

Podcast transcript

Geopolitics.

Podcast with Grant Wardell-Johnson, Lead Tax Partner, KPMG in Australia

Musical intro

Announcer:

Hello and welcome to this episode of our KPMG podcast series for tax leaders. I think we could agree that today's world is often described as volatile, uncertain, complex, ambiguous, and geopolitical. The business environment that global companies operate in is increasingly defined by disruption, and yet business leaders are increasingly tasked with making confident decisions in the midst of all of this uncertainty.

Today we speak with Grant Wardell-Johnson a Lead Tax Partner at KPMG who heads up KPMG's Economics & Tax Centre in Australia. Grant has written extensively on the subject of geopolitics and the ways in which it is shaping business and tax. Grant, thank you for joining us today.

Perhaps you could start by giving us your insights on the current geopolitical developments that are having the biggest impact on the world of tax?

Grant:

Well, geopolitics rather than economics is now the greatest driver of the global economy and I think the biggest development is the rise of China and shifting power in respect of the US. And the current trade conflict I see is merely a manifestation of that and clearly that impacts tariffs and duties, that's very obvious, but there are more subtle elements there. For instance, whether China's state-owned enterprises will be treated differently from US or either from listed companies, could tax here be the basis of delineation? For instance, differential rules on deductions of debt where the ultimate source is a sovereign state. And apparently one would think not, but certainly it's not out of the question if we see escalation in this space. So overall, sadly, I think we're seeing a decline in economic logic and there's another manifestation of that and that's the rise of populism. I mean Italy is a classic example here because you've got a coalition of the populist left and right parties, I mean their attitudes to deficit budgeting, which is about expenditure and tax, could have widespread implications, particularly if the EU seek to put in place a series of impositions on a breach of the EU rules for deficit budgeting.

Announcer:

So if we drill down into some of the detail, how prepared do you think business are for US tax reform and of course the implications of Brexit?

Grant:

To deal with US tax reform first, I think the changes are being so dramatic there are so many different nuances and potential future states that many companies are still not thinking about. Now some have started to act and they're relocating IP back to the US but that part is far from clear for many. So you're really thinking about, in relation to US tax reform I think globally at the present time. For Brexit I think there are two levels. There's planning for a hard Brexit which I think many have embraced, I mean clearly that means implications on custom duties that supply-chains, and I think businesses are seriously contemplating what happens. But there's a broader question that I think businesses are not considering as deeply as they ought to and that's 'what's the future of the EU more generally?', is it going to be more of the same or some sort of dual-state EU, is there a potential for further fragmentation and what are the flow and effects for tax in that realm?

Announcer:

Grant, I know you spend a great deal of your time meeting clients and attending summits. Could you give us some insights into what multi-national tax leaders are doing to prepare for the coming changes you've outlined for us? Is there anything creative that perhaps others may be able to learn from?

Grant:

I think geopolitics is becoming a new framework of thinking of the CTOs for corporate tax offices, it's not something they're used to thinking about, with the possible exception of the energy and natural resources sector because you've had a sort of resource nationalism and sovereign risk thinking for some time in that sector, but that was actually limited to certain developing countries and now this realm is expanding. So CTOs are placing a tax risk lens on the supply-chains, and it's not just revenue authority risk. So they're thinking that geopolitical status is

becoming increasingly important, they're asking what is likely, what's unlikely, what's low-risk but high consequence? And actually I think that CTOs are very good at it because part of their natural thinking is what are the options here, what are the scenarios, what if we do this and not that? And I think senior leadership appreciates this from the better CTOs that are embracing geopolitics.

Announcer:

Finally Grant, if I can ask you to look into the future for a moment, what other geopolitical changes do you think are having an effect on tax functions globally? Is there anything specific that perhaps you would expect to have a major impact in the years ahead?

Grant:

I think the big change is the role of multi-lateralism, and many would say it's in decline and that's in some sense true but it's a very sophisticated and complex thing. I mean the US is clearly questioning its benefits and its costs. China uses multi-lateralism in different ways, so it embraces it when it suits and often that's when it's a limitation on other big powers, it embraces bi-lateralism where it's the stronger party. The EU consists in a state of flux, I mean multi-lateralism is sort of embedded in the EU thinking but the dimensions of that are becoming increasingly uncertain. What does that impact have on the tax function, well the best example here is the digital economy and that's going to be the next, biggest test for multi-lateralism. Unilateralism, and huge unilateralism, is a double-edged sword which hangs over global businesses in this space so the future here may be the proliferation of problematic taxes that tax functions are going to have to deal with, causing double-taxation and many sub-optimal positions, but let's hope that doesn't come to pass and multi-lateralism comes before.

Announcer:

Grant, thank you for joining us today. Of course geopolitical shifts will continue and we'll explore specific trends and developments across different regions in future episodes.

Please email us with any suggestions on those of most interest to you at tax@kpmg.com. We have also released a publication entitled 'Political uncertainty in the European Union, integration versus sovereignty and what it means for tax'. This publication documents recent developments in the EU including Brexit and outlines each possible scenario and its potential impacts for the tax regimes in each EU member state and the EU as a whole. You can review and download this publication at kpmg.com/futureoftax.

Musical exit

