Chief Tax Officer Outlook

Top-of-mind issues for tax leaders — fifth global edition

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Never before has the tax department played such an integral role in the success of the business. Chief tax officers (CTOs and other tax leaders) are expected to align tax with business goals, drive strategic value, increase transparency, and improve the efficiency of tax operations. This publication is designed to highlight top-of-mind issues for tax executives and the ways tax leaders are addressing these opportunities and challenges.

Topics addressed in this edition[1]

- Tax reform: Where are we now?
- Tax reform: What steps are CTOs taking?
- Tax reform: How are CTOs communicating?
- Tax tech: Bots have arrived

1 This report was first published as 'Chief Tax Officer Insights' by KPMG LLP in the US, a limited liability partner and the US member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"). In its current form, the report has been expanded upon to provide a global context and address audiences in addition to those in the US. As with the original report, the information throughout is based on discussions between KPMG professionals and CTOs, as well as with government contacts.

Tax reform: Where are we now?

After the 2016 US presidential election, tax leaders were optimistic that tax reform would be imminent. Both President Trump and Congress made reforming the tax code — perhaps radically so — a major priority. In addition, Republican control of both the executive and legislative branches seemed likely to reduce the impact of opposition to any tax bill put forth for a vote.

Now, tax reform continues to occupy the headlines, but meaningful activity is largely at a standstill. Questions still abound, and inconsistencies are still prevalent between the president's tax plan and the GOP Blueprint — the tax reform proposal outlined by the Ways and Means Committee in June 2016.

One fact is clear: Both plans call for the corporate tax rate to decrease — the Blueprint would reduce the corporate rate to 20 percent, while President Trump has promised a 15 percent rate. But many other aspects of tax reform are still foggy.

The Blueprint lacks noteworthy detail around the controversial proposal for border adjustability. The border adjustability tax (BAT) is considered a cornerstone agenda item for a revenue-neutral rate cut, but some CTOs worry it could spark international backlash and lower global competitiveness.

Although a few new details have emerged since Election Day and Inauguration Day — such as a stronger embrace of territoriality than he showed during the campaign — Trump's plan is still basically a high-level outline of his overarching vision for a simpler, lower-rate tax system. It is also still unclear to what extent the White House supports key aspects of the House Blueprint, including the BAT, deductibility of interest, and expensing.

It seems that tax leaders are not close to seeing a concrete tax reform package and that almost everything could still be up for negotiation. In addition, repealing the Affordable Care Act (ACA) has taken precedence for the Trump administration, but even that process has been hindered by many setbacks. As the ACA repeal continues to consume resources and political capital in Washington, the road to passage of tax reform seems to only stretch longer.

So how should tax leaders expect tax reform to play out? Roughly in order, here are some possible steps ahead before a tax reform bill is signed:

— **Congress approves** a budget, along with budget reconciliation instructions for tax reform. This unlocks the possibility of a 51-vote vehicle for tax reform in the Senate.

— **The House acts:** It releases and passes a tax bill, converting some version of the Blueprint into fully operational legislation.

? Questions to consider

— When do you think the earliest effective date for tax reform will be?

— How close to the current Blueprint draft do you think final tax reform legislation is likely to be?

— What do you think needs to happen in Washington for lawmakers to achieve a consensus and move forward on tax reform?

— **The Administration acts:** It completes its other priorities, including addressing healthcare reform and releasing a more detailed tax budget.

— **The Senate acts:** If the bill passes the House by a convincing margin, the Senate will likely follow a similar approach to tax reform. If it passes with only a minimum number of votes, the Senate may pursue its own plan, possibly not based on the Blueprint.

— **The bills are reconciled:** Congress reconciles differences and develops a compromise bill, which must pass both the House and Senate.

Tax reform: What steps are CTOs taking?

If you are following the developments in Washington, you know it is hard to say anything with certainty about US tax reform, and that is making preparing for tax legislation very challenging for CTOs and other tax leaders.

But the issue is not going away. Whether tax reform proceeds or not, tax leaders need to be prepared. So what are CTOs and other tax leaders doing today?

Planning

The current uncertainty is raising numerous questions about tax planning for corporations. There are generally two schools of thought: hold tight and do not move anything strategic forward until concrete details are released, or identify potential opportunities to prepare for and implement.

Most tax leaders are continuing to plan using a dual path — accounting for best and worst case scenarios of the Blueprint and the Trump plan. Some are drawing up parallel plans of what must be done, with or without reform, to be ready for action either way.

The key tax planning opportunities for CTOs to consider in the immediate term include:

- Accelerating deductions and deferring revenue to prepare for possible tax rate reduction
- Reducing earnings and profits and reevaluating use of foreign tax credits
- Discontinuing measures to develop intellectual property (IP) offshore and revisiting previously offshored IP or assets/businesses
- Evaluating realignment of value chain arrangements.

Modeling

Many CTOs and tax leaders are at least attempting to model tax plans and potential rates under anticipated tax reform. Some are conducting extensive modeling to dig deeper into contingency planning and prepare for potential impacts.

Due to the lack of information currently available, tax leaders face significant modeling challenges, especially when it comes to the macroeconomic elements of the reform puzzle. In some cases, different models can produce different results, causing further confusion among tax and business leaders.

Tax leaders are also challenged to model post reform outcomes based on both reform proposals — President Trump's plan and the Blueprint — without the concrete details they need to make them confident about any decisions that might be drawn from the modeling efforts.

? Questions to consider

- Have you evaluated how specific tax reform proposals affect your organization?
- How is your organization planning for the anticipated reduction in tax rates?
- Are your modeling efforts giving you a clear picture of how to plan for tax reform?

Tax reform: How are CTOs communicating?

The importance of tax reform, the amount of news coverage it is receiving, and the shortage of any concrete details around what a new law might actually look like mean CTOs and other tax leaders are having to manage expectations and actively educate senior executives about what the impact of tax reform will be for their individual organizations. At the same time, they are often charged with communicating their company's position and outlook to external stakeholders, including customers and shareholders, analysts, and economists, as well as the policymakers who will shape how tax reform ultimately plays out.

What are some leading practices for tax-reform-related communications?

Internal communications

How do CTOs and other tax leaders help CEOs manage the great unknown? Providing something directional regarding tax reform for management is a very difficult challenge. Given such little specific information, so many hypotheticals, and so much expected change before the final product, CTOs and other tax leaders are struggling to prepare leadership for what *might* happen.

Typically, senior management presentations are high level, focused on providing context and explaining the moving part of the issue. But some CTOs and other tax leaders of organizations suffering from "tax reform fatigue" are moving to less frequent updates. As a result, CTOs and other tax leaders are giving less periodic updates and very high-level analysis of impacts to the CFO or audit committee, rather than the full board.

Key topic areas include cash flow, effective tax rate impact, and how and where the different aspects of reform — such as repatriation, lost interest deductibility, border adjustability, and overall lower rates — will be felt. Many CTOs and other tax leaders are also preparing briefings that specifically focus on the convergences and divergences between the Blueprint and President Trump's plan. Others are more focused on managing the rumor mill about different aspects of reform.

The BAT is a significant area for concern and a key focus of many conversations with C-suite leaders and boards. Among those on both sides of the divide — those who see BAT as a risk, and those who see BAT as an opportunity — there is a lot of misunderstanding about the tax and its implications. Therefore, a key task for CTOs and other tax leaders has been educating and guiding C-suite leaders on supply chain- and procurement-related decisions.

Questions to consider

- What message regarding tax reform are you communicating to your company's leadership?
- Are you aware of inaccuracies about tax reform that could shroud management's judgment and decision making?
- How are you seizing opportunities to lobby Congress for tax reform legislation that would be favorable to your company?

External communications

For many, lobbying is an important strategy in managing the outcome of tax reform. CTOs and other tax leaders have been informed by Congressional tax writers that now is the time to provide input into a tax reform bill. Once the bill is out, changes will be difficult to achieve.

Therefore, many CTOs and other tax leaders are working to push their agenda through lobbying efforts to lawmakers in Washington. Direct contact, they find, is most effective. Many CTOs and other tax leaders have also joined advocacy groups that share their tax reform interests, including industry-specific groups.

Analyst calls are also focusing on tax reform, especially related to BAT. In talking to analysts and other stakeholders who might take action in the market based on the conversation, CTOs and other tax leaders typically try to be extremely cautious in their outlooks and avoid specifics, even if they think their company will benefit under BAT.

Tax tech: Bots have arrived

Digital labor is a buzzword across many industries and functions, including tax. In an environment where they are being asked to do more with less, CTOs and other tax leaders today are challenged to understand how digital labor can transform the efficiency and accuracy of their core business functions and enhance the value they bring to the organization. But first, they have to understand it.

The game-changing technology that falls under the broad category of digital labor goes by many monikers: robotics, robotic process automation, "bots," machine learning, cognitive automation, intelligent automation, artificial intelligence, big data analytics, and digitization. Whatever it is called, it is clear that digital labor is going to be hugely important to the tax profession, changing the way tax departments do business.

Of course, tax departments have been leveraging technology for years to augment how they perform tax services. But this time is different. Digital labor technologies can take over a wide variety of activities previously performed exclusively by humans. At the low end, that includes automating simple activities, such as cutting and pasting content from one system to another. At the high end, computers can actually be trained to do work that involves thinking and reasoning, such as making tax decisions regarding questions such as what expenses are deductible. Indeed, digital labor technology will enable CTOs and other tax leaders to bring together massive amounts of diverse, unstructured data, explore almost-limitless alternatives and hypotheses, and quickly form conclusions about tax strategies and positions.

So how are tax departments benefiting from digital labor today? They are beginning to explore the possibilities. Many are forming teams to identify what processes to automate — usually processes that will provide the most benefit and that have the right circumstances for utilizing digital labor, such as routine, data-driven, and repetitive tasks that are common in areas like value-added tax, sales and use tax, and indirect tax. Some tax teams are test cases for the larger organization, as some basic tax processes could serve as ideal use cases for the use of robotics.

For example, a tax department could use a "software bot" instead of a human to populate a database, in order, for example, to set up state and/or national tax folders for unique entities. The bot could set up the folders with a single click, where it might take a human tens of thousands. And the bot would do it with a much higher level of precision than any human could.

As another example, more advanced digital labor solutions could help a tax team efficiently capture and analyze information from hundreds of a specific jurisdictions tax code forms in order to expedite the tax filing process and enhance the quality and consistency of the results.

? Questions to consider

— Do you believe robotic process automation tools will offer value to your tax function?

— Has your tax organization made any digital labor investments or started piloting digital labor solutions for certain tasks?

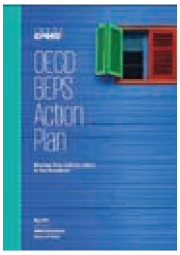
— How are you planning for the impact of digital labor on your functional workforce?

Clearly, the benefits of digital labor to a tax function could be enormous. Digital labor has the potential to make tax functions run more quickly, smoothly, accurately, and, best of all, strategically. It is not just about saving time and reducing manual error. Instead of performing manual tasks and checking the outputs of those tasks, tax professionals are freed up for higher-level and higher-value activities — and to take on more work, too. That drives greater job satisfaction within the department and supports tax department goals related to strategy, risk and skills, communications and measurement, and effectiveness and efficiency.

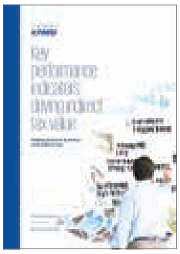
Wherever your organization is on its digital labor journey, change is inevitable. That is why it is important CTOs and other tax leaders embrace this innovative technology, understand it, get ahead of it, and be an early adopter. Those who do will be primed to garner big returns in terms of speed, efficiency, improved employee satisfaction, and depth of insights into the business.

Further information

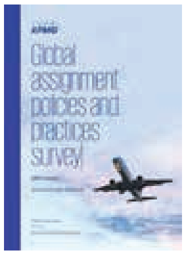
For further information and resources, please explore the links or visit kpmg.com/tax. You might also consider attending an upcoming webcast or event designed to address issues of interest to tax leaders. As always, please feel free to contact a KPMG professional to discuss these strategies and tools, or to speak about the tax issues you face today.



BEPS Action Plan: Moving from talk to action

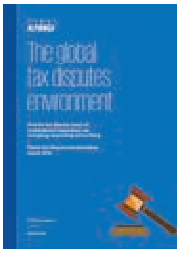


Getting down to business with indirect tax



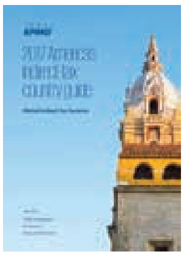
Global assignment policies and practices survey

Global tax department benchmarking survey: Summary report



Global tax department benchmarking survey: Disputes special report

Global tax department benchmarking survey: Latin America special report



2017 Americas indirect tax country guide

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