



# Managing through challenging times: tax and legal impacts

Keeping Connected Global Tax & Legal & Mobility Virtual Meeting Series – Part 3

—

April 2020

# Topics for discussion



- 1 The impact of COVID-19
- 2 The future roles of China
- 3 Make in Vietnam
- 4 Corporate Tax and Transfer Pricing
- 5 Q&A

# Administration

## Polling questions

- Polling questions will appear as we proceed through the presentation
- As mentioned, in order to receive the certificate of attendance, we require participants to take part in at least five of the six polling questions
- If you qualify for the certificate of attendance, it will be sent to you following the webcast

## Attendee questions

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# Todays presenters



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# The impact of COVID-19



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# Where was trade before COVID-19?

Global trade		
Global trade wars	Increased free trade agreements	Brexit
<ul style="list-style-type: none"><li>— US – China tariffs &amp; Phase 1 Trade Deal</li><li>— US Steel &amp; Aluminum tariffs &amp; retaliatory tariffs</li><li>— US – EU tariffs</li><li>— French Digital Services Tax</li></ul>	<ul style="list-style-type: none"><li>— Comprehensive and Progressive Agreement for Trans-Pacific Partnership</li><li>— USMCA</li><li>— US – Japan Trade Agreement</li></ul>	<ul style="list-style-type: none"><li>— UK left EU on 31 Jan 2020</li><li>— Entered 11 month transition period</li><li>— Negotiating terms of trade with EU until Dec. 2020</li></ul>

# COVID-19 – Where are we now

1

## Increased global export controls on pharmaceuticals/PPE

- Export and licensing restrictions on critical medical products in many countries

2

## Logistics challenges

- Factory capacity challenged
- Transportation unavailable or delayed
- Insufficient warehousing space

3

## Decreased consumer demand

- Financial concerns & quarantine orders depressing consumer purchases for non-essential goods

4

## Business strategy undermined

- Transfer pricing policies impacted by rising prices and decreased profit

**Take-aways: Flexibility is key, know your supply chain and have a contingency plan**

# Opportunities exist...

- **Duty and tax deferrals**
  - For companies producing essential goods, assess if now is the time to increase imports/production
- **Maximize cash**
  - Validate that all current duty savings programs are fully leveraged
  - Quantify ROI of implementing new savings programs
  - Assess special savings opportunities (e.g., in the US Section 301 exclusions on medical products)
- **Assess eligibility for special purpose loans**
  - Some jurisdictions are offering loans to support business during COVID-19
  - Understand requirements as incentives vary and are evolving

# Future of trade

Increased protectionism	On-shoring	Increased risk management	Retail changes
<ul style="list-style-type: none"><li>— Additional licensing or restrictions around export of medical products/goods</li><li>— Potential free trade agreement negotiations deprioritized</li></ul>	<ul style="list-style-type: none"><li>— Shift to production of critical goods domestically in short and long term</li><li>— US is considering “Buy America” order to require agencies to purchase American-made pharmaceutical ingredients, raw materials, medical equipment and supplies</li></ul>	<ul style="list-style-type: none"><li>— Broader supplier base, less reliance on China.</li><li>— Routine supply chain and transport risk assessments/contingency planning</li><li>— Improved end-to-end supply chain visibility</li></ul>	<ul style="list-style-type: none"><li>— Accelerated shift away from brick-and-mortar stores</li><li>— Warehousing flexibility prioritized</li><li>— Less focus on “just-in-time” shipping</li></ul>



# The future roles of China

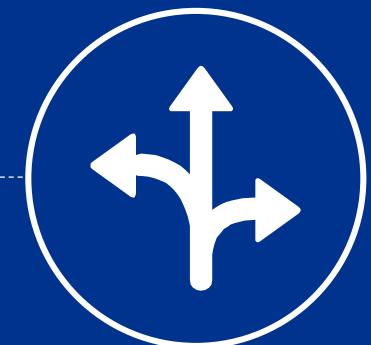


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# The future roles of China

1

## Road to recovery

— Challenges and government support

2

## China as the manufacturing hub

— Stay or leave or transform?

3

## China as the consumption market

— Adapting to the new norm





# Make in Vietnam

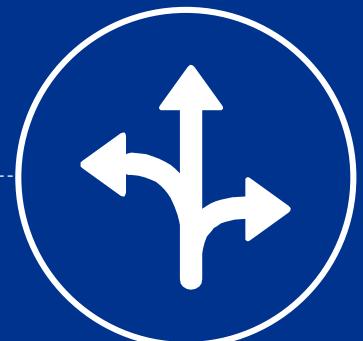


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# Why Vietnam ?

7%

GDP growth in 2019

US\$38 bn.

Newly registered FDI in 2019

US\$24.6 bn.

Newly registered FDI in Manufacturing  
(70%)

8.2%

Export growth in 2019

57%

of the 97-million population are  
in working age

US\$3

Vietnam's manufacturing labor costs  
per hour (vs. US\$6.5 in China)

Source: Vietnam General Statistics Office, Ministry of Planning and Investment (2020)

# With trade war, Make in Vietnam is not a matter of 'if', but 'when'

## Strategic location — Increasing integration into global economy

FTA with/ between	Vietnam	Malaysia	Thailand	Philippines	Indonesia	Cambodia	China
ASEAN	✓	✓	✓	✓	✓	✓	✗
ASEAN-China	✓	✓	✓	✓	✓	✓	✓
India	✓	✓	✓	✓	✓	✓	✗
Korea	✓	✓	✓	✓	✓	✓	✓
Japan	✓	✓	✓	✓	✓	✓	✗
CPTPP	✓	✓	✗	✗	✗	✗	✗
EU	✓	○	○	○	✗	✗	✗
US	✗	○	○	✗	✗	✗	✗

Legend: ✓ To be ratified ○ In negotiations

...and Covid-19 accelerates 'China plus one' trend

**CNBC**

TECH

**Big tech companies look to move production away from China. That's not going to be easy.**

PUBLISHED WED, MAR 4 2020 8:50 PM EST

Source: Kharpal, A. (2020) "Tech companies look to move production away from China." CNBC, 4 March. <https://www.cnbc.com/2020/03/05/coronavirus-apple-microsoft-google-look-to-move-production-away-from-china.html>

**REUTERS** Business Markets World Politics TV More

**Major telecommunications company to shift some smartphone production to Vietnam due to coronavirus**

Jin, H. (2020) "Major telecommunications company to shift some smartphone production to Vietnam." Reuters, 6 March. <https://www.reuters.com/article/us-health-coronavirus-samsung-elec/samsung-to-shift-some-smartphone-production-to-vietnam-due-to-coronavirus-idUSKBN20T10T>

The rise of wages in China, coupled with the recent trade dispute between the US and China, has forced manufacturers to look for an alternative market. Labor productivity rose by 6 percent in 2018, compared to 2017. This is an opportunity for which Vietnam is well positioned.

# Key considerations to shift production to Vietnam

## 4 key considerations for 'Make in Vietnam' initiative

1. Availability of capable manufacturers for your product	2. Costs of moving your existing supply chain	3. Vietnam's logistics and infrastructure	4. Ease of doing business in Vietnam
<ul style="list-style-type: none"><li>— Workforce that is relatively inexperienced with sophisticated manufacturing</li><li>— Yet, the large labor pool of Vietnam characterized by young, eager to learn, easy hiring, more business friendly laws and flexibility in wage determination</li><li>— Top exports include various types of machinery, garments and textiles, footwear and headwear, food and beverage and metals</li></ul>	<ul style="list-style-type: none"><li>— Relocation and facility development costs: shortage of industrial land and office space increase rent year on year</li><li>— Imported material and component costs</li><li>— The supply chain might still be vulnerable to increased costs from import tariffs and trade tensions</li></ul>	<ul style="list-style-type: none"><li>— Longer lead times and unexpected delays due to less efficient infrastructure (vs. China and other more matured countries)</li><li>— Major ongoing investments in roads and ports are expected to bring a major boost to the nation's logistics industry</li></ul>	<ul style="list-style-type: none"><li>— Vietnam government has made great efforts to improve the business environment, legal framework to starting and doing business</li><li>— The gap between State Budget's revenue and expenses has been increasing over years resulting in the government programs to prevent tax losses, and focus on more stringent and effective enforcement</li></ul>

# Proposed government aids during COVID-19

## 1 Banking

- Vietnam's central bank to reduce interest rates
- Commercial banks to delay, extend deadlines for, and reschedule debt payments
- Launch a support package of VND 30 trillion (approx. US\$1.2 billion)

## 2 Labor and Employment

- Temporary suspension of social insurance contributions
- postpone trade union fee contributions

## 3 Tax

- Defer deadline for payments of taxes and land rental fees,
- Increase the level of personal and dependent relief so that personal income tax can be reduced,
- Tax breaks and delayed tax payments to support businesses (especially SMEs)



**Vietnam government supporting technology manufacturer to prevent delays in the company's production schedule**

Some 700 of the display maker's engineers and specialists will be allowed to enter the country and get straight to work without needing to be quarantined for two weeks, according to a Korean media report citing South Korean government officials.

Prior to making the exemption, Vietnamese authorities inspected a technology manufacturer's operations and deemed it sufficient in preventing the spread of COVID-19.

Source: Directive No.11/CT-TTg, 3/2020



# Corporate Tax and Transfer Pricing

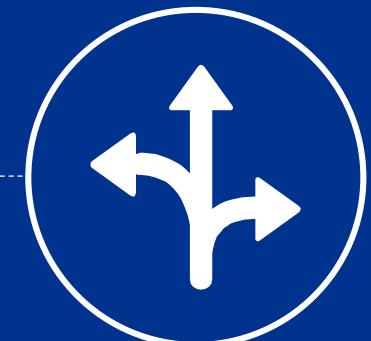


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# Corporate Tax and TP:

The main underpinnings of value chain planning pre-COVID-19

## International tax reform

**BEPS 1**  
**BEPS 2**  
**US Tax Reform**  
**EU Tax Agenda**  
**Unilateral tax measures and DSTs.**  
**Tax “morality”**

## Transfer pricing

**Profits and risk are aligned with value creation and decision making**  
**Success! Whose idea was it?**

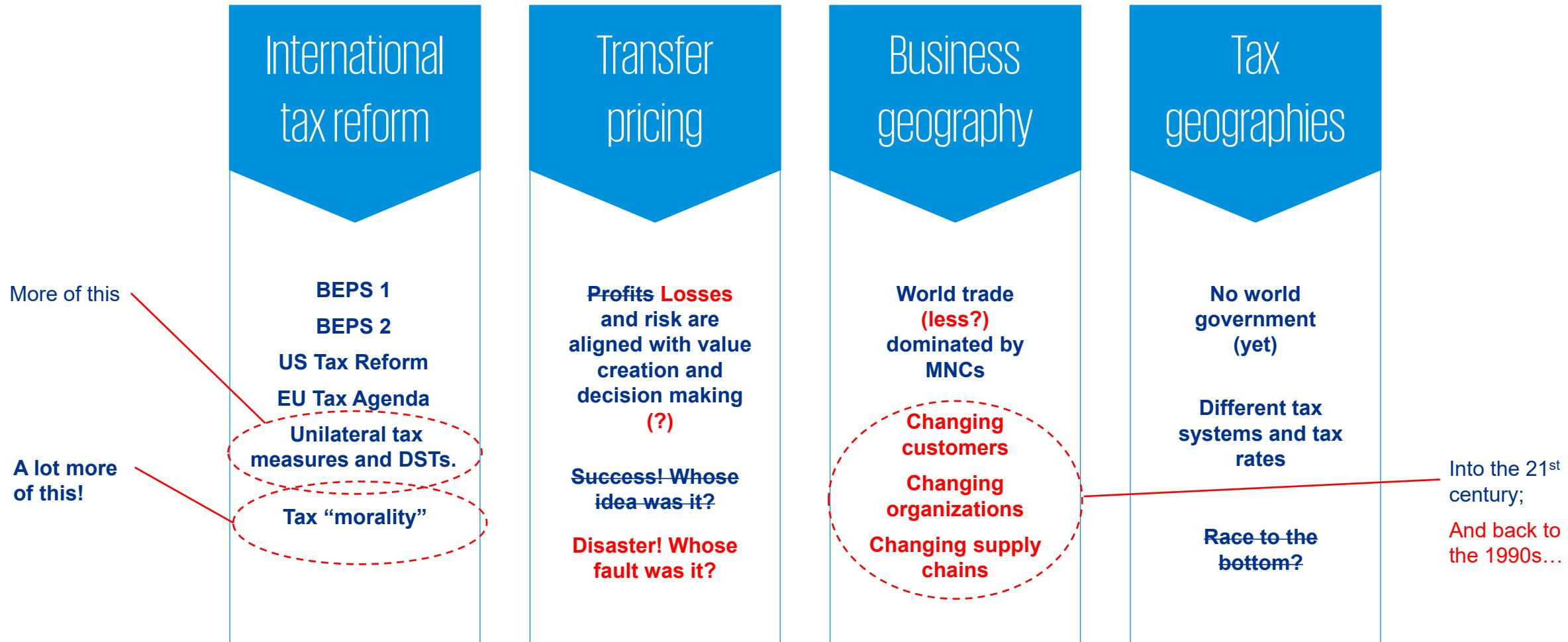
## Business geography

**World trade dominated by MNCs**  
**Changing customers**  
**Changing organizations**  
**Changing supply chains**

## Tax geographies

**No world government (yet)**  
**Different tax systems and tax rates**  
**Race to the bottom?**

# Corporate Tax and TP: After COVID-19

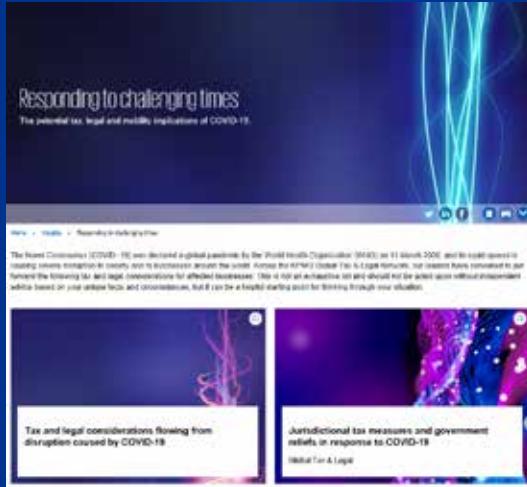


# Corporate Tax and TP post COVID-19: Supply chain impacts

## Short term disruption, long term acceleration

Immediate term	2020/2021 impacts	Medium-Long term
<ul style="list-style-type: none"><li>—People not where they are supposed to be: PE and residence risks</li><li>—Low substance models forced into a rethink</li><li>—Projects put on hold</li><li>—Liquidity and credit upheavals</li></ul>	<ul style="list-style-type: none"><li>—Losses and collapsing revenue in some industries</li><li>—Super-profits in a few</li><li>—How to share the pain fairly across the value chain</li><li>—Business restructuring: costs, opportunities and tax risks</li></ul>	<p>Underlying trends accelerate:</p> <ul style="list-style-type: none"><li>—Remote and online sales</li><li>—Digital and virtual delivery models</li><li>—Virtual teams</li><li>—Shortening supply chains</li></ul> <p>So do underlying tax trends</p> <ul style="list-style-type: none"><li>—Taxation of digital businesses</li><li>—Controversy and double taxation</li><li>—Unilateralism</li></ul>

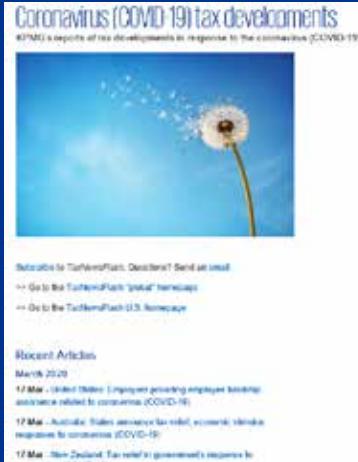
# Resources



## Responding to challenging times

**KPMG site dedicated to business implications of COVID-19 on a global scale – tax, legal and mobility focus**

<https://home.kpmg/xx/en/home/insights/2020/03/responding-in-a-crisis.html>



## Tax News Flash — COVID-19

**KPMG's ongoing roundup of COVID-19 measures taken around the world in response to the situation**

<https://home.kpmg/us/en/home/insights/2020/04/taxnewsflash-coronavirus-covid-19-developments.html>



# Connect with us



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