



Podcast transcript

Managing tax compliance and technology through and beyond COVID-19

Podcast with Sean Bloodwell, Global Head of Compliance Management Services, KPMG International and Partner, KPMG in the US, and Brad Brown, Global Head of Tax Technology, KPMG International, and Partner, KPMG in the US.

Musical intro

Announcer:

Hello and welcome to the KPMG podcast series for tax, legal and mobility leaders.

We are focusing this podcast series on the ongoing global impacts of the novel coronavirus (COVID-19), by looking at the tax, legal and mobility considerations and top-of-mind business issues that have resulted from this global situation. COVID-19 is affecting tax compliance and how businesses will prepare for future challenges, changes and opportunities.

In today's episode, I'm joined by Sean Bloodwell, Global Head of Compliance Management Services, KPMG International and Partner, KPMG in the US, and Brad Brown, Global Head of Tax Technology, KPMG International, and Partner, KPMG in the US. We discuss some practical solutions businesses are using to manage tax compliance through and beyond COVID-19, and the important lessons to be learned around automation and technology tools that can support compliance processes today and into the future.

Sean and Brad, thanks for joining us today.

Sean and Brad:

Hello. How you doing?

Announcer:

Sean, I'd like you to kick our conversation off if that's alright? As Global Head of Compliance Management Services, could you run us through some of the compliance issues that have arisen in light of the business disruption caused by the COVID-19 situation?

Sean:

So I think that the compliance issues that are arising vary from company to company. I think early on, the issues were more practical issues, you know, how do you operate in an environment in which everybody is in different locations. You know, technology, working together as a team, et cetera. I think coming out of that, you know, obviously there's lots of regulation in terms of extension of deadlines, and companies had to determine a strategy around how they were going to handle that.

I think we're starting to see it shift more towards, you know, how do they do the tax accounting? How do they handle the planning around the impact of COVID? The ramifications or the impact that COVID is having on the business, and how that trickles down not only to the compliance, but the tax accounting, cash forecasting, planning, et cetera.

And so, now you're starting to emerge from the immediate reaction of, "How do I just keep, you know, things moving along?" to, "How do I start planning for how this is going to look in the future," including, you know, "How does this impact the way my department functions"?

Announcer:

Thanks Sean, there's a lot to unpack there, and we'll come back to some of those points, but I'd like to get a quick view from Brad on how businesses are leveraging technology in light of COVID-19...

Brad:

Well, the most obvious way that folks are leveraging technology currently in the crisis is we've all been forced to work remotely. And so the initial wave of people's energy has definitely been around leaning into remote working tools. But we've also seen a big pick up in less obvious areas. Increased use around work flow and process management tools – so tools that help us see where various tasks and where we were against milestones – and so

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you've seen an increased and interesting use around these tools to help us make efficient and continue to manage our processes.

Another sort of less obvious way is there's been a spike in what I'll say, data management tools. And so, we're starting to see greater things like the use of Alteryx and leveraging remote data warehousing, data lake functionality. So again, these are among the many ways that technology seems to be on the rise. But again, it's very pervasive in the current environment.

Announcer:

Thanks Brad, and Sean, how has this increased use of technology, impacted workflow?

Sean:

The one thing I've noticed recently, which I think is interesting, is I think the over-communication and really the management styles have started to evolve. I think people are starting feel a little attrition around all the conference calls and video conferences that have gone on.

You hear people with the common refrain that they're on calls all day, and I think that's a reaction a little bit to the need to over communicate, and I see that being pulled back a little bit now and giving people a little bit more room as they're comfortable working in this remote environment to kind of get things done on their own. So you do see kind of the initial action, and now I think we're starting to see the reaction.

Announcer:

And how are business leaders managing tax compliance globally through this crisis?

Sean:

I think with a lot of the concepts we just talked about, you know. They are – it's almost a back to basics. They're leaning into the fundamentals, whether that is the structure and governance of their organization and making sure the lines of communication are solid and there's enough connection and touchpoints with all the people in the organization, to make sure the compliance is being done on time and being done the right way.

And then also leaning into technology solutions that can kind of track and make sure things are moving along. I'd say the third element is leaning into their advisors. I think there's an appreciation for the fact that the advisors in some situations may be better positioned to deal with some of the challenges and some of these countries given the infrastructure that they can provide, and so advisors are strategically being used to kind of balance out the needs of companies as they go through this.

Announcer:

Thanks Sean. Brad, we're seeing a greater increase in technology use, but how has COVID-19 changed the overall digital transformation journey for businesses?

Brad:

I would say in a word, accelerated. Those companies and those pieces of tax functions that have been more digitized have been much, much easier to work in a distributed remote setting that we find ourselves in right now. Partly because of that, you've just seen the efficiencies and value of having set yourselves up, to leverage technology. Things like Cloud environments have just weathered the storm that we're in so much easier, and so in kind you've seen an uptick in folks starting to chart a course to get whatever piece of their function is not leveraging sort of the latest and greatest and not being fully digitized to push in that direction. So, really, I see this as a bit of a start and an acceleration for many in terms of their digital direction.

Announcer:

Can you tell us how companies are recognizing the value of digital transformation and leveraging technology even more?

Brad:

So, again, part of this is survival. If you think about what we've been through in the several weeks, many of us have either had to go through a tax accounting close and a quarter close or a year-end close or monthly tax filings fully divorced from being in a physical office in the first time in our career.

So again, a big acceleration to say, "Aha, that was required, I saw the benefits of that and where can I lean into it more?" So a couple of other examples we're seeing that's being motivated in the current environment modelling – so we're seeing a plethora of tax legislation around the globe in terms of trying to provide some incentives and support back to businesses from a tax relief or from a payment relief perspective. And there's a lot of interplay amongst all of these rules, and so you find companies looking at how do I avail myself and what's the best ones to take advantage of. And so, you've seen this uptick in sort of modelling and remote working and remote collaboration, all of which are dependent on technology to drive that.

Similarly, there's the big data collection component of it. So if you look at a lot of the employee retention credit opportunities that are around the globe, those are dependent on a lot of detailed facts that are happening to us right now. So you've seen sort of this remote data collection exercise in terms of surveys and scanning for data, scanning for emails, all of which are enabled by technology. And really see this as a beginning of sort of this another emergence tax departments wanting to lean into technology or seeing that rise in key tax officers' agenda in my opinion.

Announcer:

And how important has the cloud been to transforming connectivity between people and businesses on a global scale?

Brad:

Again, if you see the resiliency of companies that had gone

through a fair amount of Cloud transformation, those are the companies that have the easiest time with this.

So, I think, really the last few months has been a shining commercial, if you will, of Cloud transformation. And so we're seeing clients become more receptive to moving their workloads into the Cloud which enables, again, sort of the two pieces of the tax functions have been looking for – access and ability to managing data and in turn to work on automation. Again, to support the notion of I've got more to do with less time and less resources to do it. So I can't stress enough sort of the value of the Cloud and how the last several weeks have made us feel even more confident of our Cloud transformation journey.

Announcer:

And Sean, a lot businesses are feeling a great deal of uncertainty at the moment, how are you advising your clients to manage through this period?

Sean:

I think anytime there's uncertainty, you know, the advice to client is you have to be careful, right, because uncertainty translates different for different clients, companies of different size, you know, different resources, different areas of focus.

For the most part, though, you know, in terms of how we advise and what we see companies doing is really putting their resources into understanding the potential outcomes and doing scenario plans, so that they're in a position, once the uncertainty kind of fades away and their becomes a clearer path as to what's happening, they're ready for it.

So that might be, you know, getting through the here and now, in terms of extensions, returns, filing, getting the team set up remotely, to starting to establish the data models and interpreting the adjusted rule changes so that they're ready, you know, in all – they have everything that they need at their fingertips in order to pivot and plan at the instant it becomes less clear.

And then you have other companies that have the resources and they've already started to plan under multiple scenarios, so that they're ready when and where they need to be.

Announcer:

Brad, are you seeing examples where companies are making a case to transform based on today's current environment?

Brad:

I think what departments are facing currently is some are having even more to do – so the trend that was happening before COVID-19 in terms of 'do more with less,' is only getting more intense, so the business case to look for enablement from technology and automation has become even stronger.

So we've seen tax executives point to the urgency that it's become not a matter of choice but something that's required.

You're also seeing some departments take the 'more for more' attitude. Again, picking up on the point of there's a bunch of tax legislation that companies can avail themselves currently requires some additional work in terms of analysis of the law, modelling what that will do to them and choosing the right paths to go, as well as collecting the facts and data that support taking the various credits and the incentives.

So this rebirth and energy around tax planning is driving the need for leveraging technology and digitizing their approach. There's more ability to articulate the value of leveraging technology because it can drive potential liquidity in these times when many companies are looking for liquidity.

Announcer:

Sean, around the world there are a number of COVID related measures and incentives being offered to businesses. What are you hearing from your clients in how they are reacting to these changes?

Sean:

There's two areas of direct impact. So the one is just in terms of extensions of time to file. You know, and companies that have struggled kind of adopting to what's happened on here, are taking advantage of them. But I would say the vast majority of my clients are not. They've decided they want to keep on a normal pattern, and they've gone to great lengths to do that.

So I think that's the first one. And I think the second one is there's just legislative changes that have given relief to taxpayers, and it's different for different taxpayers in different situations. I think the biggest impact now, one is on cash flow. I think the second is on the tax accounting, and in a relatively short amount of time, because the rules often, you know, provide that you have to take into account the impact of the changes in the quarter that the legislation is adopted.

Tax departments are having to digest the new rules, interpret them, and then determine the impact it will have on the company, and that's creating a lot of work and a lot of stress on tax departments right now. So I think it's really a combination of those two things is what we tend to see.

Announcer:

Brad, how is KPMG using technology to help clients to stay on top of the changes Sean's has outlined?

Brad:

So we have definitely heard from our clients that there are two issues. One is how do I keep up in the steps, what's happening? Problem two is then being able to assess what that does for me? So for KPMG, we've enhanced our KPMG digital platform which is our proprietary client-facing front door for sort of all things tax technology for our client with a news feature. And so this is representative of sort of what we think helps with problem number one – the law that's out there – allowing clients to filter and track both from a jurisdiction basis, from a tax-type basis and a timing perspective in terms of the evolving rule set.

The second problem in terms of what does it mean for me – you're seeing companies build these fairly elaborate models to try to understand the law, what the financial impact to the company as well as the interdependency across them. And with respect to that, for us, we've got a KPMG global evaluator tool that similarly says and allows companies to do the scenario planning. That's the pattern that we see our clients doing, either themselves, or leaning into a trusted advisor – looking for enablement on what are the rules and then secondly, what's the financial impact on to me? A complex area, but I think companies are finding some help out there.

Announcer:

Sean, there are currently a number of delays in filing financial accounts in some jurisdictions, where there are COVID related tax reliefs. Do clients need to be worried about this as it relates to forecasting and filing?

Sean:

I think obviously, right? I mean I think this affects everything. You know, particularly in terms of your tax accounting, and we touched on it earlier, but there's unique challenges in terms of forecasting right now.

And, you know, the auditors will have a closer view in terms of the forecasts that are used to project effective tax rates. Where are the numbers coming from? Where is the softness in the numbers? How does it impact the allocation of taxes spent between jurisdictions?

And so, there's going to be an increased emphasis on that, and probably, a need for the tax department to get closer and closer to those numbers, because they'll have a bigger impact on the effective tax rate and maybe some of the other factors would be. And then it doesn't just stop with the tax accounting. That softness or that uncertainty will also impact things like cash flow, projections, or the calculations in estimated tax payments, because a lot of those are based on estimated numbers. And so, the ability to really understand where those numbers are coming from, not just on a consolidated basis, but on a legal entity basis, which, of course, rolling up your sleeves from a transfer pricing standpoint, and making sure, you know, on a real-time basis, you're financial model takes that into account and gets you to legal entity data. That's going to be very important. And so the companies that have those models and can run those alternate solutions and are flexible and can pivot, will be in a much better position than those who can't.

Announcer:

Thanks Sean. Brad, in many jurisdictions, tax authorities have been ambitious in becoming technology driven organizations. How are you seeing companies respond in the current climate?

Sean:

This has been one of the really interesting places, in my opinion. So the first thing to recognize is that not all tax authorities are not in the same place in their journey. So you said it well, they have

been ambitious, a number of them very ambitious; others have been more aspirational, I'd say.

And the current climate with everything going on, I would say that whereas a lot of things have been accelerated on the company side, while some have been accelerated on the tax authority side, I would say it's not as pervasive in terms of them continuing their digital journey over the last three months. Which has given companies a chance to step back and assess their own road map against it.

So again, I think a bit of dichotomy is emerging. You're seeing a willingness of certain tax authorities to realize the environment that they're in and opening up and making a few things easier. So a really easy example of that is electronic signatures. So for those of us that are still required to file a paper return in certain jurisdictions, you're starting to see a movement from a requirement of a wet signature on those to allowing for an e-signature, just recognizing the remoteness.

I think where the struggle has still been is in some of the e-filing and other areas with which taxing authorities are inserting themselves into taxpayers' tax process, the filing process, electronically and expecting that electronic interchange. We've heard a fair amount of if I didn't quite have that digital handshake correct with the government before COVID, it's gotten a lot harder.

So this is really, I would say, one of the more unsettled areas – a slight pause in some areas and relaxing in others – and there's still this kind of challenging third bucket where there's an expectation from the government that's gotten hard to manage in the current remote environment. I think this is an area that I think is unsettled and we need to keep our eye on it as we kind of continue with this new normal.

Announcer:

So, Sean, I guess this all highlights the importance of flexibility during this period?

Sean:

I think one could argue it's always important, but I think there's an emphasis on it now, and you're starting to see companies that had those skills really flex those muscles in terms of their ability to adjust on the fly, in terms of their ability to pivot from, you know, one issue to the next.

And I think the example I talked about earlier, in terms of, you know, pivoting from just getting everybody to be able to work remotely and get things done, to, okay, now we have to pivot and understand how it's going to attack, or impact, our tax provision, or how do we impact our planning going forward? And then some organizations are starting to say, "Well, you know, there's some lessons that are being learned out of this. How do we pivot and start to change the way we're going to do business even once this is over"?

And so, if that flexibility and agility, it's not only being reflected in what's happened today, but it's also being reflected in how organizations are looking forward, you know, and in how they'll come out of this.

Announcer:

And Brad, are you seeing any examples of companies pushing forward in new directions as a result of today's circumstances?

Brad:

I think, again, crisis has been a great motivator for people to look at the problem in a different way.

A really simple example is we're seeing a lot of tax departments stand up new remote working technologies. So Zoom or Microsoft Teams, things that were sort of on the backburner before, all of a sudden the roll outs are happening within days or weeks. We wouldn't have seen that without the crisis.

Another piece that we've seen requires sort of the teaming. So if you think about tax is often in strong partnership with other pieces of the organization. And leveraging the need in the current space to bring tax and finance together to help work on a forecast for a tax provision, or tax and legal to come together to understand sort of the changes in the organization structure, or tax and supply chain coming together to understand the disruptions of the supply chain given COVID are all sort of fuelling, OK, how do I transfer data more efficiently, how do I collaborate more efficiently?

Each of those sort of collaboration decisions are having folks enable new technologies. So, again, the example of the remote tools of using Microsoft Teams or file transfers or leveraging into data transfer capabilities of Cloud that wouldn't have happened before. The juxtaposition of the crisis and the need to act fast is bringing people together and getting them motivated fast. So it's been very exciting to see.

Announcer:

Thanks Brad. Sean, let's talk about outsourcing of compliance activities. How has this worked in the current environment?

Sean:

I think you're starting to see companies really become inquisitive in terms of how this model works because of what we're faced with right now.

They're able to leverage all of the investments that the outsourcing firm has been making in their own backup plan, which the accounting firms can do on a scale that no individual company would probably do just for their tax department.

I think they're also appreciating, you know, some of the benefits of working, you know, remotely, and how, you know, that flexibility and agility that we just talked about earlier with working remotely, also translates into flexibility and agility with working with other partners, like a co-sourcing partner.

And, you know, there's now a new openness to try different types of models, that before, you know, may not have been – the company may not have been in a position or had willingness to try, but now are almost being forced into that type of routine.

Announcer:

And Brad, do the tax leaders you talk to think these changes in light of COVID are here to stay, or will they go back to how things were before?

Brad:

It's funny, as I talk with various tax officers, there's a range of where this will all land in terms of a new normal. Having said that, it's harder and harder for me to find those that think we're going to snap back and look like we did before the COVID crisis.

And so the range has been, for the most part, that we need to define tax operating models that support probably a hybrid model where we find ourselves working remotely a little bit more than we did before, on the low end. On the high end, have heard from some chief tax officers that they really don't expect any full-time reengagement in person of their tax departments in the future. So you see this range.

That new way of working, as I said, is going to impact sort of the target operating law for tax functions going forward.

Announcer:

Sean, picking up on some of the things Brad has just said... Prior to COVID-19, many organizations were rethinking their Target Operating Models for their tax functions. From discussions you've had, is this intensifying or something tax leaders are shying away from?

Sean:

So it's probably a tad early to know for sure, because we're still in the middle of it. But I can give you a couple points of reference. One is, you know, to the extent we've entered into these discussions around the tax operating model before the crisis, those conversations haven't stopped. So that tells you that it is still top-of-mind, and probably even more top-of-mind based on the experiences that our clients are going through. I think the other piece of anecdotal evidence is just through conversations we've had with CPOs and CFOs.

This idea of advancing the target operating model of investing has become very popular. They're much more focused on how agile their work force is. Are there alternative ways of resourcing, you know, different elements within their tax department?

And I think seeing what's happened over the last few weeks, and, kind of, the opportunities that can fall by the wayside if you're not prepared for something like this, and you don't have an operating model that's agile, you know, is generating conversation.

And so, I would anticipate that the conversation that we're seeing now will carry over into much more detailed conversations, discussion, and, you know, companies taking a closer look at this operating model in light of this new environment. I just think, you know, what we're going through recently may accelerate some of these conversations and change the way we have this conversation.

Announcer:

Thanks Sean, and finally, as we bring this conversation to a close, I'd like to ask both of you what your predictions as we emerge from this situation? Brad, can I start with you.

Brad:

A tough question, none of us have a crystal ball, but probably a few come to mind that I'd want to highlight. One, I think without a doubt technology continues to move up on the agenda, which should be an enabler for tax functions to continue to evolve.

I think another one will be how they access technology, so historically, a lot of companies felt that they were responsible for assembling and building their own technology. And my sense is because this is an area where they want to be both really solid and leaning into current and emerging trends, there's going to be this movement to even more sort of outside-in thinking in terms of where they acquire their technology.

I think another trend that we'll see is on the human side, the tax professional of the future, if you will, you're going to see tax folks get more technology advanced in their skills. So I think you're going to start to see this movement to citizen developers, if you will, that they're almost two-thirds tax person, one-third technology person.

And then, finally, I would say I think coming out of this you're going to see things like Cloud go from sort of used somewhat middling to being everywhere, pervasive, just because of the speed, the scalability, and agility that it provides. But also things like artificial intelligence. I think the thirst for hyper-automation is going to drive greater demand and use of artificial intelligence. And we're already seeing a third example around block chain. I think just in the middle of this crisis you're seeing folks use block chain for trade and customs and intercompany pricing. I just think that that's technology's beginning to get proven a little bit more in the midst of this crisis.

So those are just a few, I'm sure you'll have your own but those are the predictions I see coming out of the crisis.

Announcer:

And Sean?

Sean:

So it's interesting, I think the obvious answer here that you keep hearing from everybody is, well, you know, "the world will change in terms of virtual meetings and virtual workplaces and everybody will work from home and the meetings will stop" – and I do think there's obviously a lot of truth to the level of comfort people will get with the environment that we're working in now – but I don't think it will be as severe as we necessary think. I think there will be an equilibrium that we'll reach. I think this is a challenge. I think we probably needed a challenge to our business, in terms of how we work together. I think this has clearly done that. It's made us rethink that. But I don't think it will necessarily settle at the extreme we're in today.

It'll challenge the leaders to think of the best way to optimize their tax department, and that'll land somewhere in the middle, in terms of, you know, where people are located, how they work together, the technology they use, et cetera. But, to be honest, I'm extremely bullish. I think anytime you go through a crisis, I think that's really when, kind of, the ingenuity and the leadership rises to the top.

And I won't be surprised if we see that with most of the organizations that we're working with, that it'll be a very difficult period for everybody, but then when they come out of it, I think there'll be some real benefits that we reap as a profession.

Announcer:

Sean, Brad – on behalf of our listeners, thank you for your time today, and for sharing your thinking around the global impacts of COVID-19 on tax compliance and technology processes, and the ways businesses can transform in a digital way as they plan and prepare for the future.

Sean and Brad:

Awesome, thanks for your time today. Cheers.

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