



Podcast transcript

Navigating through challenging times: a global and local perspective

Podcast with Jane McCormick, Global Head of Tax & Legal Services, KPMG International and Lewis Lu, Head of Tax, KPMG in China*

Musical intro

Announcer:

Hello and welcome to another episode of the KPMG podcast series for tax, legal and mobility leaders. In light of the ongoing global impacts of the novel coronavirus (COVID-19), we will be focusing our podcast series on the tax, legal and mobility considerations and top-of-mind business issues that have resulted from the disruption caused by this global pandemic.

Our goal is to help make sense of this complex and ever changing situation by discussing the key business issues tax, legal and mobility leaders are facing, and sharing insights on how businesses can effectively manage their tax, legal or mobility function to navigate through these challenging times.

In today's episode, we have brought together Jane McCormick, Global Head of Tax & Legal Services, KPMG International and Lewis Lu, Head of Tax, KPMG in China, to share their perspectives on the current situation through both a global and local lens, as businesses react and manage through the current environment and move beyond crisis response to recovery and post-recovery planning.

Jane and Lewis, thanks for joining me on the phone today.

Jane, can I start with you? What are you hearing from clients around the world?

Jane:

Well from a business perspective, I guess we are hearing three things. The first is around workforce; looking after the health and welfare of the workforce and making sure that they get paid. The second thing is liquidity, and the third thing is managing the supply-chain. As we talk to tax leaders in particular, they're dealing with the tax aspects of all of those things. And of course they are managing their compliance obligations too.

Announcer:

Thanks Jane, and Lewis, how is the business environment in China?

Lewis:

In China, being the first country exposed to the virus outbreak, had the fortunate or unfortunate experience of going through this first. So we're probably two to three months ahead of most of the countries. I guess the lessons we learned, first and foremost; this is very serious. It can bring a business down very quickly so we do have to make sure that we look after our people for the purpose of also looking after the well-being of our business. I am confident this is something that is going to be dealt with and we do get out of this crisis. I keep saying, you know, the analogy is right now we're not allowed to drive but it's not because the car is broken down, it's because something else is happening outside. So we just have to make sure that nothing is wrong with the car and whenever the road is clear we'll go out again.

Announcer:

Jane, can you outline how KPMG is working with clients across the globe?

Jane:

So globally we're doing a lot with our clients. I'm really pleased to say that despite the fact that the vast majority of our people are working from home, we're actually able to do pretty much what we do normally. And we're still working with clients on a whole range of issues. Obviously front of mind over the past few weeks is how people react to the immediate changes that are happening, keeping track of the reliefs and incentives that are being provided, deferrals of deadlines, and all the actions being taken to make sure that compliance is met. But already people are starting to think about broader issues. So as I say, things like changes that are happening in the supply chain, restructuring of financing, managing liquidity, and asking for advice on all of those sorts of issues too.

Announcer:

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Thank you Jane. Lewis, are these same issues being dealt with by the China firm?

Lewis:

So what I would say is, you know, the problem we have to overcome, is really the inability to communicate effectively. That is both with our clients, but also you know, for the clients themselves, ourselves. That is by far the most difficult issue we have to deal with. But at the same time also recognize the needs of the clients will change in light of the crisis and we have to also adapt quickly to meet those demands.

Announcer:

And Jane, is this communication issue the same across the global network?

Jane:

Well, as a global network and a network of people who are actually quite used to working remotely, we've been keeping in touch. And as the crisis has travelled from one part of the world to another, it's been incredibly important that people later in the curve have been able to learn from the people who were first affected by it. And in particular, our China firm has been extremely helpful in helping the rest of us to anticipate what might happen. But through the use of technology and the fact that we all know one another from years of relationships built face to face and virtually, we have been able to execute on sizable projects and transactions in a virtual way.

Announcer:

Lewis, Jane just mentioned the importance of learning from the China firm. Can you outline some of the things the China firm has put in place to help clients through this crisis?

Lewis:

So what we have done is to help them navigate this process, dealing with, you know, the most urgent compliance needs through the use of our own delivery centers, use of our remote communication technologies, helping our clients going through and complete what's required in the compliance process on the tech side.

But then also, we also provide advisory to clients that are crisis related. Things like applying for government assistance, incentives, etc. and also include some special situation distress-related advisory. Things like dealing with business closure, restructuring, non-performing assets etc.

Announcer:

And Lewis, what advice would you give about business continuity planning?

Lewis:

I think it's critical to have an effective contingency plan, or continuity plan, so in that regard you probably focus on, you

know, how to maintain the business pipeline, revenues. I know it's difficult but on the other side is also to help control cost, cutting a lot of the non-discretionary spending, non-essential spending. And very importantly preserve cash-flow to the business, so really you know, if you look at the business continuity plan, it revolves around you know the key aspects of the business. The revenues, the expenses, cash-flow, and also people. So this is how we have been focusing on during the crisis.

At the same time, I think you know, we do have a plan for the future. We do want to get back to normal. We have been shifting our emphasis to the growth agenda again. Hopefully, we have been through the worst part of the crisis so we're starting to re-evaluate for instance, at the beginning of the year the business strategy that we set for ourselves, or the priorities. We need to re-assess them now and to see whether they are still relevant, and the amendment or enhancement that's needed, but also look to the future, looking forward to the next financial year.

Announcer:

Jane, from a global perspective what can businesses build into their business plans and processes going forward, or is it just too early to think about that yet?

Jane:

Well, sometimes in the middle of a crisis it can be quite difficult to think about the longer term, you know, what do we learn from it, how do we improve going forward, how do we make ourselves more resilient? And we've seen this in former crises that learnings are made and things do change. But certainly one thing's for certain, we are all finding out where are the areas of fragility in our business model. And people are already starting to think about how they fix that. So, and that obviously technology is a very, very big part of that. And there are lots of different businesses on the road to digitization, but the further along you are on that process at the moment, the more resilient your business is probably proving to be. So we do need to think to the future, we have yet to get to the point I think where we can really start sitting down and reflecting and learning the lessons, but certainly that time will come, and I do think that a lot of things will change after this.

Announcer:

And Jane, do you think those changes will affect the Responsible Tax debate?

Jane:

Well, responsible behavior in relation to tax is not just as important as it's ever been, it's probably even more important now. I think everybody agrees that in relation to tax and all other matters, businesses are going to be judged after this by how they behaved during the crisis. And of course, the expectation is especially where governments are stepping in to support business, the business will be under even more scrutiny to ensure that they're playing their part in the economy following the crisis. So managing tax, making sure that you are doing the right things now is going to be incredibly important.

Announcer:

And Jane, what effect, if any, do you think the COVID-19 situation will have on the recommendations around digital tax from the OECD, recent proposals around environmental taxes, or other compliance regulations such as MDR or DAC6, for example?

Jane:

Well, I think if anything this is going to accelerate some of the changes that were already coming our way, both accelerate and deepen. Certainly the digital tax debate is not going to go away. One can already see that the highly digitalized companies and online businesses probably going to fare better in this crisis than other businesses. So the whole debate about who pays what tax, and the particular focus on the digital world is bound to continue. And if you think about MDR, DAC6 and other changes relating to transparency, you can see that that is going to continue as well, and you can already see people calling for more transparency to ensure the business is stepping up to the plate in what is going to be a difficult economic situation.

Green taxes is interesting because it does feel like the eye has been taken off the debate about climate change over the past few weeks, but I'm sure that will be a temporary thing and we will return to the discussion on green taxes. But I think there is going to be a serious policy debate after all of this on the whole question of tax policy, who pays, how they pay, what is the 'fair,' if you'd like, or 'just' distribution of the tax liabilities that will inevitably arise from this?

Announcer:

And turning back to you Lewis, has the China firm found clients and business leaders receptive to planning for these possible changes ahead?

Lewis:

We do find a lot of the business leaders, a lot of our clients, actually they probably have a little bit more time on their hands and they're more than willing to spend that time talking to their advisors, business associates. And we also, you know, sort of brainstorm together to try to figure out what's best for business. So sometimes by talking to my clients, I also get to share their experience, how they have been dealing with the crisis in their own capacity.

Announcer:

Jane, I know you were working in the financial services space during the 2008 crisis. How does today's situation compare to 2008, if indeed it can be compared?

Jane:

Yes, this feels really quite different from the 2008 financial crisis, and of course it is very different. That was primarily an economic crisis, which of course led on to having real human consequences, but this is the other way around if you like. This is a human crisis, which of course will go on to have economic effect. I think in this case, the economic effects will be more

widespread and probably longer term, and the world will change more as a result. But I think one thing that we saw in the financial crisis, and we're already seeing to some extent here, is the importance of sticking to your purpose as an organization and focusing on your core business. Because those organizations who are strong in their core, and know what their purpose is, will do better. It's where people have extended into areas where they are not the market leaders or the experts, where they see more damage.

Announcer:

Lewis, what are your thoughts on the business learnings of COVID-19?

Lewis:

Really the biggest lesson to learn is we do have to go through this together, the entire world. It's only when every country gets out of this crisis that we can say we're really out of this crisis. So, you know it is very, very challenging. I know outside of China right now, and it's also challenging for China. The virus goes and comes back, it's very difficult, but I do believe, you know we, all the countries, everyone needs to work together to go through this together.

Announcer:

Jane, what learnings do you see being of the foremost importance to aid businesses through this crisis?

Jane:

Well, certainly I think that that learning about keeping your workforce as productive as you can and making sure that you know where they are and what they're doing is incredibly important. So I know there's been a scramble for a lot of businesses to get their people online, to make sure that they are equipped to work from home. For some people that's been easy because they were set up to do that, and I think that is true for us, but I know other people have been scrambling around trying to get laptops for people to work at home. So being ready for that is clearly important.

But the things that I think will change, I think virtually everyone I know who, like me, works in an international business, is saying they will probably not be travelling as much in the future. I think most people are looking at their supply chains again and making sure that they are more resilient, and that's both by putting more diversity in them, giving choices of where you procure things from, but also shortening supply chains. And of course the shortening of supply chains may also have a positive environmental impact as well. So although thinking about the environment as I say doesn't seem to be most top of mind today, that is going to come back. And I think through this we will have found different ways of working that might actually help in that regard.

Announcer:

Thanks Jane, Lewis, looking forward and from a China perspective, are you seeing any green shoots of recovery?

Lewis:

Yeah there are. For instance, at KPMG in our firm we do see the pipelines, revenue projects start to come back. What is lacking is, you know, I think on the domestic client side, things that are starting to come back, but it is the multinational, the international cross-border work that still needs to wait until, you know, most of the other countries get out of this crisis.

Announcer:

And Jane, what are your thoughts on the future post-COVID-19?

Jane:

Well, I think it's probably a lot more focus on the value of people and how important the workforce is. And as I say the good businesses through this time, are the ones that are going to best look after their people. I think it's given a good insight to the balance of government and business, and the fact that both parties have an important role to play. And if business and government can work well together, a lot more can be achieved than when they're at odds with one another. And then finally, as I say we are learning new ways of working that will undoubtedly have a positive impact from an environmental perspective.

Announcer:

And finally, Lewis, what advice do you have to help other tax professionals navigate their way through this crisis?

Lewis:

Probably just first and foremost, and the only one word is communication. That is what's being hit hardest, and it's also the biggest hurdle to overcome. We start to realize how important it is, things like face-to-face meetings. We miss that very much. But during the lockdown period, that's not going to be possible, so we do have to find alternative ways to maintain, or sometimes even enhance communication. We do look at connection, communication with our own people, with our leadership team, but also in our communication with clients. I suppose, what we still need to do is to have daily routines, looking after ourselves, have breaks. If indeed there aren't that many pressing needs to look after, have some time to ourselves, spend some time with kids, with the dogs. These are actually precious time we probably will not have without the virus. And lastly, I suppose, you know, communication is not just for business, also don't forget family and the loved ones. It is important to have, you know, a good relationship despite all the stress, everything, life still goes on.

Announcer:

And Jane, to conclude our discussions. Can I ask on a personal level, how are you managing through this crisis?

Jane:

Well, there are busy days still and because obviously we are working around across time-zones the day can start very early and ends very late, so actually work still takes up quite a lot of time. But I'm very fortunate to live in a house with a garden and a garden always needs a lot of work doing in it so I can get out and do my exercise and do weeding at the same time. And then the usual things, I play the piano so I break off to do that and I'm reading some good books. And spending a lot of time on social media with friends and family.

Announcer:

Jane, Lewis, on behalf of all of our listeners I'd like to thank you for your time today in sharing your perspectives on the economic and business impacts as a result of the COVID-19 virus. It's been a fascinating conversation with lots of key learnings and some really interesting takeaways. I look forward to continuing this conversation with other KPMG leaders in the coming weeks.

Lewis:

Ok thank you, have a great day.

Jane:

Yeah you too, take care of yourself.

Announcer:

For more information and resources on COVID-19, visit home.kpmg/covid19taxandlegal

Join us again next time and please email us with any questions you have about today's episode at tax@kpmg.com and we'd also love to hear from you with any suggestions you have for future episodes.

Thanks for listening.

Musical exit