

Podcast transcript

Is your business model prepared for trade, tariffs and taxes?

Podcast with Jerry Thompson, Principal, Tax, KPMG in the US.

Musical intro

Announcer:

Hello and welcome to another episode of the KPMG podcast series for tax leaders. For today's episode, I spoke with Jerry Thompson, Principal, Tax, KPMG in the US, about the implications for companies of the continuous and complex changes we're seeing in the world of trade, tariffs, and taxes.

Jerry thanks for joining us over the phone today. **Perhaps we could start by you detailing how you're seeing companies being impacted by changes in trade, tariffs, and taxes?**

Jerry:

When we say taxes, trade, and tariffs in this context what we're really talking about are the impacts companies are facing across the broader geopolitical framework. More recently, we're seeing the trend continue with impacts, the rise in nationalist politicians accompanied by an erosion of the international tax norms as caused by the OECD and the global trading order and its treaties and institutions. And in this uncertain environment it becomes a lot more challenging for companies to make longer term capital investment decisions. Even if the immediate pressure to make changes driven by the need to be more customer centric and digitally agile are increasing.

Announcer:

And are you seeing companies change their business models to manage the tax implications of these changes?

Jerry:

I think that varies a bit depending on the underlying trend certainly when it comes to responding to the OECD's continued push to reset the rules of international taxation. We're seeing companies focus a lot more on the business and the idea of value creation. You know the days of operating within say an intellectual property companies and tax number jurisdictions are largely behind us.

Today, the focus is on the business, what they're doing to create value, how, where and if there are ways to structure business in a more tax friendly manner. I think that's what CFO and audit committees want to hear about. Now with respect to trade and tariffs, that's a bit trickier, as it does require a little bit more of a crystal ball. Certainly we're all aware of the ongoing Brexit challenge as well as the tariff battle between the US and China. Policies are having an impact on the cost of supply chains and the related impacts on investment decisions. Over the last 18 months we've seen significant moves to find alternative locations to China with more nearshoring, with Mexico as a favorite jurisdiction for North American markets for many companies. The impacts will sharpen if the US continues to push for tech independence from China and China's response to begin with building out its own mobile network operating system. Another core technologies to enable 5G, IoT, AI, and other technology in the future. It is possible that countries and companies may be required to choose between US Western or Chinese platforms with wide reaching implications for the free flow of information.

Announcer:

So Jerry based on your experience do you think a tax leader should be involved in making the decision to change a business model?

Jerry:

Certainly, it's more important now than ever that companies look at the impacts of these fast moving changes, not just something to react to but as disruption to plan for correctly could actually help set the organization up for success for years to come. Now that includes bringing in all of your internal expertise including: sales, operations, finance, legal, and then most definitely tax to understand the trends and how they may impact you across the enterprise. I think companies that learn how to breakdown silos and quickly adapt to change will definitely have an advantage in these uncertain times.

Announcer:

And finally Jerry if you could give tax leaders one piece of advice on this topic, what would it be?

Jerry:

I would say engage. You know, as senior leaders in your organizations its time to really prove the value of a well integrated tax organization. For many companies tax departments have been viewed as back office compliance functions or a black box of planning wholly unrelated to the business. In today's world successful tax leaders will be business oriented professionals that happened to wear a tax SND hat. Providing an important voice in building the business models of the future. For many I think this will be a refreshing change.

Announcer:

That's great. Jerry thanks for joining me today. No doubt will be returning to this topic in the future.

Jerry:

Yeah, thanks for having me. I think this is a very timely topic and something that a lot of our clients are really care about.

Announcer:

Please join us again next time. And remember to email us with any suggestions you have for future topics at tax@kpmg.com
Thanks for listening.

Musical exit

