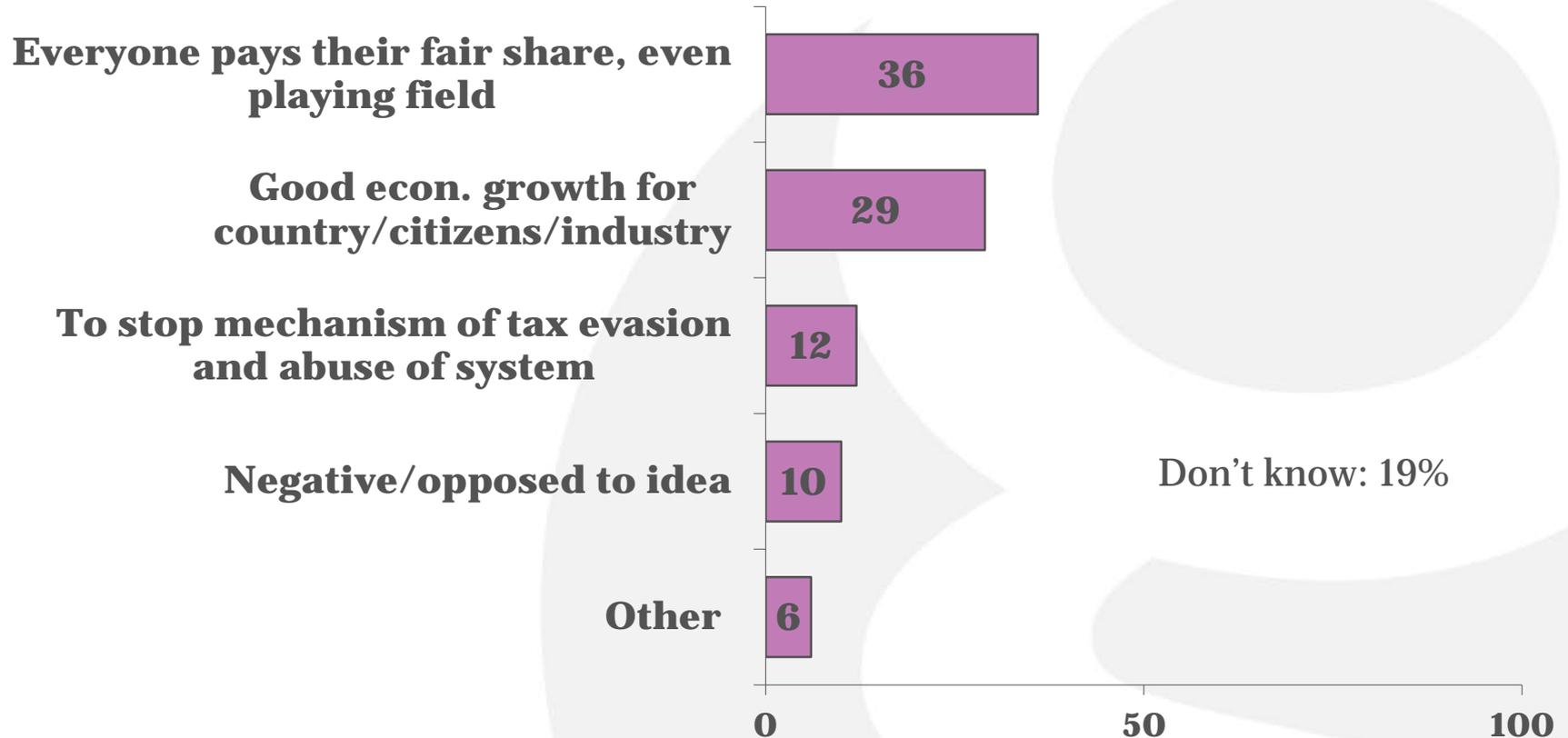
“We'd like to know your reaction to this proposed action plan. What concerns if any would you have about such a proposed action plan?” (Open ended - % mentioning each)





Good Reasons for an Action Plan on Tax Base Erosion

“Can you tell me why it might be a good thing to implement in your view or based on your experience?”
(Open ended - % mentioning each)

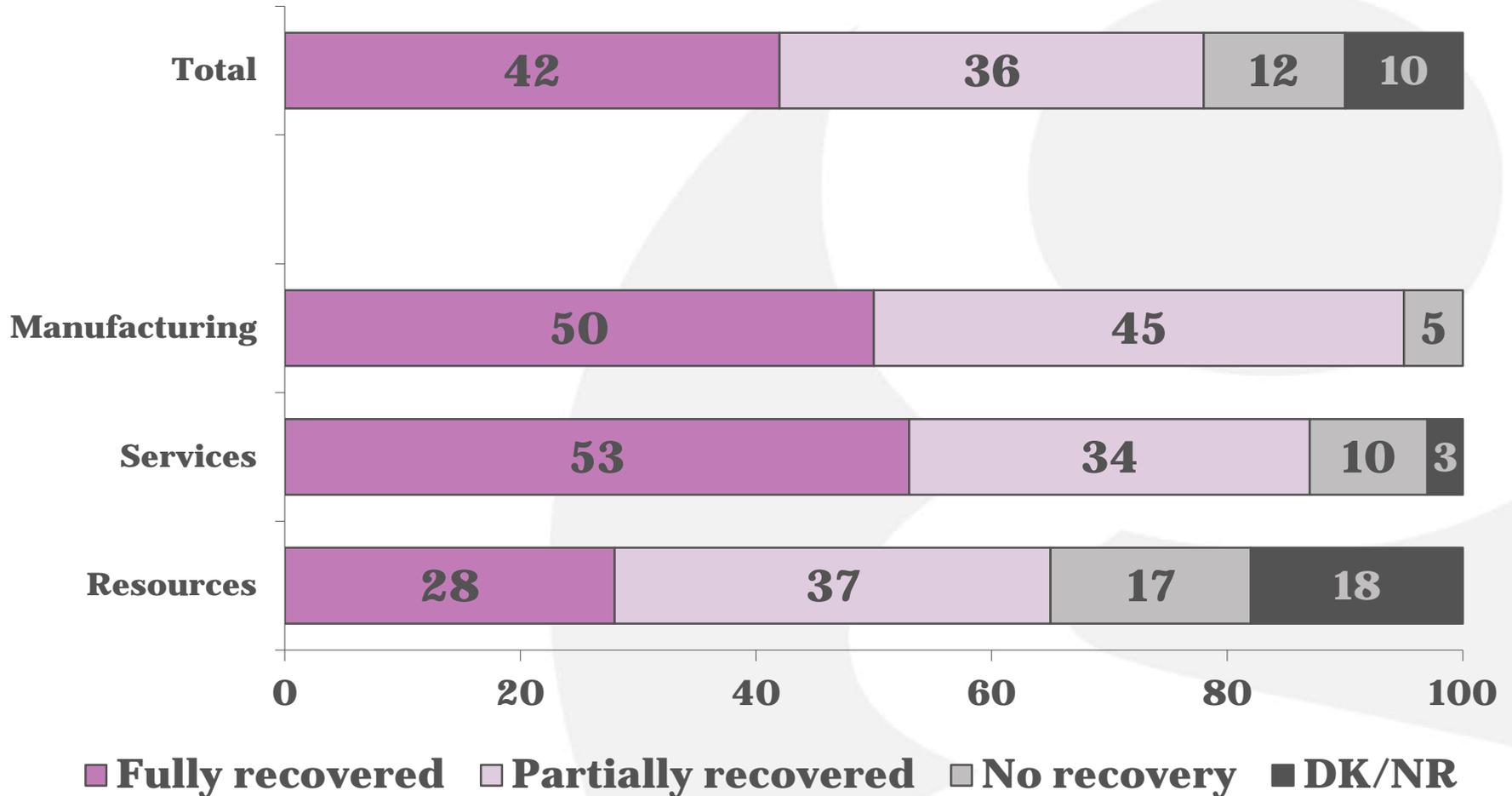




- ❑ Most in the C-Suite said their companies have recovered since the crash of 2008-2009, but only 42% said they have **fully** recovered.
 - One in ten said their business has not recovered at all.
 - Many in the resources sector report continued difficulty: only 28% said their companies have fully recovered over the last five years.



“Would you say your business has fully recovered to pre-recession levels or only partially recovered since then or seen no recovery since the 2008-2009 recession?”



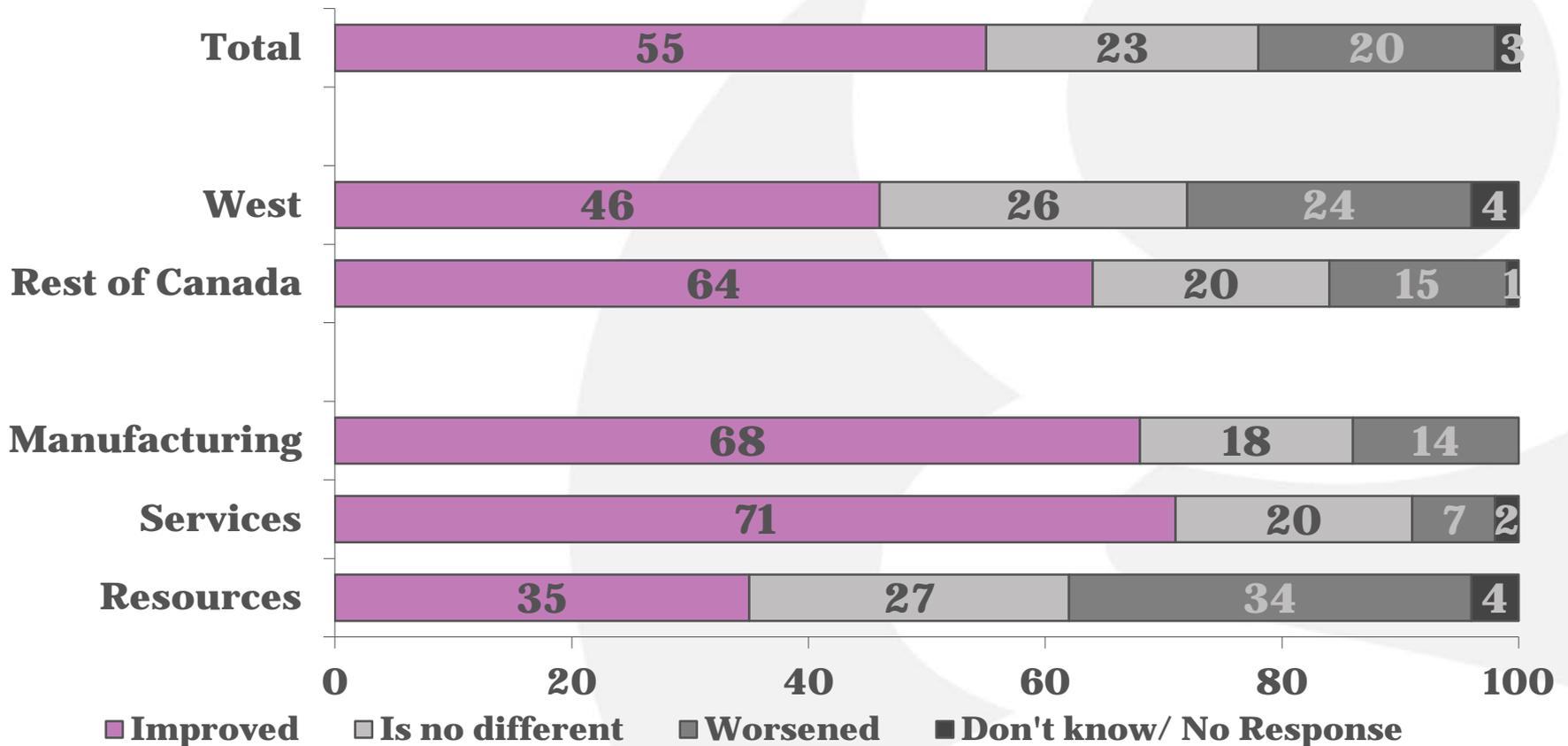


- ❑ Concern about credit conditions is somewhat lower now than it was in 2008-09.
- ❑ But most said conditions have not returned to the way they were before the recession and credit-crunch of 2008.
 - 55% said access to credit had improved for companies like theirs **since** the recession; 23% said it's no different & 20% said conditions have worsened.
 - 56% said credit conditions have not returned to conditions **before** 2008.
 - Half reported that credit conditions are having a negative impact on their companies – fewer report this today than did so in the Sept. 2008 C-Suite Survey when 75% reported the credit crunch was having a negative impact on their companies.
 - Equity markets remain a top concern - 65% said market volatility is having a very or somewhat negative impact on their companies.
 - Among resources executives, 69% said credit conditions were impacting them negatively and 89% said equity markets were having a negative impact.
- ❑ The value of the C\$ is far less of a concern now. For many resources companies it's a positive.



Has Credit Improved Since 2008-2009?

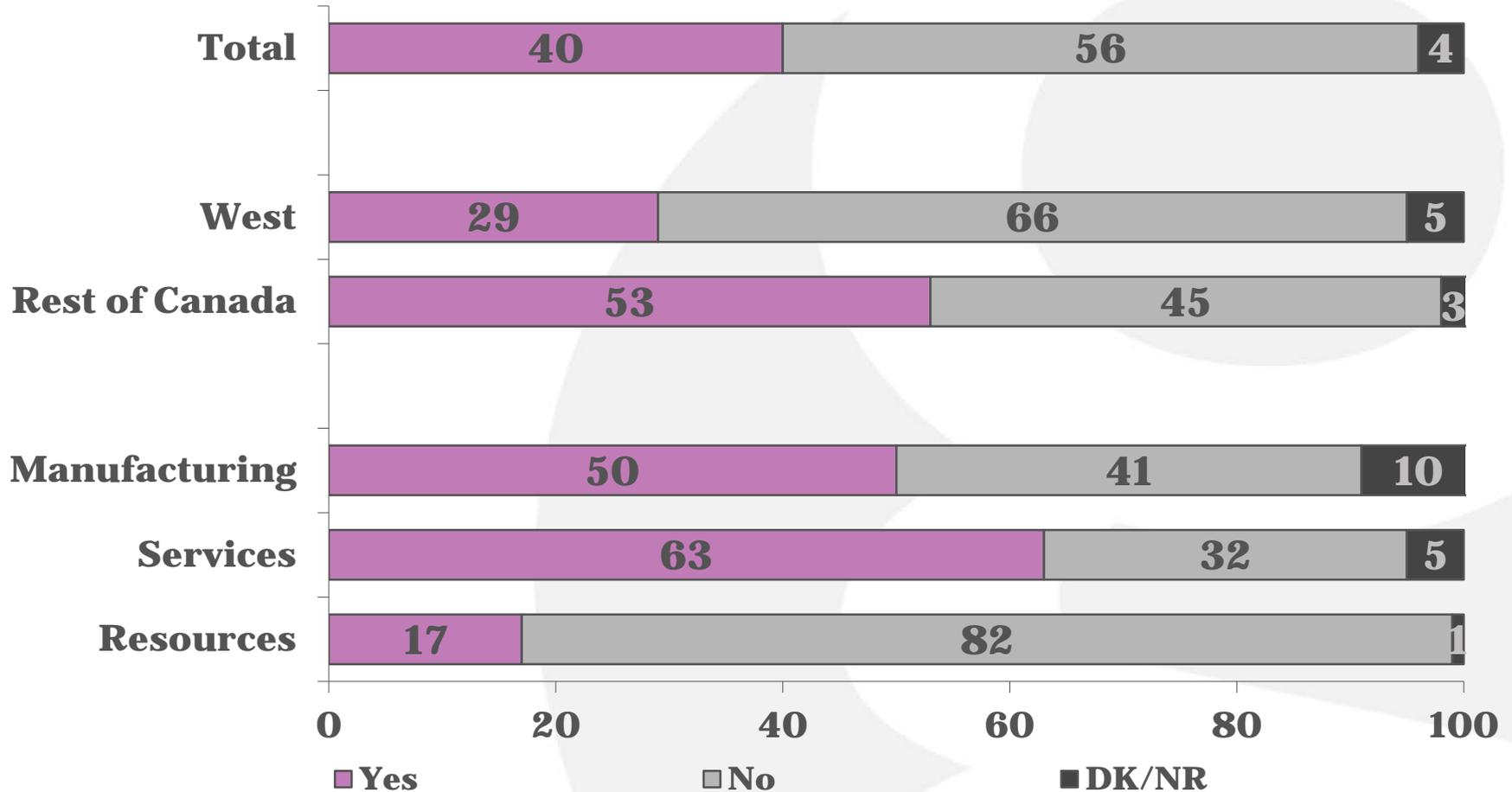
“This month is the five year anniversary of the collapse of Lehmann Brothers. 2008 was the year companies faced a credit crunch and market crash. Would you say the ability of companies such as yours to access credit has improved SINCE the 2008-2009 recession, or worsened SINCE 2008-2009, or is no different than in 2008-2009?”





Has Credit Returned to Pre-2008 Conditions?

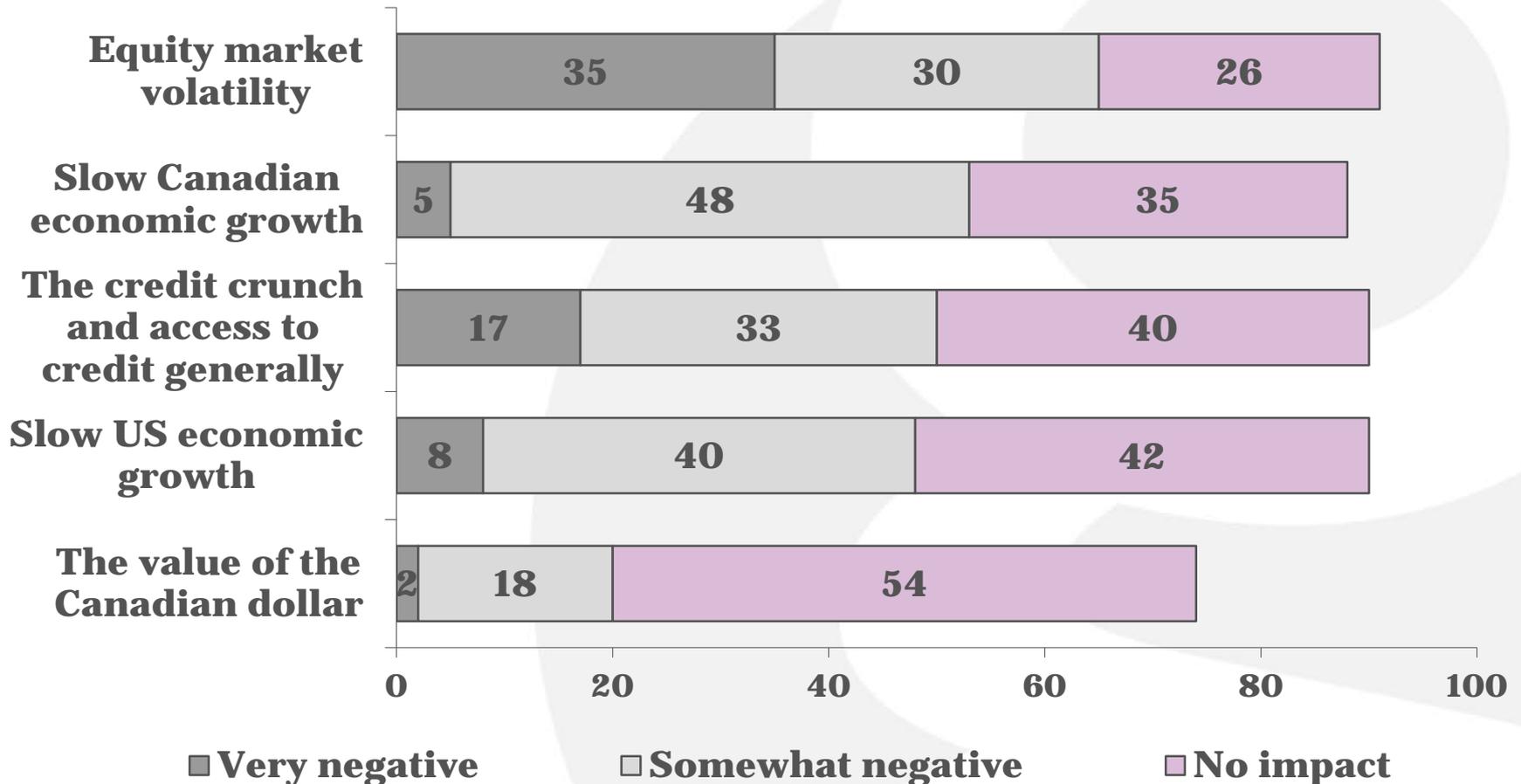
“Have credit and borrowing conditions for companies such as yours returned to the way they were BEFORE 2008?”





Market Conditions & Impact on Businesses

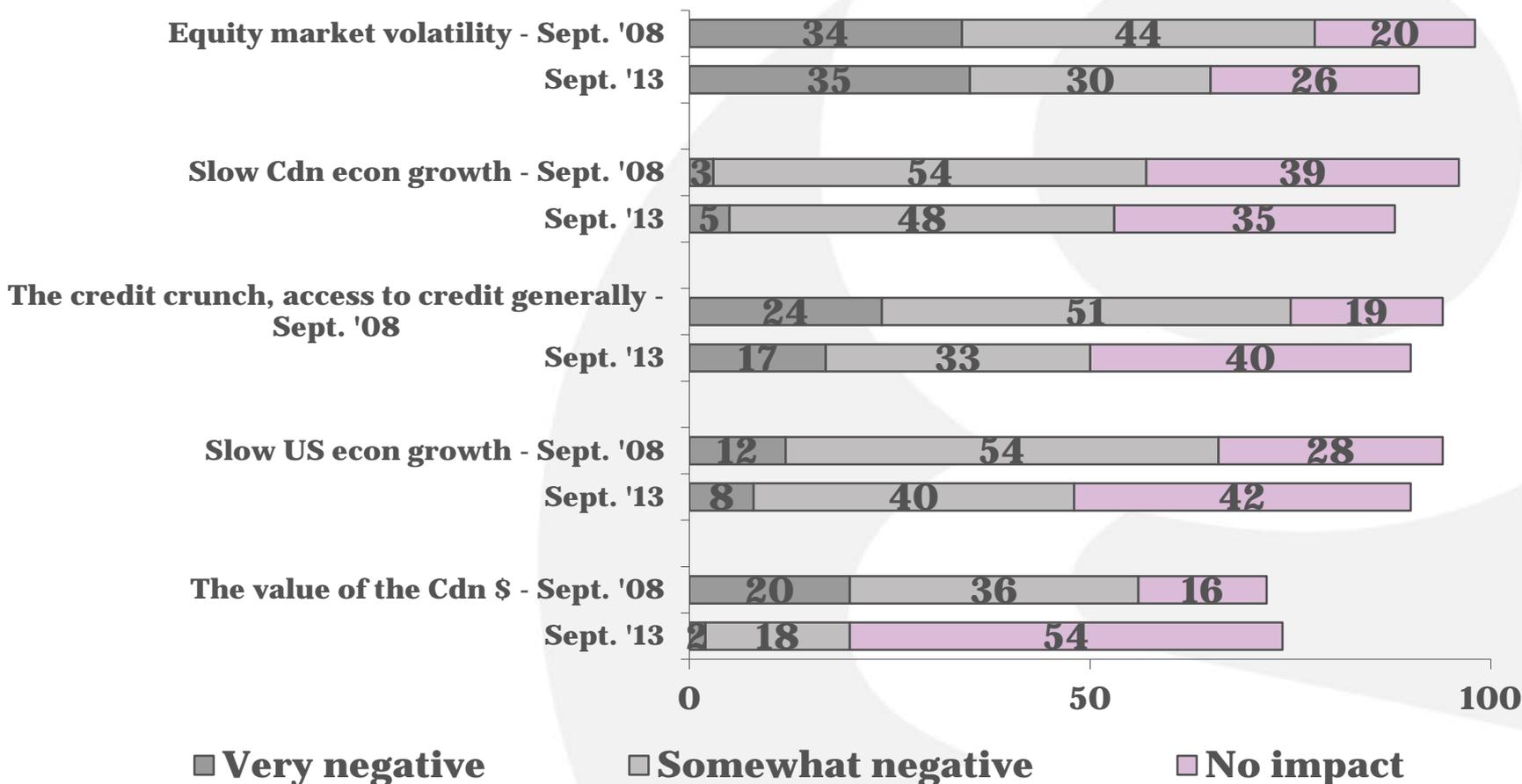
“I’d like you to rate the impact the following on your business over the last 12 months. Please indicate if each has had a very negative impact on your business, a somewhat negative impact, no impact, a somewhat positive or a very positive impact.” (% selecting each)





Market Conditions Then & Now: Sept. 2008 vs. 2013

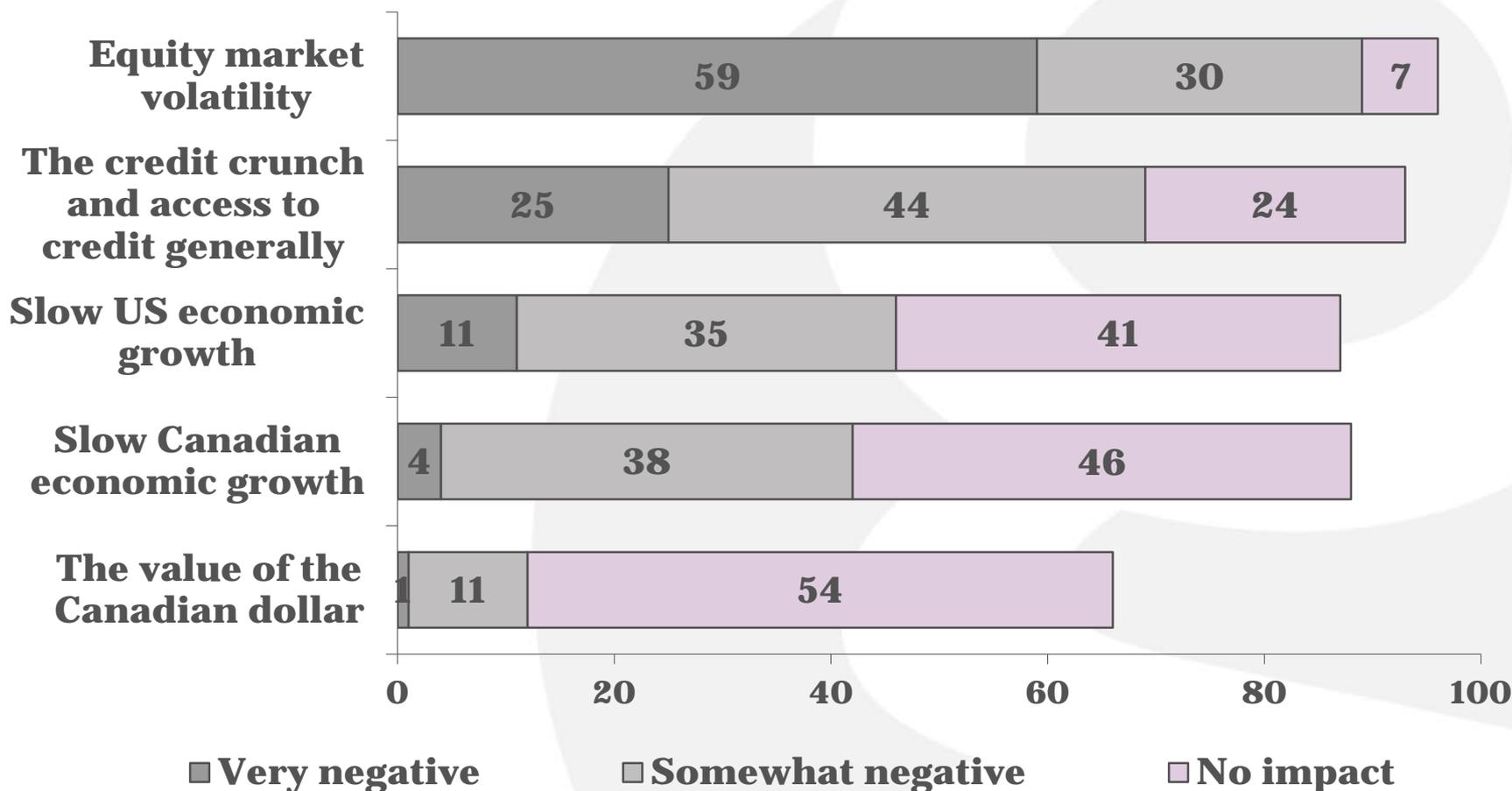
“I’d like you to rate the impact the following on your business over the last 12 months. Please indicate if each has had a very negative impact on your business, a somewhat negative impact, no impact, a somewhat positive or a very positive impact.” (% selecting each)





Market Conditions: Resources Companies - 2013

“I’d like you to rate the impact the following on your business over the last 12 months. Please indicate if each has had a very negative impact on your business, a somewhat negative impact, no impact, a somewhat positive or a very positive impact.” (% selecting each)



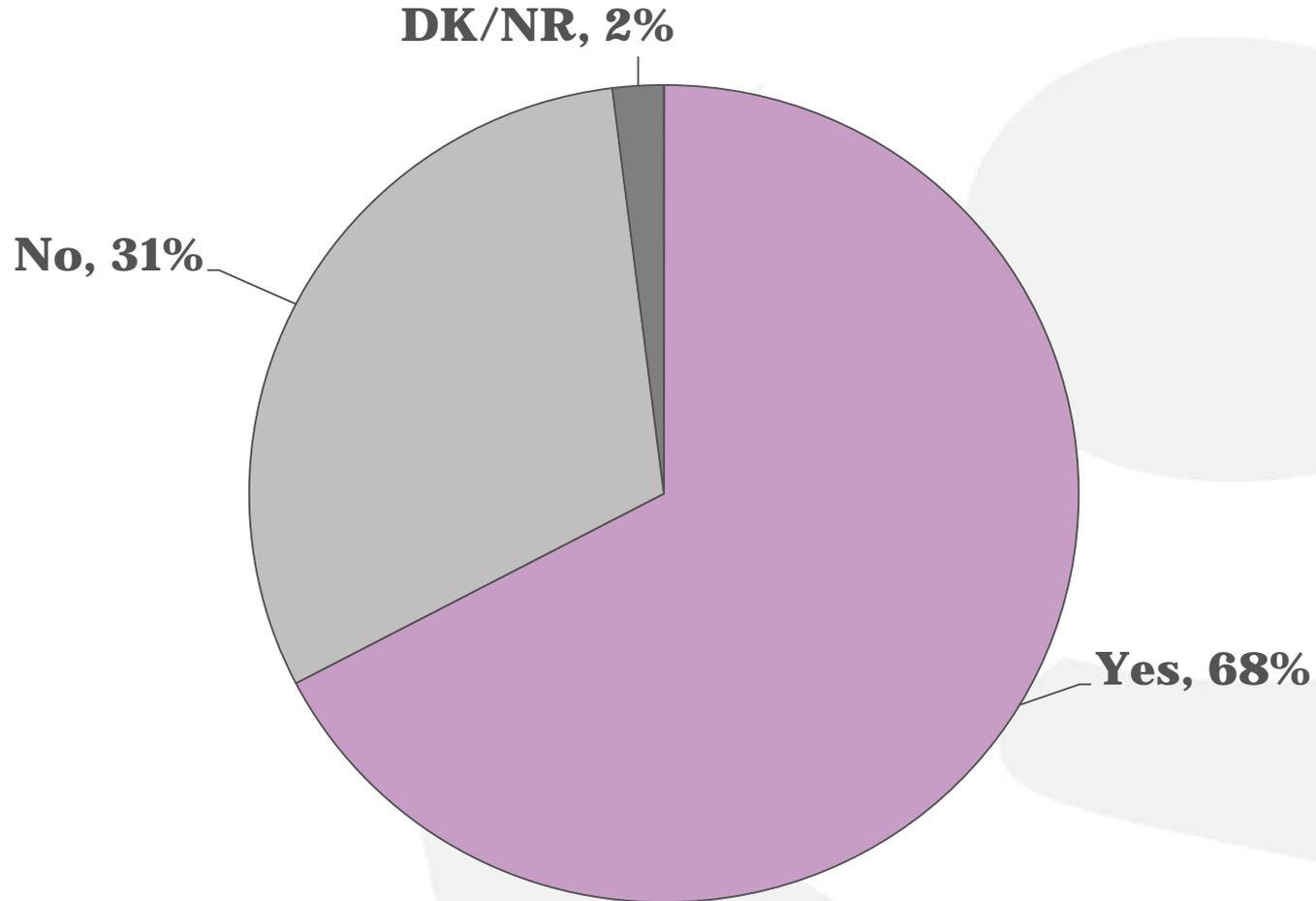


- ❑ 68% said the recession has changed the way they run their businesses.
- ❑ The two legacies the recession :
 1. Tighter control of costs :
 - “...reduced head count, employment, spent capital to improve productivity...”
 - “...lower costs and stronger balance sheets...”
 - “...watching all our expenses more carefully, being more aware of the general economies on our business.” “...significant cost reductions, reduced outlook for growth...”
 - “...more frugal development work on projects...”
 2. A more cautious approach to borrowing and risk :
 - “...rely on cash flow financing to run operations...”
 - “...more selective on acquiring new projects...”
 - “...a de-risked investment portfolio, sensitivity testing for potential economic shocks...”
 - “...reduced inventory, more just-in-time planning...”
 - “...increased regulatory oversight, significantly more capital required in the business...”



Changes to Business Post-Recession

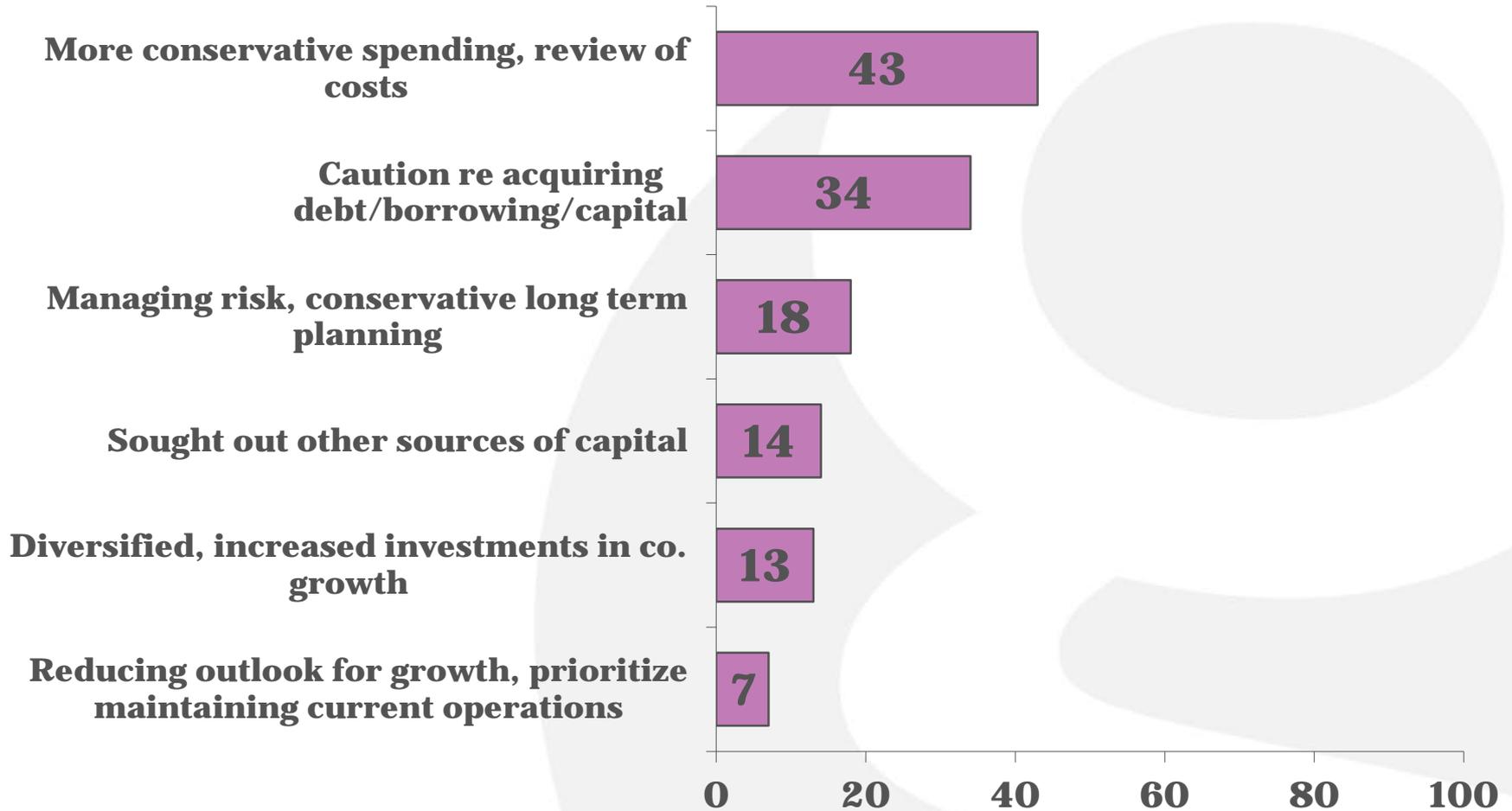
“Have you changed the way your business is run as a result of the 2008-2009 recession?”





How Businesses Have Changed Post-Recession

“Can you provide me with two main examples of that?” [multiple mention - % saying each]



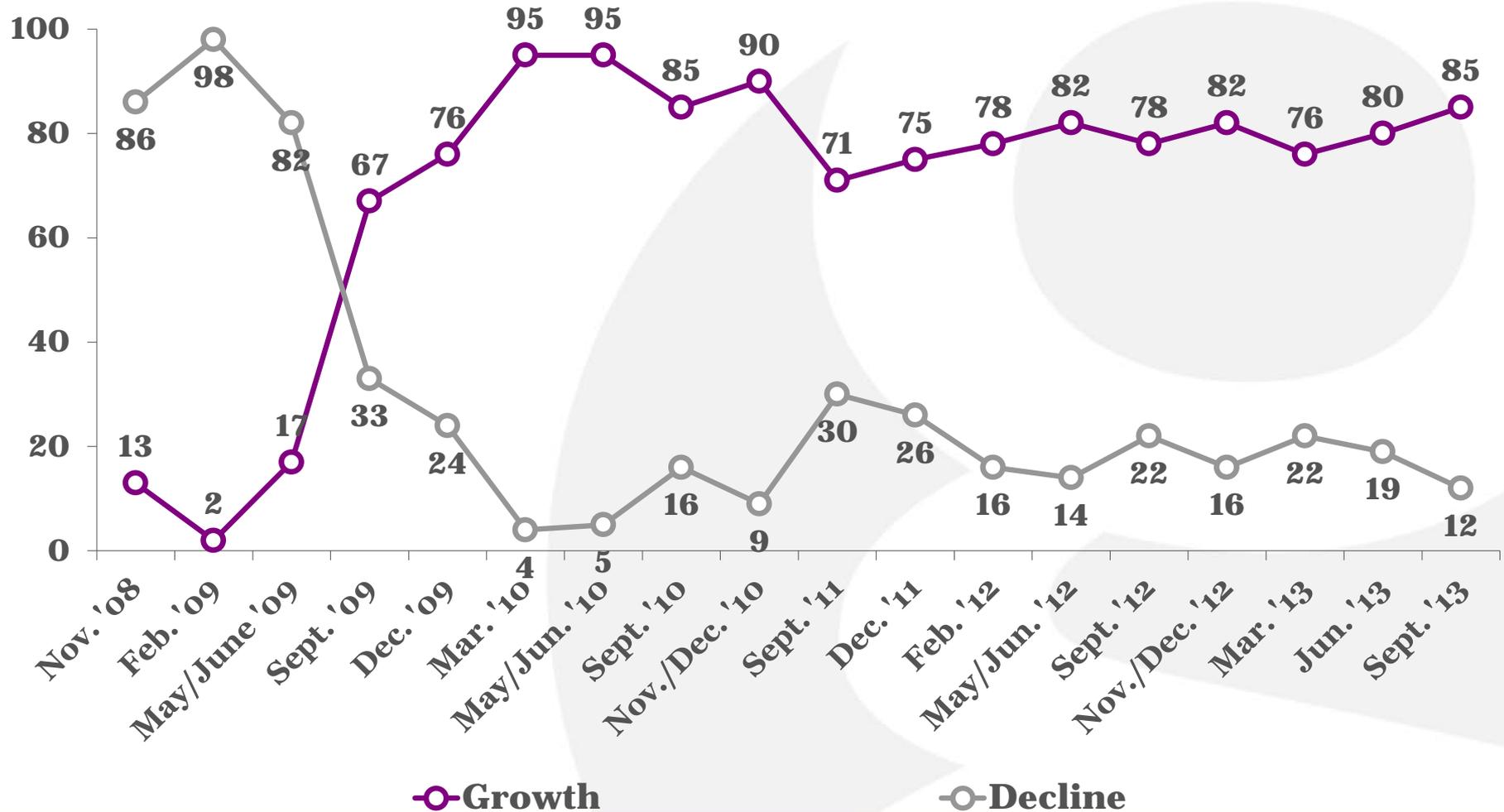


- ❑ Opinion about the economy has significantly improved since 2009, but forecasts are middling at best.
- ❑ Virtually no executives predict strong growth for Canada's economy over the next year.
- ❑ Views about the economy are somewhat more pessimistic in the resources sector.
 - 15% of resources executives expect the economy to decline over the next 12 months, as do 14% of Western Canadian executives.
- ❑ The picture is only slightly better for the US economy, with about 1 in 10 predicting strong growth; and most others expecting moderate growth.
- ❑ The Canadian economy is now more in lock-step with the US, after outpacing it over the previous three years.
- ❑ About 1 in 3 business expect strong growth but this is down from 2010-11.



Current Growth Levels In The Canadian Economy

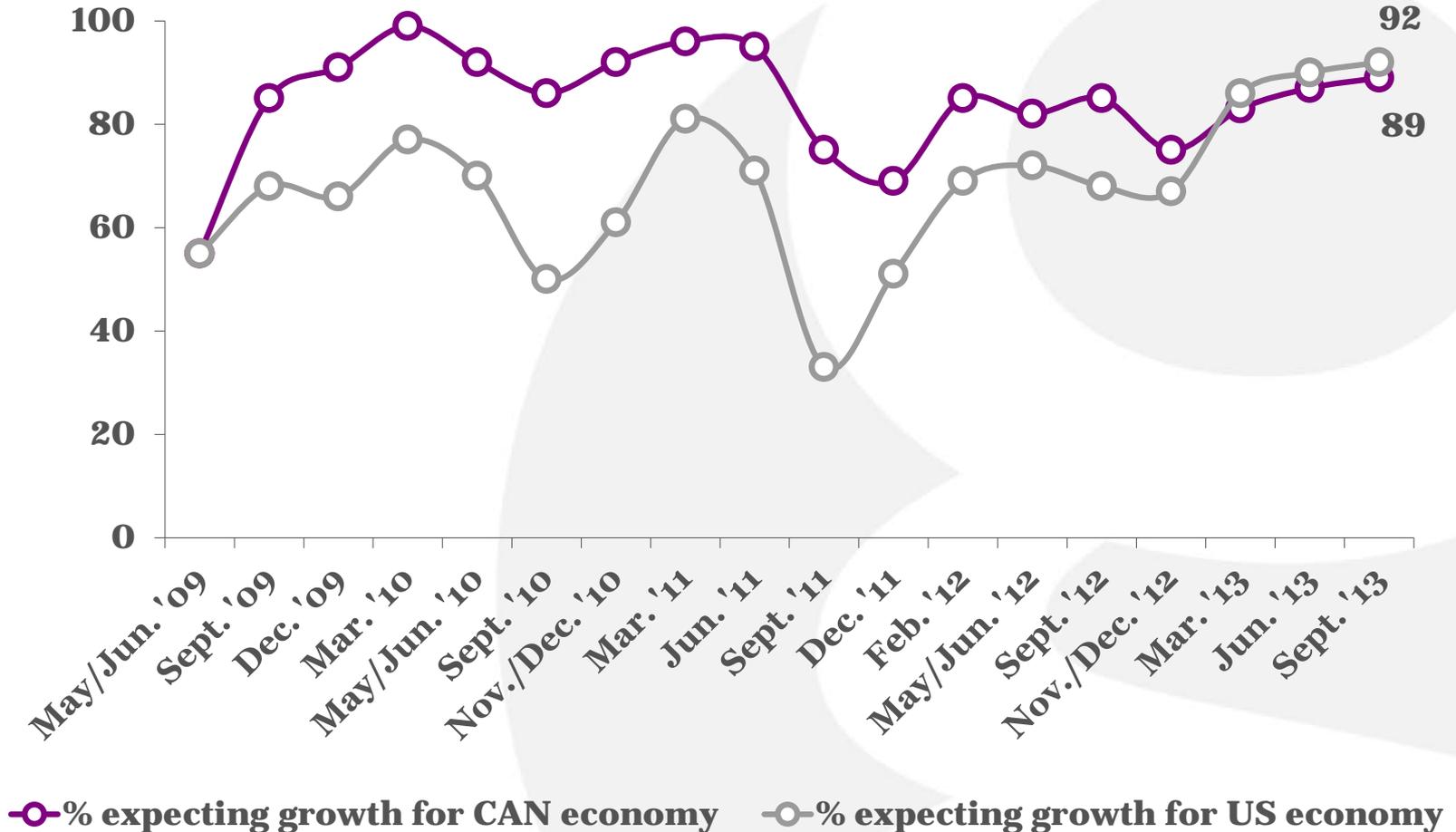
“Which of the following do you think best describes the Canadian economy at the current time - strong growth, moderate growth, moderate decline, strong decline?”





Expectations of the Canadian and US Economies

“What are your expectations for the **U.S. /Canadian** economy over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?”

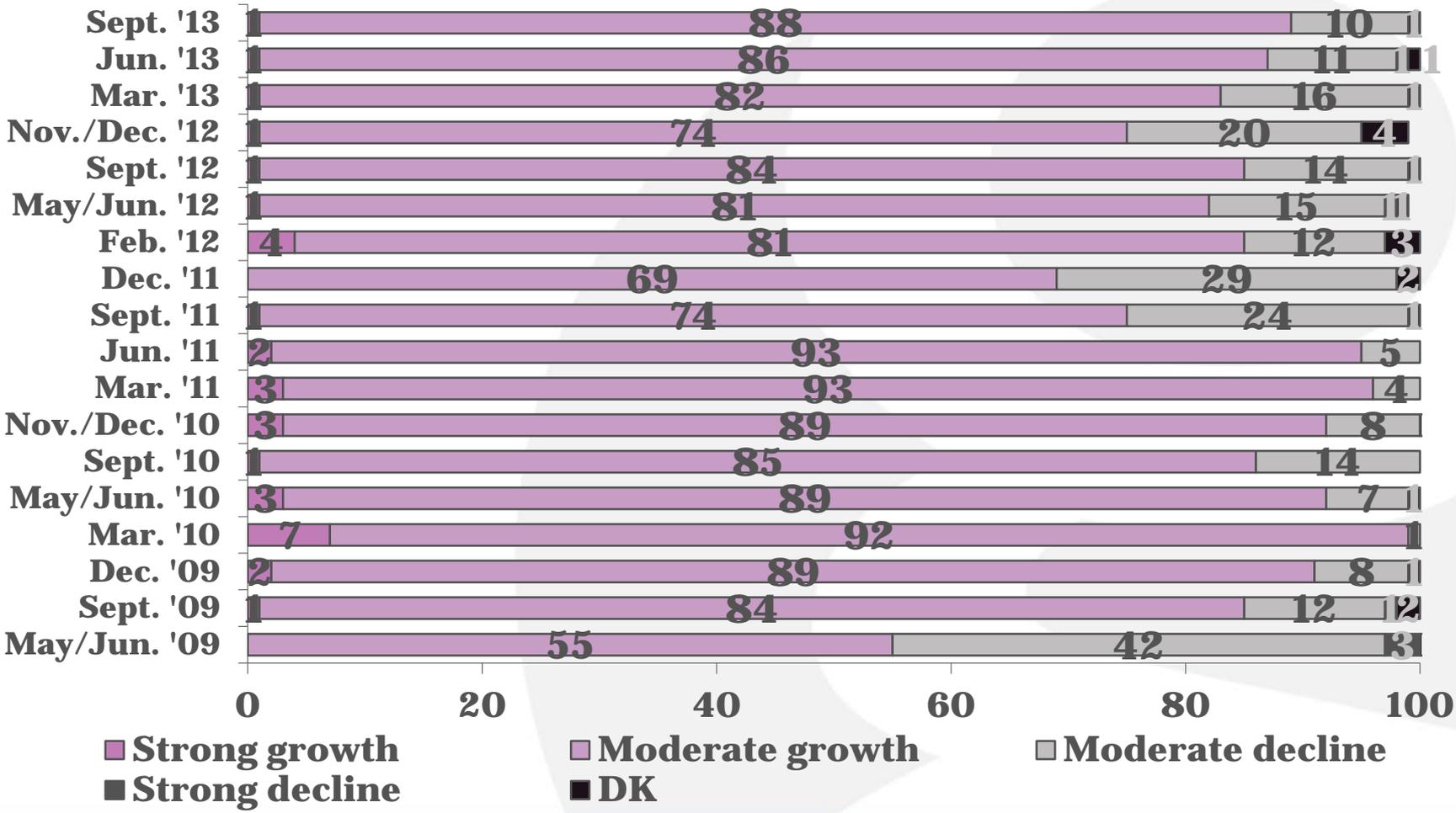


Projections For The Canadian Economy



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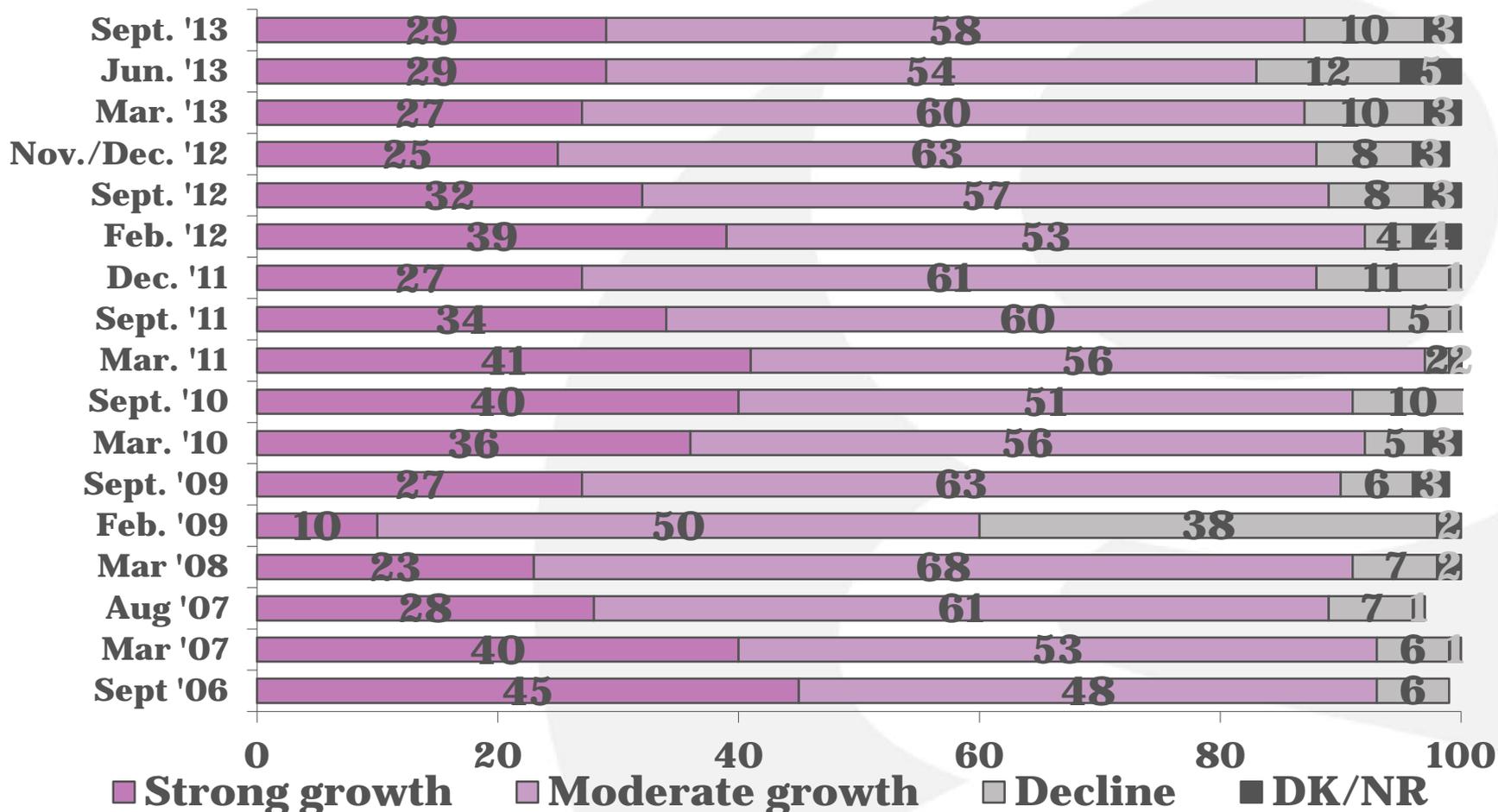
“What are your expectations for the Canadian economy over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?”





Projections For Your Company

“What are your expectations for your company over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?”





“What are your expectations for your company over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?”

