EY Canadian

Tax Leaders Forum 2022

Tax now: a *transformative* inflection point

EY

Building a better working world

Welcome

Albert Anelli

Managing Partner, Tax Services, EY Canada

Agenda

DAY 1 | September 12, 2022

- Canadian business, politics and leadership insights
- Around the world in 60 minutes: global tax developments, perspectives and developments from the Americas, Canada and Europe
- ESG strategy - the role of the tax function
- Modernization of the tax operating model; rethinking efficiency
- Supply chain disruption - strategies and the implications for tax professionals
- Recent trends in tax controversy
- Hybrid workforce: The new normal

Canadian business, politics and leadership insights

SPEAKERS

Elena Doucette *Moderator*	Partner and Market Leader, Tax, EY Canada
David Coletto	CEO and Founder, Abacus data
Goldy Hyder	President & CEO, Business Council of Canada

Around the world in 60 minutes: Global tax developments, perspectives and developments from the Americas, Canada and Europe

SPEAKERS

Brian Mustard *Moderator*	Partner, International Tax Services, EY Canada
Nik Diksic	Partner, International Tax Services EY Canada
Serge Huysmans	Partner, International Tax Services, EY USA
Cathy Koch	Partner, Global Sustainability Tax Leader and Global and Americas Tax Policy Leader, EY USA

BEPS 2.0

Pillar One	Progress Report	Document covering many of the building blocks with respect to the new taxing right under Amount A and is presented in the form of domestic model rules.
	Amount B	Expected to be **delivered by year-end**.
	Multilateral Convention	Signing ceremony expected to be held in the **first half of 2023**, with the objective to enter into force in 2024 once a **critical mass of jurisdictions has ratified it**.
Pillar Two	Implementation framework	To be released by the **end of 2022**.
	STTR	STTR treaty provision and MLI are still pending to be released. It its likely that these rules will be released in the following months.
	Country reactions	Draft legislation (South Korea, United Kingdom); Public consultation (e.g.; Canada, Ireland, Malaysia, New Zealand)
EU	Pillar Two Directive	All EU Member States supported the new proposal, except for Hungary. The draft Directive could therefore not be adopted at this stage. The EU is exploring alternative pathways to escape unanimity in tax matters, including **enhanced cooperation**. According to the Czech presidency of the EU Council, they are aiming to get a consensus at the **October 2022 ECOFIN meeting**.

Other EU initiatives and country developments

EU Business tax initiatives

EU implementation of BEPS 2.0

- Pillar Two Proposal Directive published 22 December 2021.
- Pillar One Directive dependent on design global agreement.

Unshell/ATAD 3

- Preventing the misuse of shell entities.
- Proposal Directive published 22 December 2021.

Debt Equity Bias Reduction Allowance (DEBRA)

- Encourage equity funding.
- Proposal Directive published 11 May 2022.

Business in Europe: Framework for Income Taxation (BEFIT)

- Replacement CCCTB proposal from 2011.
- Announced for 2023.

EU Transparency and reporting initiatives

Public country-by-country reporting

- Adopted - Large MNEs to publicly disclose an array of tax-related information.

Public effective tax rates (ETR) reporting

- Publication of ETR large companies, based on Pillar Two rules.
- Proposal announced for 2022.

EU proposal tackling the role of enablers involved in facilitating tax evasion and tax avoidance

- On 6 July 2022, the European Commission launched a public consultation to regulate the tax enablers outside the EU.
- A concrete legislative proposal is expected to be developed and released during the first quarter of 2023.

Country developments

Hong Kong

- Proposal to refine its foreign source income exemption regime for certain passive income.
- Announced for 1 January 2023.

Germany

- Elimination of nonresident taxation of royalty income and capital gains.

Australia

- Public consultation to introduce a limitation on tax deductions for payments relating to intangibles and royalties that lead to insufficient tax paid.
- The proposed rule would include payments made to entities in jurisdictions determined under the GloBE rules to have an ETR of less than 15%.
- Also applicable to payments made to unrelated parties.

Major policy trends in the Americas

Budget deficits post-COVID

Wealth taxes

VAT

Sustainability

- New climate pledges
- New climate policies

Rates remain stable

Key country developments

United States

Inflation Reduction Act of 2022
CHIPS and Science Act
Build Back Better Act

Ecuador – Tax reform

Establishes a new tax on corporations with a certain amount of assets, increases the tax rate on capital gains and reduces the income tax rate on income from new investments

Chile – Tax reform

Imposes a 10% capital gains tax on the sale of certain shares, progressively eliminates VAT deduction for construction companies and broadly applies VAT to services.

Argentina – Windfall profits tax

Proposed bill would establish a one-time 15% "windfall income tax" for companies that obtained extraordinary income from the increase in international prices.

Colombia – Tax reform

Increases the corporate income tax rate to 35%, establishes a new normalization tax, anti-avoidance and procedural rules, and payroll and labor benefits.

Brazil – Transfer pricing

New transfer pricing system aligns with OECD's transfer pricing guidelines, subjects more transactions to a transfer pricing analysis, replaces current formulary transfer pricing approach with the arm's length principle

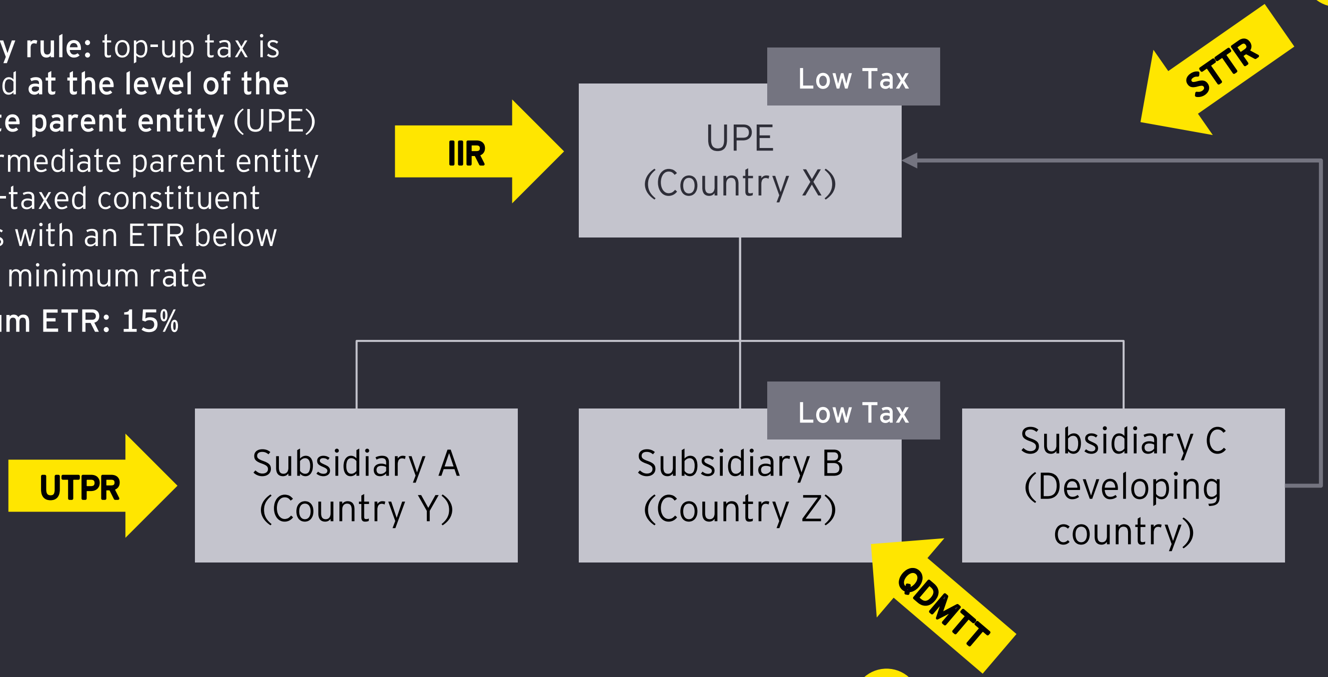
Brazil – Tax reform stalled

Would have reduce the corporate income tax rate from 34% to 27%and establish a 15% withholding tax on dividends as part of a comprehensive reform to the Brazilian tax system

Pillar Two basic design

3 Income Inclusion Rule (IIR)

- **Primary rule:** top-up tax is imposed **at the level of the ultimate parent entity** (UPE) or intermediate parent entity for low-taxed constituent entities with an ETR below agreed minimum rate
- **Minimum ETR: 15%**



1 Subject to Tax Rule (STTR)

- A **treaty-based rule** that countries to impose limited source taxation on covered related-party payments that are subject to tax below 9%
- Applies to interest, royalties and a defined set of other payments
- **Tax under STTR will be a covered tax under GloBE rules**
- **Minimum nominal tax rate:** 9%

4 Undertaxed Payments/Profits Rule (UTPR)

- **Backstop rule:** residual top-up tax is allocated to countries with constituent entities **based on tangible assets/employees**.
- Imposed by limiting or denying deductions or requiring an equivalent adjustment
- **Minimum ETR: 15%**

2 Qualified Domestic Minimum Tax (QDMT)

- **Applies before IIR and UTPR** (fully creditable against any liability under IIR/UTPR)
- Top-up Tax is assessed by the low-tax jurisdiction itself under a computation consistent with Pillar Two Top-up Tax computation
- **Minimum ETR: 15%**

Interaction with US tax rules

Pillar Two and US Corporate Alternative Minimum Tax (CAMT)

Covered Tax vs. QDMT

- CAMT is expected to be a "Covered Tax" for Pillar Twp purposes
- No expectation to consider it a QDMT for Pillar Twp purposes
- Treasury's Greenbook (March 2022) – in proposing a QDMT for the US it notes that CAMT would be a Covered Tax that goes into the Pillar Two ETR calculation

Impact:

- A taxpayer that pays CAMT gets a tax credit to offset regular tax in future years, which would normally give rise to a deferred tax asset (a "DTA").
- This typically means deferred tax expense is reduced in the year the CAMT is paid (and the DTA is recorded), and deferred tax expenses is increased in the year the CAMT carryforward is utilized
- However, deferred tax expense related to tax credits is not included in the GloBE ETR under Article 4.4.1(e)

Allocation of CAMT to CFCs

- Given that CAMT is applied to CFC income, it could be considered a CFC Tax Regime tax for Pillar Two
- If so, some portion of CAMT could potentially be "pushed down" and treated as covered tax of CFCs for Pillar Two purposes
- Like for GILTI, rules would be needed to allocate the appropriate amount of tax to each Constituent Entity

Interaction with US tax rules

Example: GILTI as a IIR regime

If GILTI is a Qualified IIR, but a local country enacts a QDMT, the jurisdiction with a QDMT has the first right to tax otherwise low-taxed earnings

Residual GILTI may arise where there is a GILTI/GloBE base difference

USP
GILTI as IIR

Country A
IIR

Country B
IIR / QDMT
12% ETR

3% paid as QDMT

Assumptions:

- GILTI is modified as proposed in BBBA, i.e., country-by-country (CbC) GILTI regime
- Modified GILTI is treated as qualified IIR for Pillar Two purposes
- CFC profits are subject to GILTI and are not subject to intermediate IIRs or UTPR
- US profits subject to UTPR (likely determined post application of the proposed US CAMT)
- Country B has implemented a QDMT

Impact:

- Country B’s ETR is 12% and additional 3% must be collected
- Country B’s QDMT applies first to collect the additional 3%
- Although GILTI is compliant, it doesn’t turn off the application of Country B’s QDMT
- Country A’s IIR does not apply
- Country B’s QDMT does not turn off GILTI and Country B earnings are included in USP’s taxable income
  - Expected that QDMTs are creditable under GILTI as necessary condition of GILTI being a qualified IIR
  - GILTI may still arise where there are GILTI/GloBE base differences

Interaction with US tax rules

Example: GILTI as a CFC regime, 'QDMT-first' ordering

For CFCs with 'QDMT-first' ordering rules, residual GILTI taxes should often be minimal

No residual GILTI

USP
GILTI not qualified IIR

Country A
IIR

Country B
IIR / QDMT
12% ETR

3% paid under QDMT

Assumptions:

- GILTI is not modified as proposed in BBBA and is treated as a CFC Tax Regime
- US denies FTCs for IIR to coordinate with Pillar Two ordering and avoid circularity
- CFC profits are potentially subject to GILTI, intermediate IIR and UTPR rules
- US profits subject to UTPR (likely determined post application of the proposed US CAMT)
- Country B has implemented a QDMT
- US tax law modified to allow a FTC for the QDMT for GILTI purposes

Impact:

- Country B's ETR before GILTI is 12%
- Country B levies an additional 3% on Country B's income under its QDMT, which is computed without regard to GILTI taxes
- Assuming the US provides an FTC for QDMTs paid in 'QDMT-first' jurisdictions, residual GILTI liability should generally be minimal
  - Clear double taxation results if such QDMT isn't creditable
  - Expected to be creditable, but likely need further guidance from US Treasury
- After the QDMT, no Country B profits should be subject to Country A IIR or UTPR

Key strategic priorities for Pillar Two

Actions to consider NOW

1. Identify jurisdictions where top-up tax may apply and quantify potential impact based on possible legislative scenarios (including timing of entry into force)
   - Low taxed jurisdictions
   - Low taxed preferential regimes
   - Offshore income
   - ‘Nowhere’ income
   - Zero taxed jurisdictions
   - Other incentives (e.g., IP Box, tax credits, tax holidays)
2. Identify valuable Pillar Two attributes (e.g., NOLs) and consider measures to be taken to secure maximum effectiveness.
3. Corporate structure review: identify holding companies that may be resident in early adopting jurisdictions
4. Consider application of transition period rules to asset transfers post November 30, 2021
5. Consider group external funding/refinancing related opportunities from a Pillar Two perspective

Short term opportunities

1. Remains beneficial to maintain/maximize earnings in Low Tax Jurisdictions
2. Defer top-up tax inclusion
3. Blending Optimization
4. Asset transfers
5. Debt financing

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Canadian tax developments

Recent BEPS developments

Interest limitation rules

- Announced in Budget 2021
- Draft legislation released in February 2022, with comment period open until May 5, 2022
- Proposed 40% tax EBITDA limitation starting Jan 1, 2023; 30% tax EBITDA limitation starting Jan 1, 2024
- Canada last of G7 countries to implement rules

Hybrid mismatch rules

- Announced in Budget 2021
- Draft legislation released in April 2022, with comment period open until June 30, 2022
- Effective date – July 1, 2022
- Second set of proposals to be released later in 2022, with effective date no earlier than 2023

BEPS 2.0

Pillar Two

- Budget 2022 proposes to implement Pillar Two, along with a domestic minimum top-up tax that would apply to Canadian entities of MNEs that are within the scope of Pillar Two.
- Draft legislation would be publicly released for consultation and the IIR and domestic minimum top-up tax would come into effect in 2023 as of a date to be fixed. The UTPR would come into effect no earlier than 2024
- Consultation launched as part of Budget 2022, closed in July 2022

Digital services tax

- Draft legislation released in December 2021
- Proposed effective date of Jan 1, 2024 (on revenues earned as of Jan 1, 2022), but only if multilateral convention implementing the Amount A framework has not come into force

Other developments

Mandatory disclosure

- Proposed legislation to expand Canada's existing mandatory disclosure rules for reportable transactions and introduce new reporting requirements for notifiable transactions and uncertain tax treatments.

GAAR consultation

- Consultation announced in 2020, and consultation paper released in Aug 2022
- Could result in significant changes to Canada's GAAR

Transfer pricing

- Consultation announced in Budget 2021 to address perceived "shortcomings" with Canadian TP rules, but no consultation paper has yet been released
- In the meantime, CRA has shown more willingness to apply TP recharacterization rule as a primary reassessment position

ESG strategy - the role of the tax function

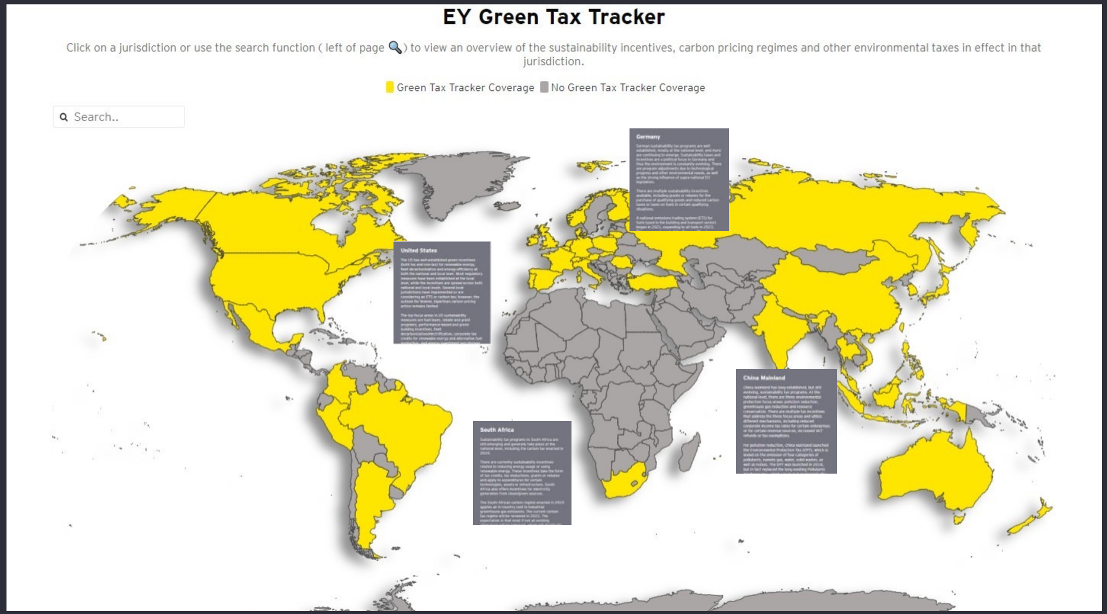
SPEAKERS

Greg Boone *Moderator*	Partner, Energy Leader Tax, EY Canada
Thomas Brook	Partner, Indirect Tax Services, EY Canada
Cathy Koch	Partner, Global Sustainability Tax Leader and Global and Americas Tax Policy Leader, EY USA
Krista Robinson	Partner, Business Tax Advisory, EY Canada

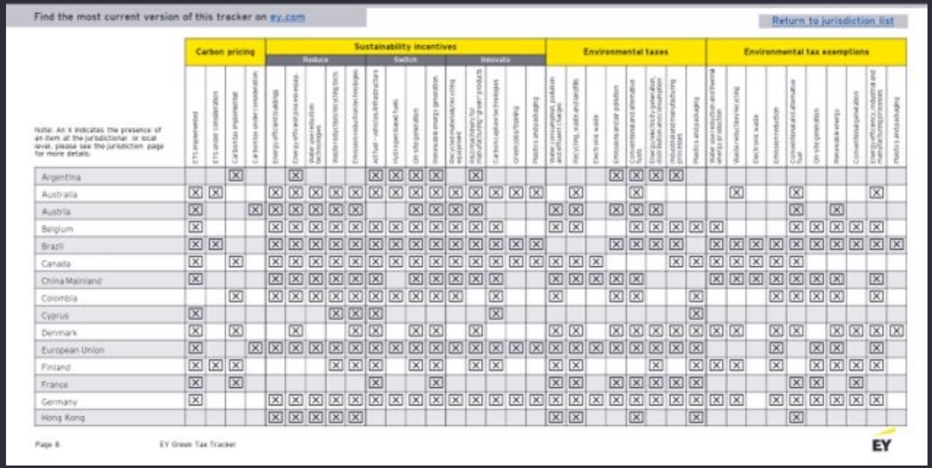
ESG Strategy – Role of Tax Function

- Carbon regimes, sustainability incentives, environmental taxes
- Funding available
- Role of Tax in ESG Reporting

EY Green Tax Tracker



Index of measures



- Highlights sustainability incentives, carbon regimes and environmental taxes across 45 countries and growing
- Offers background, overview and insight into sustainability tax policies in each jurisdiction
- Interactive map on ey.com links to free downloadable PDF
- Detailed information is gathered from a network of over 200 in-country Tax professionals

1,850+ Sustainability incentives

Included in the 45 jurisdictions represented in current edition

Sustainability incentives can generally be divided into three categories, those that encourage a reduction in natural resource consumption, those that encourage a switch to renewable or alternative energy sources, or those that encourage innovation of new low-carbon products and manufacturing processes. Many programs are a mix of the three containing multiple elements.

Prevalent measures used to influence sustainable behavior include tax credits, grants and loans.

Source: EY jurisdiction professionals.

1,200+ Reduce

- Construct or retrofit energy-efficient buildings
- Procure energy-efficient process equipment
- Apply emission reduction technologies

800+ Switch

- Alternative fuels
- Renewable energy generation (such as solar, wind, geothermal, etc.)
- Qualifying on-site generation

150+ Innovate

- Research and development (R&D) credits
- Research funding grants
- Funding rebates for green job training

EY

2,600+ Environmental taxes and exemptions

Included in the 45 jurisdictions represented in current edition

Environmental taxes

Within the overall taxation framework, environmental taxes function not only as a source of revenue, but also as an instrument of environmental policy. As a result, governments use taxes on a variety of products to encourage or discourage consumption. Similarly, governments offer exemptions from environmental taxes for certain qualifying products, uses or taxpayers.

Water, pollution and effluent charges

- Consumption taxes
- Greenhouse gases
- Discharge fees

Recycling, waste and landfills

- Disposal fees
- Recycling fees

Electronic waste

- Disposal fees

Emissions and air pollution

- Congestion charge
- Tax on certain chemicals
- Emissions fees

Conventional and alternative fuels

- Gasoline, coal, natural gas, etc. taxes
- Aviation taxes

Energy/electricity generation, distribution and consumption

- Oil, coal, natural gas, etc. taxes
- Electricity fees

Energy-efficient industrial and manufacturing processes

- Gasoline, coal, natural gas, etc. taxes

Plastics and packaging taxes

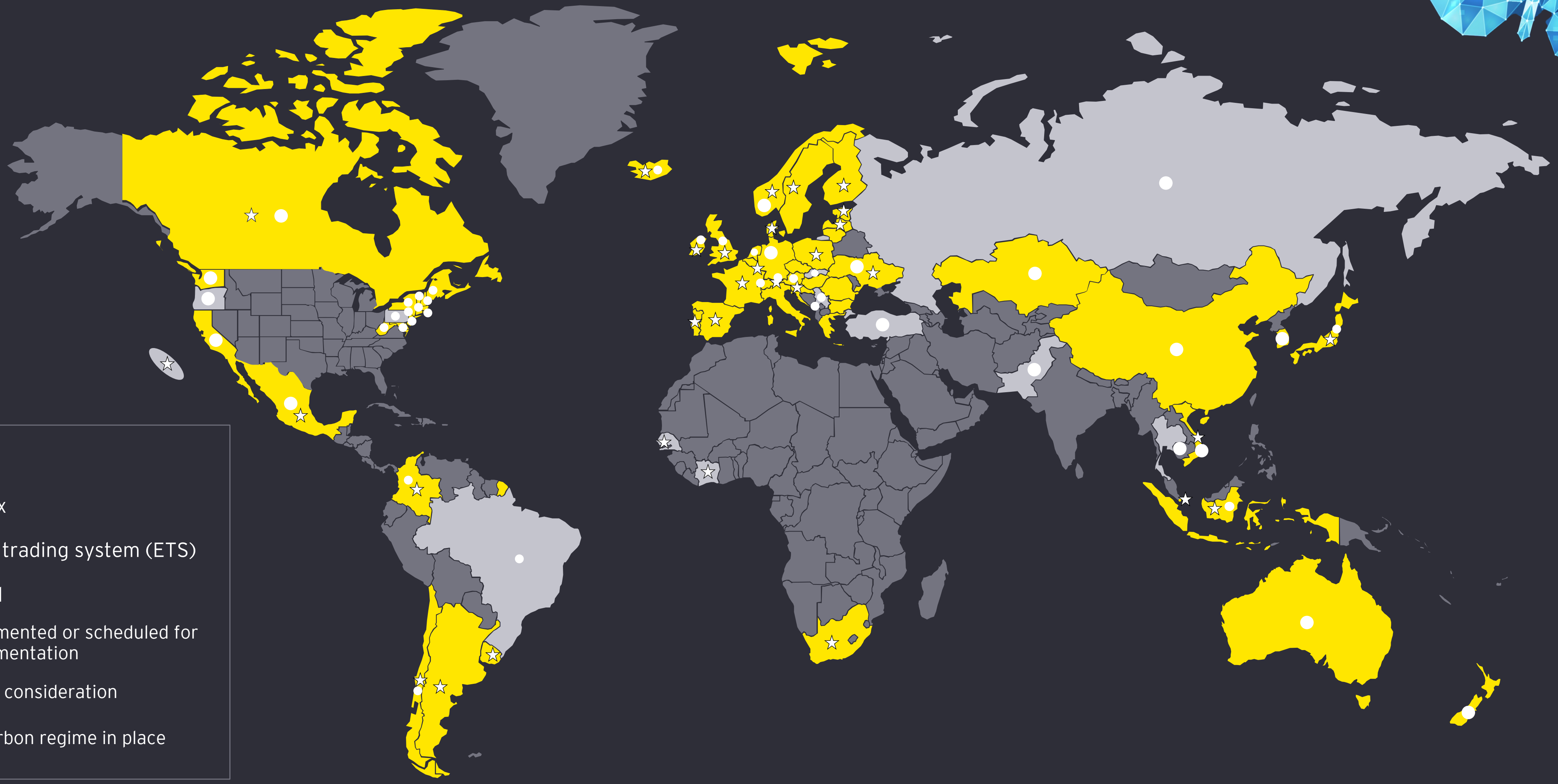
- Tax on single use plastics

Others

- Taxes on other products

Source: EY jurisdiction professionals.

83 Carbon pricing initiatives (47 jurisdictional, 36 local)



LEGEND

- ★ Carbon tax
- ● Emissions trading system (ETS)
- ■ Undecided
- Implemented or scheduled for implementation
- Under consideration
- No carbon regime in place

Source: The World Bank, Carbon Pricing Dashboard.

Canada

Find the most current version of this tracker on ey.com

J = Jurisdictional level; L = Local level

Outlook

Canada's sustainability tax programs at both the federal and provincial levels have been in place for several years and continue to evolve. Over time, the two levels have worked together to harmonize the application of environmental regulations including water, air, land and environmental assessment.

In 2016, Canada adopted the Pan-Canadian Framework (PCF) which focused on pricing carbon pollution, complementary actions to reduce emissions economy-wide, adaptation and climate resilience, and clean technology, innovation and jobs.

There are currently federal sustainability funding programs, federal accelerated depreciation for qualifying clean energy investments and several provincial sustainability programs, most taking the form of grants or rebates.

Canada established a carbon pricing framework in 2018. Flexibility was provided to provinces and territories to establish their own pricing plans with a federal backstop implemented if a local plan did not meet federal standards.

Carbon pricing

	J	L
ETS implemented	✓	✓
ETS under consideration		
Carbon tax implemented	✓	✓
Carbon tax under consideration		

Outlook

	J	L
Reduce		
Construction/retrofit of energy-efficient buildings		✓
Energy efficient process equipment (VFD, refrigeration, furnace, etc.)		✓
Water use reduction technologies		✓
Waste reduction/recycling technologies		✓
Emission reduction technologies	✓	✓
Switch		
Alt fuel (EV/LNG/CNG) vehicles/infrastructure	✓	✓
Hydrogen-based fuels	✓	
On-site generation (cogeneration/waste heat/fuel cells/microturbines)		✓
Renewable energy generation (solar, wind, geothermal, etc.)	✓	✓
Innovate		
Use of recycled materials/investment in recycling equipment	✓	
R&D machinery for manufacturing "green" products	✓	
Carbon capture technologies (sequestration/utilization)	✓	
Green jobs/training	✓	✓
Plastics and packaging	✓	

Environmental taxes

	J	L
Water consumption, pollution and effluent charges		✓
Recycling, waste and landfills		✓
Electronic waste		✓
Emissions and air pollution		
Conventional and alternative fuels (vehicles and equipment)		
Energy/electricity generation, distribution and consumption		
Industrial and manufacturing processes		✓
Plastics and packaging		✓

Environmental tax exemptions

	J	L
Water use reduction and thermal energy production		✓
Waste reduction/recycling		✓
Electronic waste		✓
Emission reduction		✓
Conventional and alternative fuel vehicles and equipment		✓
On-site generation (cogeneration/waste heat/fuel cells/microturbines		
Renewable energy (solar, wind, geothermal, etc.)		
Energy efficiency, industrial and manufacturing processes		
Plastics and packaging		

Government action and societal demand spurs increased focus

EU Green Deal (EGD)

- EGD is already underway
- Fit for 55 package of proposals released July 2021, including:
  - CBAM
  - Revised EU emissions trading scheme (2023)
  - Revised Energy Taxation Directive (2023)
- Will have a significant impact on all businesses
- Plastic packaging regulations
  - Plastics levy (effective 1 Jan 2021)
- Supply chain accountability

US Political Environment

- New! Proposed SEC climate risk disclosures
- Executive actions (e.g., rejoining the Paris Agreement and new climate goals)
- Infrastructure Investment and Jobs Act
  - $50b for climate change protection
  - $15b for electric vehicles
- Inflation Reduction Act
  - $369b in green energy tax incentives
- US business support (e.g., Larry Fink letter to CEOs)

Announcements in AsiaPac

- Mainland China
  - Largest emitter of CO2
  - Carbon neutral by 2060
  - CO2 emissions peak before 2030
  - National ETS launched July 2021
  - Preferential corporate income tax treatment for environmental projects
- Japan
  - Third largest economy, fifth largest emitter of CO2
  - Carbon neutral by 2050
- South Korea
  - Fourth largest economy, ninth largest emitter of CO2
  - Possible introduction of carbon tax
  - Existing national ETS

Global activity

- COP26 and Glasgow Climate Pact
- National and corporate zero carbon pledges
  - Drive markets for Authorized and Voluntary Carbon Markets
- Mandatory reporting
- Global societal and economic elements drive new government climate policies
  - Demand for sustainable investing
  - Declining price of renewable energy
  - Budgetary pressures
  - Imperative for multinationals to deal with international climate programs (i.e., border adjustments)
- Shareholder/stakeholder activism on environmental issues

Snapshot of corporate megatrends in Sustainability

Key business trends spanning various industries and jurisdictions EY Climate Cash and Tax Barometer

- Across geographies and markets, the **reduction of carbon emissions is top of mind.**
- Companies are taking **real action to meet their climate goals.**
- **Supply chain** emissions are harder to control, but **companies are engaged.**
- Companies are **engaged with policymakers** with the goal of **encouraging constructive policy solutions.**
- Companies are discussing and implementing **internal carbon pricing.**
- Companies are seriously considering or active in **offsetting their emissions**, but hesitate due to lack of clarity around legitimacy of climate credits.

Incentives for Investment Projects

Fundability Indicators

Business and Market Expansion

- Facility expansions
- New product line development
- Expansion to new foreign markets
- Job creation

Environmental Sustainability

- Decarbonization & GHG reductions
- Energy consumption reductions

Innovation Development

- R&D
- Artificial Intelligence
- Transformation/Digitization
- Collaboration with Universities/colleges

People Development

- Hiring new staff
- Training
- Co-op student/interns

Incentives for Investment Projects

Environmental Sustainability

- Decarbonization & GHG reductions
- Energy consumption reductions

- Accelerated depreciation for clean energy equipment
- Carbon capture, storage & utilization
- Zero emission technology manufacturers
- Clean fuels
- Industrial transformation projects
- Clean technology
- Development of battery ecosystem

Modernization of the tax operating model; rethinking efficiency

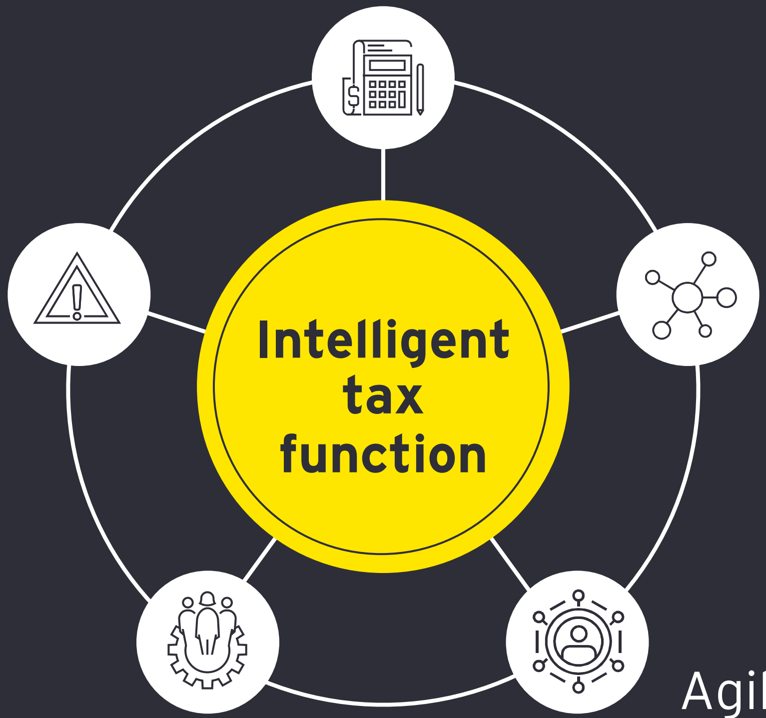
SPEAKERS

Stéphanie Jean *Moderator*	Partner, Global Compliance & Reporting, EY Canada
Tim Bryant	Director Tax, Irving Oil
Jennifer Palmer	Partner, Tax, EY Canada
Gagandeep Singh	Associate Partner, Tax Technology, EY Canada

Modernization of Tax Operating Model

Tax operating model rationalization

Risk focused framework



Connected tax function

Talent transformation

Agile technology enablement

Other EU initiatives and country developments

Discover	Validating your starting point		Visioning	Defining your ambition and operating model implications		Shaping your intelligent tax roadmap
0	1	2	3	4	5	6
Get inspired with what the future of tax could look like in the future	Explore the current state of your tax function	Understand the expectations of stakeholders	Define the intelligent tax vision and operating model	Distill operating model implications for each functional area	Define the envisioned future of tax with your key stakeholders	Align future operating model and way of working. Define activities to quickly achieve highly prioritized milestones

ULTIMATE OUTPUT:

Intelligent tax actionable roadmap

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Modernization of Tax Operating Model – Technology Enablers

Redefining the use of technology

Transformation
Building fit for purpose tax function with modular approach powered by technology

Enterprise Technology
Leveraging enterprise systems and automating tax processes

Utilizing existing technology stack and establishing governance

Enhancing existing processes through automation

Tax Platforms
Supporting global tax operations through custom platforms

Intelligent Tax Apps
Custom applications for tax data calculations

Complex tax calculations and data analytics

Modernization of Tax Operating Model – Technology Enablers

1

Aligning Tax and Finance Transformation efforts

- Benchmark-driven reduction in cost of finance
- Elevation of importance in planning, real-time analytics – data driven decisions
- Enhanced automation of enterprise risk management

2

Focus on providing long term value to organization

- Common risk decision-making framework
- Tax to align with organizational objectives
- Common data framework and integrated technology enablement platform

3

Maximize leverage of corporate IT assets

- Reduce TCO (total cost of ownership): rationalization, standardization, cloud models
- Refresh Tax IT roadmap in light of business imperatives
- Next-generation ERP as a component of the future state

+

Commence journey towards the creation of an Intelligent Tax Function

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Supply chain disruption - strategies and the implications for tax professionals

SPEAKERS

Tara Di Rosa *Moderator*	Partner, Transfer Pricing Market Leader, EY Canada
Cathy Koch	Partner, Global Sustainability Tax Leader and Global and Americas Tax Policy Leader, EY USA
Sylvain Golsse	Partner, Global Trade, EY Canada
Paul Vail	Partner, Digital Supply Chain and Operations, EY Canada

An increasing number of unexpected disruptions are hitting supply chains and impacting overall business performance

Is your supply chain **agile** and **prepared** to withstand disruptions?

1. What are the top 3 disruptors impacting your company?
2. What are you doing to address those pressures?
3. How are you progressing?

DISRUPTORS

Trade Wars
Cyber Attacks
natural disasters
Pandemic Economy
Technology
Regulation
Tax policy changes
Distressed suppliers
costs
Climate Change
Changing Consumer
RESILIENCY
digital
Workforce talent
BREXIT

EY

As a result, organizations have become laser focused on resiliency and sustainability

Climate change is seen as a top three challenge to negatively impact business growth **(32% of CEOs, 28% of boards, 44% investors)**[1]

By 2030, **a transition to a low-carbon, resilient economy** could generate upwards of **65 million net green jobs**[2]

88% have created a clear mission statement around **sustainability**, but only **52%** have put those words into action[3]

An EY survey of **>200** senior SC executives, **visibility** and **resilience** are primary issues; increased visibility is the **#1** priority[4]

Almost 80% of surveyed SC executives feel that they need to improve and invest in **digital planning to increase SC visibility**[5]

68% of SC executives have constantly been responding to **high-impact disruptions** for the last three years – and most of them did not have time to recover before the **next disruptive event hit them again**[6]

1. EY study 2. UN News 3. Oxford Economics Survey 4. EY survey 5. McKinsey 6. Gartner

The multiplicity of demands influencing Chief Supply Chain Officers

Resiliency = Visibility + Agility

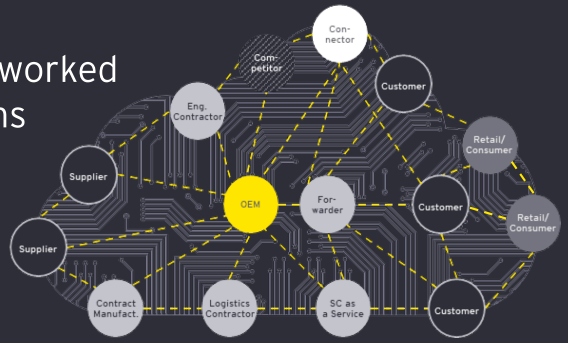
- Embed end to end visibility, simulation & risk monitoring
- Design omni-capable agile networks
- Secure alternative sources of supply
- Develop a resilient operating model & workforce
- Create a trusted & secure supply chain

Now.

Cost optimized, manual, rigid and linear

Next.

Agile, Networked Ecosystems



Beyond

Autonomous

Cost take out & cash extraction

Industry 4.0 & Digital SC

Traditional Demands

Sustainability = Environmental + Social + Governance

- Ensure sustainable & diverse sourcing
- Enable traceability, visibility & disclosure
- Decarbonize the value chain
- Introduce circularity into your business model
- Assess impact of new taxes & incentives for a sustainable SC

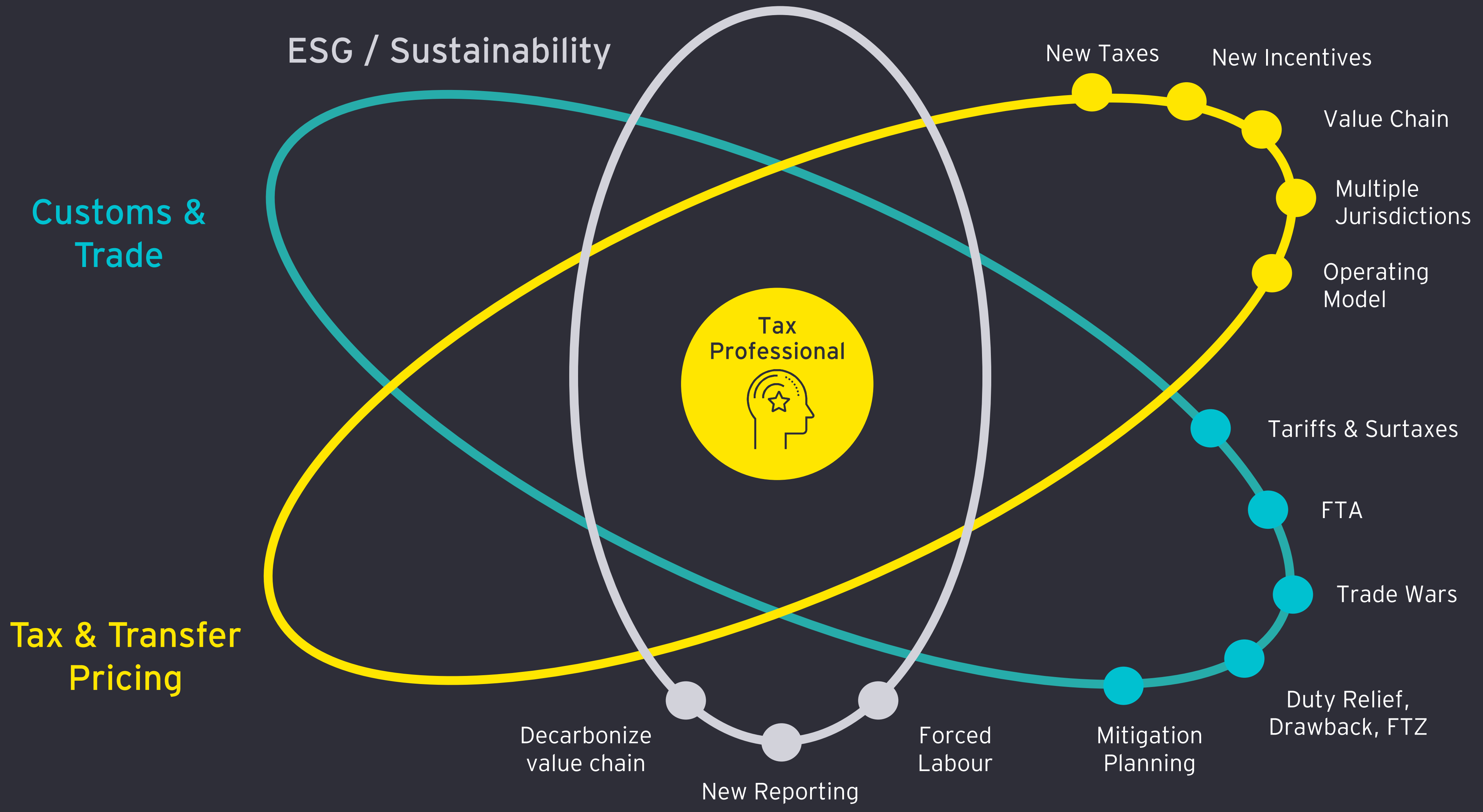
Visibility is foundational to a resilient supply chain with agility built into the extended value chain to enable action

Resiliency = Visibility + Agility

- Embed end to end visibility, simulation & risk monitoring
- Design omni-capable agile networks
- Secure alternative sources of supply
- Develop a resilient operating model & workforce
- Create a trusted & secure supply chain

Leading companies are addressing the vulnerability with targeted action to improve visibility and control, improve knowledge of risk and step change flexibility, agility and responsiveness across the end to end ecosystem

Strategies and implications for tax professionals



Recent trends in tax controversy

SPEAKERS

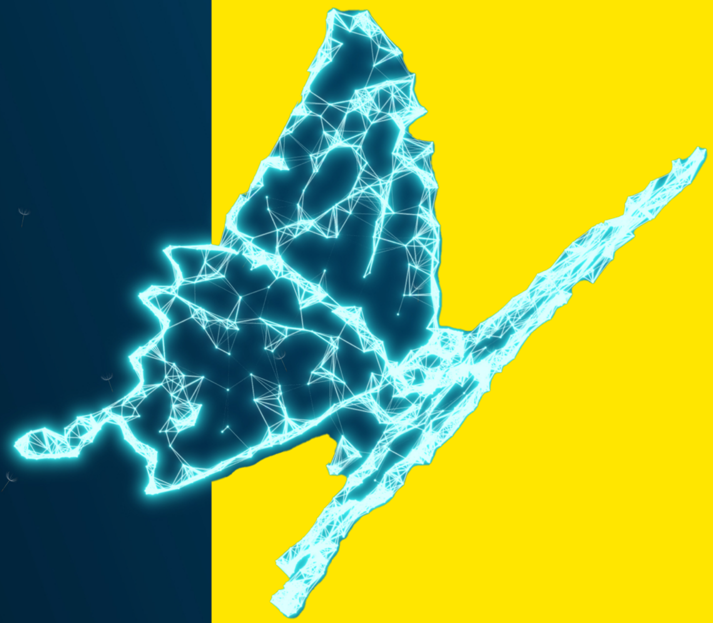
Stéphanie Brouillard	Tax Controversy, EY Law LLP Canada
David Robertson	Partner, Tax Controversy, EY Law LLP Canada

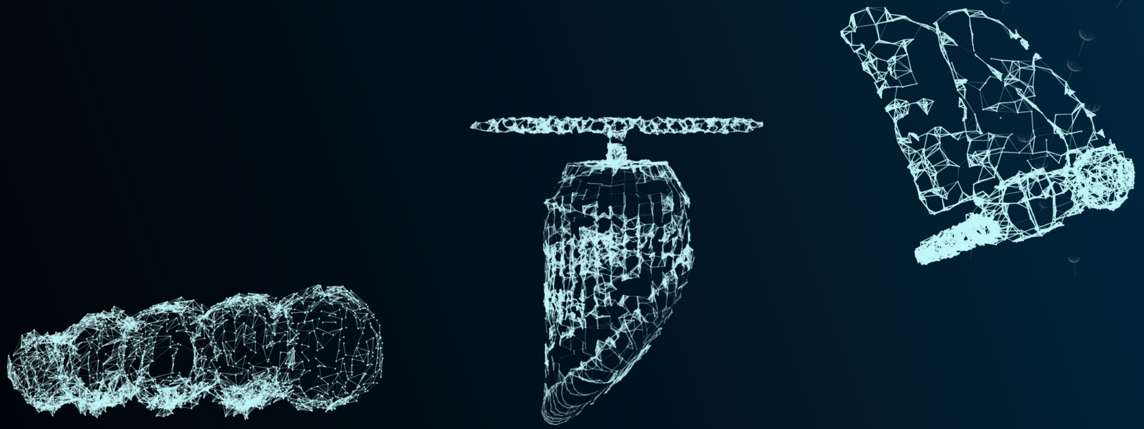
Agenda

1. CRA's First Overall Tax Gap Report

2. Modernizing & Strengthening The GAAR – Public Consultation

3. Post COVID Tax Controversy Trends & Alternative Approaches to Resolving Tax Disputes





CRA Tax Gap Report

- First Overall Tax Gap Report released on June 28, 2022.
- Encourages an open and transparent discussion on tax non-compliance.
- Two main approaches to estimate the tax gap:
  - Gross tax gap (before accounting for compliance and collection actions); and
  - Net tax gap (after compliance and collection results).
- 2018 Gross tax gap is estimated to be between $35.1 to $40.4 billion
  - 80% of the gross tax gap is related to reporting non-compliance, 20% related to payment non-compliance
- CRA expects to reduce the tax gap by 42% to 48%, which will bring the net tax gap to $18.1 to $23.4 billion.
- Estimated net tax gap to be 7-9% of federal tax revenue.
  - Historically at 9% (2014-2018).

CRA Tax Gap Report

Provides interesting insight into when and why taxpayers tend to be non-compliant (based on 2018 data, in billions) and provides insight into where the CRA's compliance and collection activities are most impactful at reducing the tax gap.

	Personal income tax gap	Corporation income tax gap	GST/HST gap	Excise gap
Reporting gap	$7.7 (domestic underground economy) $1-3 (hidden offshore investment income)	$3.3 to $4.2 (small and mediaum enterprises) $9.0 to $11.3 (large corporations)	$4.3	$0.4
Payment gap	$6.3	$0.7	$2.2	$0.2
Gross tax gap	$15 to $17	$13.0 to $16.2	$6.5	$0.6
% of identified tax gap revenue	9% to 10%	26% to 32%	14%	5%
Impact of CRA's compliance and collections	-39% to -45%	-49% to -60%	-34%	-34%
Net tax gap	$8.3 to $10.3	$5.1 to $8.3	$4.3	$0.4
% of identified tax gap revenue	5% to 6%	10%-17%	9%	4%

BEPS 2.0

Pillar One	Progress Report	Document covering many of the building blocks with respect to the new taxing right under Amount A and is presented in the form of domestic model rules.
	Amount B	Expected to be **delivered by year-end**.
	Multilateral Convention	Signing ceremony expected to be held in the **first half of 2023**, with the objective to enter into force in 2024 once a **critical mass of jurisdictions has ratified it**.
Pillar Two	Implementation framework	To be released by the **end of 2022**.
	STTR	STTR treaty provision and MLI are still pending to be released. It its likely that these rules will be released in the following months.
	Country reactions	Draft legislation (South Korea, United Kingdom); Public consultation (e.g., Canada, Ireland, Malaysia, New Zealand)
EU	Pillar Two Directive	All EU Member States supported the new proposal, except for Hungary. The draft Directive could therefore not be adopted at this stage. The EU is exploring alternative pathways to escape unanimity in tax matters, including **enhanced cooperation**. According to the Czech presidency of the EU Council, they are aiming to get a consensus at the **October 2022 ECOFIN meeting**.

Modernizing & Strengthening The GAAR – Public Consultation

- On August 9, 2022, Department of Finance Canada released General Anti-Avoidance Rule Consultation and Paper.
  - In the context of the Department efforts to improve the integrity of the Canadian income tax system (two-pillar plan for international tax reform and the proposed federal mandatory disclosure rules);
  - Following the most recent SCC decision in *Canada v. Alta Energy Luxembourg S.A.R.L.*, 2021 SCC 49.
- One of the original objectives of the GAAR, being a reduction in the need for complex specific anti-avoidance measures, has <u>not been achieved</u>.
- Large body of case law has developed and has pointed to some issues with the GAAR that should be addressed.
  - Following *Canada Trustco* (2005), the SCC has decided 5 GAAR cases, in which the GAAR did not apply in 2 of those.

Modernizing & Strengthening The GAAR – Public Consultation

Department identified five issues:

1. Tax benefits not being identified in every appropriate case
2. The GAAR failing to prevent abusive tax avoidance in the context of mixed-purpose transactions;
3. The difficulty in ascertaining the object, spirit and purpose of a provision of the Act for the purpose of determining whether there has been abuse or misuse;
4. The GAAR not taking sufficiently into consideration the economic substance of the transactions; and
5. The GAAR not being a sufficient deterrent for abusive tax planning.

Modernizing & Strengthening The GAAR – Public Consultation

Suggested approaches (15 consultations in total)

1. Definition of tax benefit
2. Changes to the definition of "avoidance transaction“
   - Provide explicit exclusions for what is to be considered a “bona fide purpose.”
   - Lowering the threshold under the purpose test to “one of the main purposes” or “one of the purposes” (as opposed to the “primary purpose”)
3. Amendments to subsection 245(4) of the Act
   - Shifting the evidentiary burden on the taxpayer (which is actually borne by the Crown) in determining whether there has been abusive tax avoidance.
4. The economic substance of transactions
   - Add an explicit economic substance rule to the GAAR, either by incorporating it into subsection 245(3) or (4) of the Act or by introducing a separate deeming rule.
5. Imposition of a penalty built on a percentage of the tax benefits

Modernizing & Strengthening The GAAR – Public Consultation

What's next?

- Canadians are invited to review the consultation paper in full and provide their views through written representations to GAAR-RGAE@fin.gc.ca.
- All stakeholders have until September 30, 2022, to provide feedback on the Department's proposed approaches to modernize and strengthen the current GAAR.

Post COVID Tax Controversy Trends & Alternative Approaches to Resolving Tax Disputes

- Objection Turn-Around Time
- Tax Court Settlements
- Effective Lobbying
- Formal Service Complaints

Hybrid workforce: The new normal

SPEAKERS

Batia Stein *Moderator*	Partner, Immigration, People Advisory Services, EY Canada
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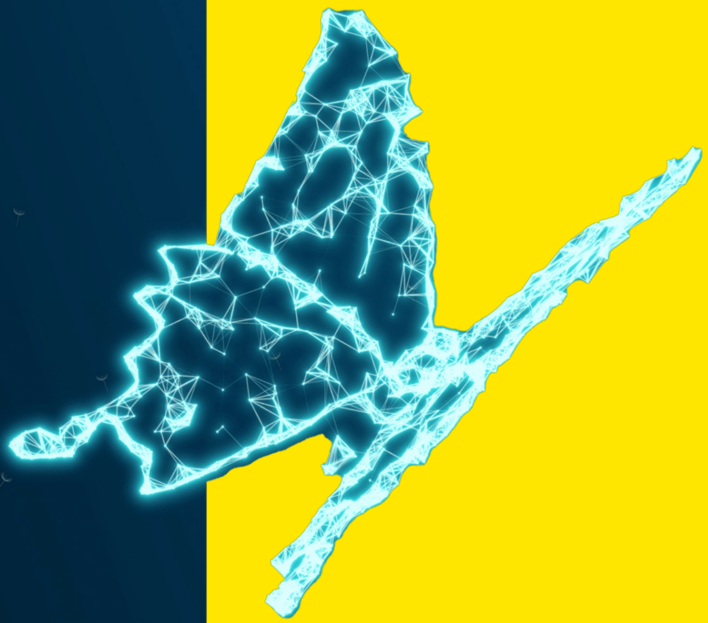
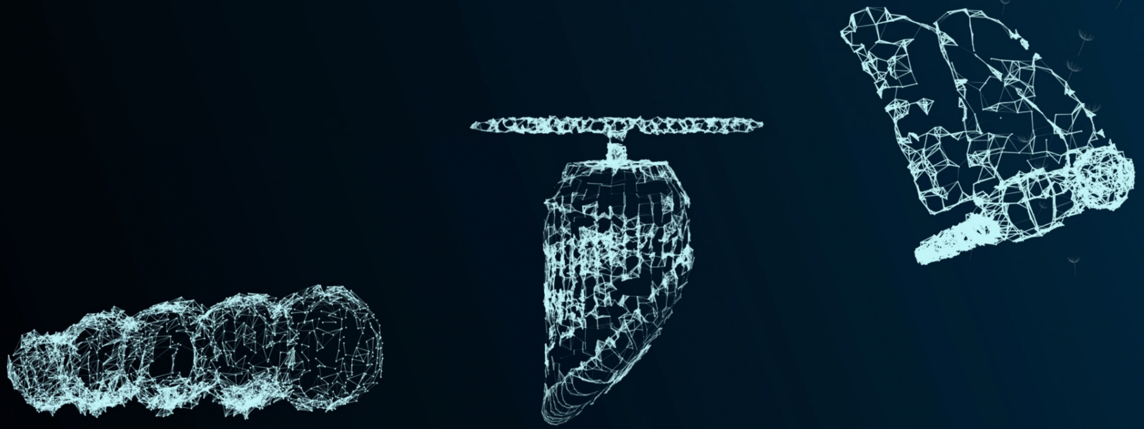
Hybrid Workforce: The New Normal

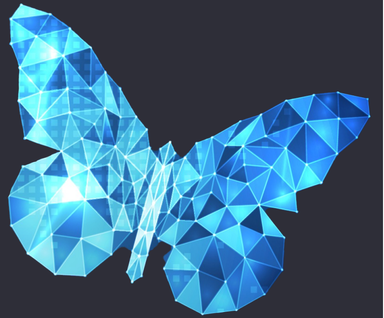
Navigating the Tax Risks and Opportunities as the Talent Strategy Evolves

- Global talent and new ways of working/sourcing talent
- Bringing Work from Anywhere to Life and the inherent risks
- Global Employment Organization as a solution / managing PE risk
- Operationalizing Work from Anywhere





Expand the source for talent in a boundaryless global market



" The competition to hire the best will increase in the years ahead. Companies that give extra flexibility to their employees will have the edge in this area.

Bill Gates

As of 2021, the **global talent shortage** already amounts to **40M skilled workers worldwide**. By 2030, the global talent shortage is predicted to reach **85.2M skilled workers**

When employees leave your company, what are the top reasons for which they leave?

If you would consider another offer, what are the primary reasons you would change jobs?

3rd **Flexibility in Where I Work**

79% of companies are prepared to hire employees with hard-to-fill or critical skills from any geography and allow them to work from anywhere

Source: EY Work Reimagined Employee & Employer Survey 2022

EY

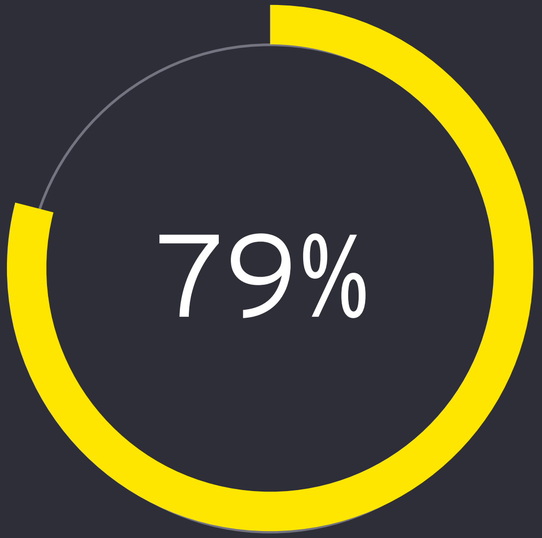
Employers are adopting different approaches integrating mobility and flexibility

- 75% of travel managers expect business travel volume at their company will be higher in 2022 vs. 2021 [1]
- Most employers are trying to find the right balance somewhere between enabling only temporary remote work and a work from anywhere approach
- Compliance risk assessments take place in varying degrees
- Common guardrails organizations are considering:

Location restriction

Duration restriction

Corporate tax policy



of employers are actively promoting hybrid work to retain and attract talent [2]

> "We are facing a brave new world of hybrid work in which there are no set expectations as yet – it is a wide open field. Therefore, operationalizing hybrid work programs is a once in a lifetime opportunity to define employee expectations, create the right employee experience, manage the compliance risks and set the standard for how work will be done in the decades ahead. [3]

[1] 2022 GBTA Coronavirus Recovery Poll, January 20, 2022

[2] EY 2021 Work Reimagined Employer Survey

[3] Dr. Tassu Shervani, Marilyn and Leo Corrigan Endowed Professor at the Cox School of Business at Southern Methodist University

Is "Work from Anywhere" a silver bullet?

Business Fit

Does "Work from Anywhere" fit with the business nature? Are there clear business value and benefits with great return on investment?

Talent Fit

Is "Work from Anywhere" addressing your talent shortage and gap? Does the missing capability have greater availability in other locations?

People Fit

Does "Work from Anywhere" align with the desired people strategy, EVP and culture that you are building? Will it create conflict or undesired disruption?

Actions to prepare for "Work from Anywhere"

WFA

Actions Organization Taken to Get Ready

Organization Structure
Defined all existing jobs and roles into hybrid categories

Mobility Compliance
Determined required approvals for work vs. live locations (tax/legal/HR)

Job Design
Updated job profiles and roles to include hybrid work features

Work from Anywhere Policy
Determined policy for which cities/countries are permitted for remote work

Total Rewards
Evaluated geographic/global compensation structure

HR Operations
Updated HR reporting, payroll and expense systems

Source: EY Work Reimagined Employee & Employer Survey 2022

EY

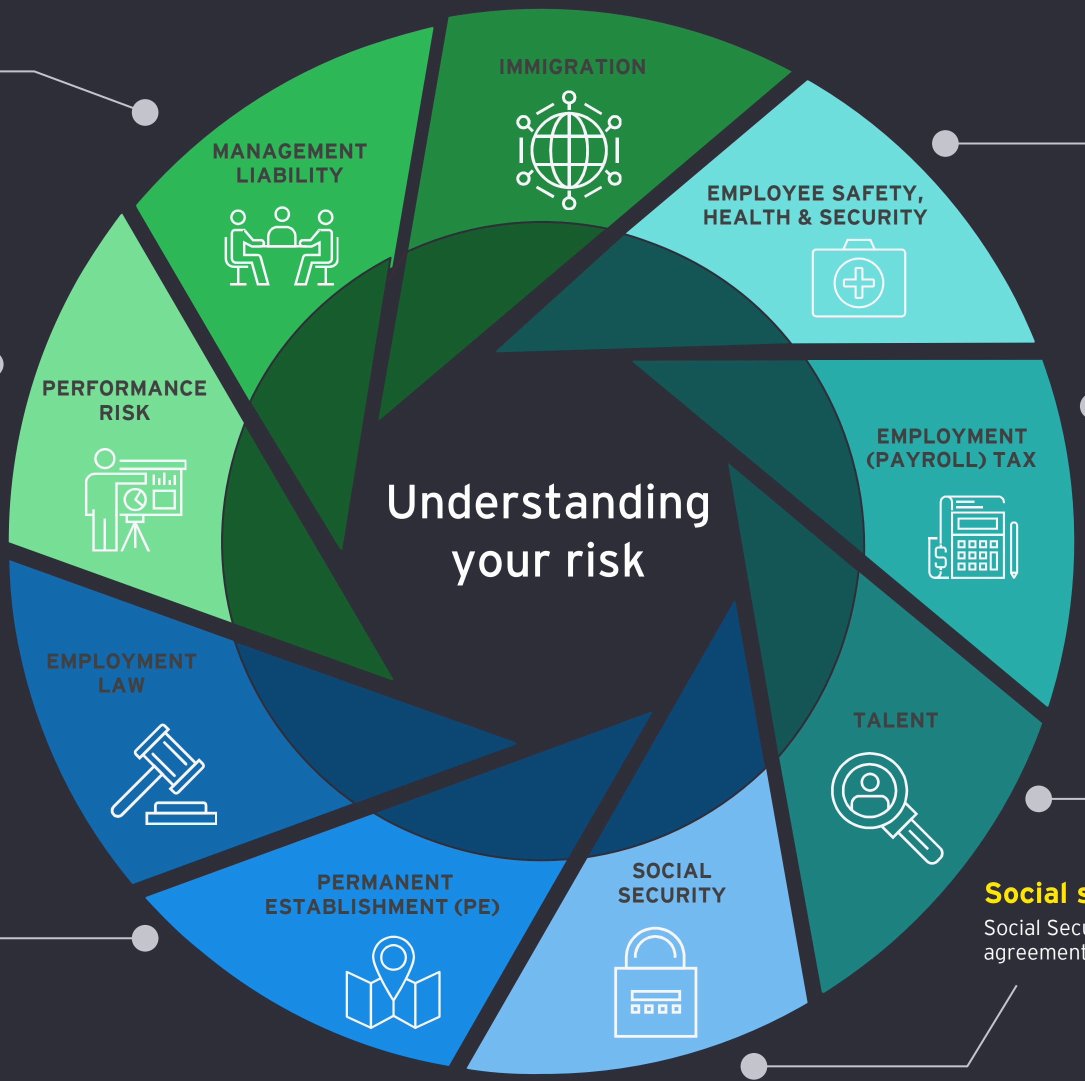
Work from Anywhere – risks

Management liability
Liability of the board for violations, internal control system as an indication of intent against tax evasion, data privacy & security considerations

Performance risk
Financial sanctions have a direct impact on project profitability and corporate performance. Customers are increasingly paying attention to compliance & apply company regulations.

Employment law
Exercise of activities without appropriate authorization can lead to punishment and prosecution

Permanent establishment
Unexpected taxable presence created by your employees, can lead to corporate tax liability: fixed place, project, agency, services PE



Immigration
Correct work authorization. Risk of personal punishment and sanctions for the employee as well as immigration restrictions for the private life of the employee.

Employee safety, heath and security
Not knowing your employees' whereabouts could pose personal security threats, creating risks around duty of care and employment law

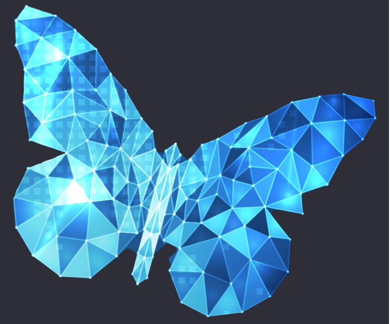
Employment (Payroll) tax
Individual and employer tax withholding and reporting obligations, in some cases after only one day

Talent
Alternative ways of working can create productivity and performance concerns for both employees and leaders – a successful Work from Anywhere framework can address these risks

Social security
Social Security risks exists as it relates to non-compliance with totalization agreements as well as liabilities due outside of totalization countries

Global employment organizations

An efficient structure to manage a remote workforce



As "work from anywhere" begins to assume a level of permanency within organizations' global workforce, many Tax and HR leaders are grappling with how to cohesively and efficiently address the unique demands, requirements and risks this population creates.

A global employment organization (GEO) provides a comprehensive solution to manage an organization's remote workforce.

Global employment organization

- Permanent establishment risk
- Employer reporting and withholding
- Indirect taxation
- Payroll taxation
- Corporate taxation
- Labor and employment law

- Administration and operations
- Employee affiliation and attractiveness
- Employee benefits
- Talent strategy and sourcing
- Governance and oversight
- Cost containment

Why a GEO?

Drives talent agenda and supports an organizational remote/ virtual work initiative	**Strategic**	Offers ability to source the best global talent, even in locations without current organizational presence
Provides ability to offer centralized, appealing benefits, while enhancing employee satisfaction and competitiveness in the market	**Attractive**	Creates organizational affiliation among employees who do not have a local employer
Centralizes permanent establishment risk and streamlines tax and regulatory compliance requirements	**Compliant**	Drives parity in employment terms and governs labor and employment law requirements
Facilitates governance, tracking and oversight across the remote worker population	**Efficient**	Provides operational and procedural efficiencies in managing a widespread employee population

Work from anywhere – discussion themes

RISK CONSIDERATIONS

- ✓ Work from anywhere gives rise to complexities and a **range of risks** to consider
- ✓ **Risks** include but are not limited to tax, payroll, legal, immigration, data privacy & security, performance and talent risks

OPERATIONALIZING WORK FROM ANYWHERE

- ✓ **Leadership support** (“tone from the top”) needs to be enabled by a multi-disciplinary team
- ✓ Requires policy, process (tracking), technology, compliance, and training
- ✓ Mobility will play a **critical** role in driving execution

TALENT STRATEGY

- ✓ Organizations that operationalize **work from anywhere** can benefit from having the right work force at the right time, enabling business growth and increasing employee engagement

Wrap up

Benoît Millette

Partner and Tax Market Leader, EY Canada

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