Chief Tax Officer Insights

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Topics in this issue

Amid uncertainty, CTOs navigate the new tax law.

Post-reform, technology reshapes tax operations.

Never before has the tax department played such an integral role in the success of the business. Chief tax officers (CTOs) are expected to align tax with business goals, drive strategic value, increase transparency, and improve the efficiency of tax operations. KPMG LLP's *CTO Insights* is designed to highlight top-of-mind issues for tax executives and ways CTOs are addressing these opportunities and challenges. We are confident that you will find each issue of *CTO Insights* practical and actionable in demonstrating the value you and your department bring to your organization.

Amid uncertainty, CTOs navigate the new tax law

Tax reform was top of mind in the business community long before it was signed into law in December 2017, and it will not be going away anytime soon.

In fact, U.S. businesses are already feeling the first effects of the new U.S. tax law. With the reduction of the top corporate tax rate from 35 percent to 21 percent, many organizations are freeing up cash flow to invest in other strategic areas. Economically, most signs are trending positive, too.

But there are challenges ahead. Rather than debating the merits of the law, the conversation in the tax department now centers on the challenges of implementation. Given the speed at which the bill went through Congress, some aspects of the law are not only lacking in detail but full of ambiguity, leaving CTOs searching for more clarity. This is particularly true of an array of provisions related to international taxation, which, taken together, significantly expand the base of cross-border income subject to U.S. taxation and may actually increase costs for some U.S. companies.

To plan for the future, stakeholders—from the CEO and CFO to the board and audit committee—need informed insights about what the new law means for their businesses. How will different provisions affect current revenue projections? How can their companies seize potential tax benefits? What changes to their current business and operating model will best position them for long-term growth? But CTOs are struggling to find the answers. Reliably forecasting the implications of the tax bill is incredibly difficult amid such complexity.

While the current political climate in Washington makes it highly unlikely Congress will pass a technical corrections bill in the near term, which would require bipartisan consent, regulators are currently working to address a wide range of issues in the new law. Further guidance will set off cycles of regulatory proposals, taxpayer comments, and refinement to the rules that gradually settle the state of the law.

Given expectations for greater clarity, many organizations are taking a "wait-and-see" approach and pausing mitigation actions for now. Of course, some companies—driven by a clear need—are forced to act despite the current levels of uncertainty. For example, organizations facing significant tax consequences may choose to forge ahead and address immediate tax issues to avoid any business disruption. Ideally, an organization facing such a situation would implement a straightforward solution that could be enhanced or even reversed once regulators resolve some of the law's ambiguities.

Questions to consider

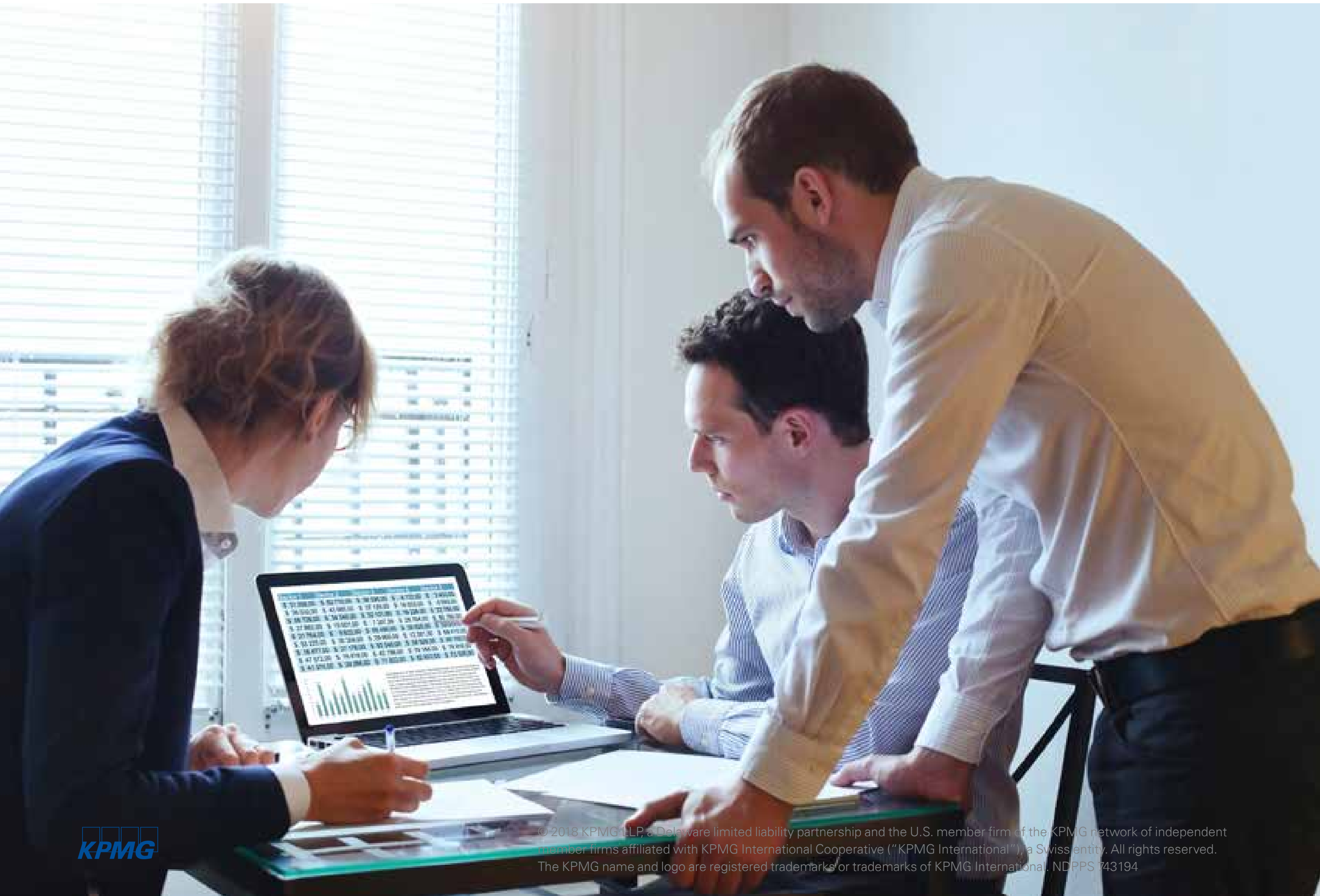
- **Given the new tax law's effect on current business conditions, are your revenue projection models still accurate? How can you modernize your tax analysis and forecasting approach to provide more useful insights to decision makers?**
- **The U.S. Treasury Department has indicated that formal guidance may be coming related to unclear provisions in the new U.S. tax law. Should you act now or wait? What makes the most business sense, both short term and long term?**
- **The new U.S. tax law is just one of many factors causing tremendous change in the tax function. What new skills and capabilities are necessary for your tax department to meet the organization's future tax needs?**

Amid uncertainty, CTOs navigate the new tax law (Continued)

Consider how two different multinational organizations could approach international tax planning.

One company is looking to reduce its debt burden in response to the law's newly expanded subpart F provision, which is intended to stop U.S. companies from deferring taxes through the use of offshore, low-taxed entities. Anticipating a significant global intangible low-taxed income (GILTI) charge arising in 2019, the company could work to reconfigure the taxation of its foreign earnings before the rules will apply.

In contrast, another multinational organization could accept a relatively manageable near-term GILTI payment in hopes that adjusting further down the road—when more guidance is in place—will ultimately result in a better long-term solution.



Post-reform, technology reshapes tax operations

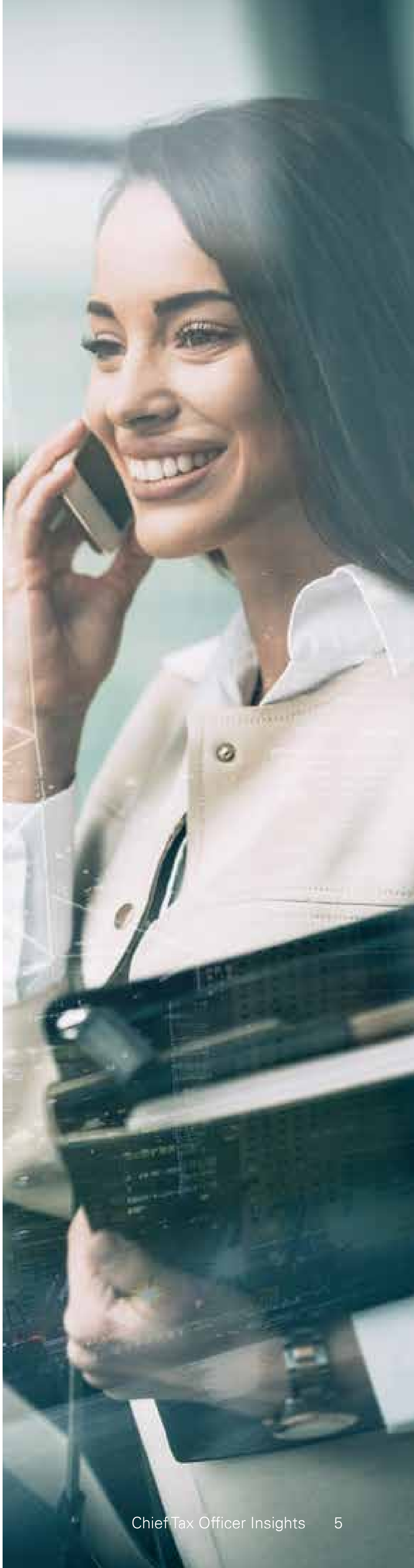
Modernizing the tax department with ever-advancing technologies like data and analytics and intelligent automation has a permanent spot on nearly every CTO's wish list. And now, the new U.S. tax law—which has pushed tax to the top of the business agenda—is helping them make a stronger case for investment. Over the next two to five years, tax departments will be especially focused on introducing innovative tools to better manage data and automate human tasks.

As organizations begin to navigate the ins and outs of U.S. tax reform, data—or lack thereof—is becoming a major cause for concern. Many companies—especially those with global operations or online businesses—must collect more data, with more detail, from more jurisdictions than ever before. In the most highly regulated industries, the data requirements have become truly massive.

Unfortunately, many tax functions have found they either don't have all the data they need or it's not managed in a way that makes it practical for everyday tax operations. At the same time, their current tax code calculation processes simply don't provide the mix of scope and detail required to meet the complex requirements of the new law. But it's not just a data volume issue. U.S. tax reform in particular has introduced a number of tax "cliffs" that now require significant precision in determining tax attributes. Simple human error can now have significant tax consequences.

For example, one of the most immediate challenges facing tax departments is meeting the need for legal entity data. Many organizations currently lack legal entity data or only have it in a relatively unusable format. In fact, legal entity data management often relies mainly on Excel and manual and time-intensive processes that lead to a number of critical issues: duplicate work, version confusion, lost data, and audit difficulties.

CTOs are tackling the legal entity data challenge in a number of ways. Some are working to establish global legal entity reporting within a new consolidation tool. Others are implementing more robust reporting processes through its legal entity management system or have plans to invest in workflow management tools to improve data access, management, and automation.



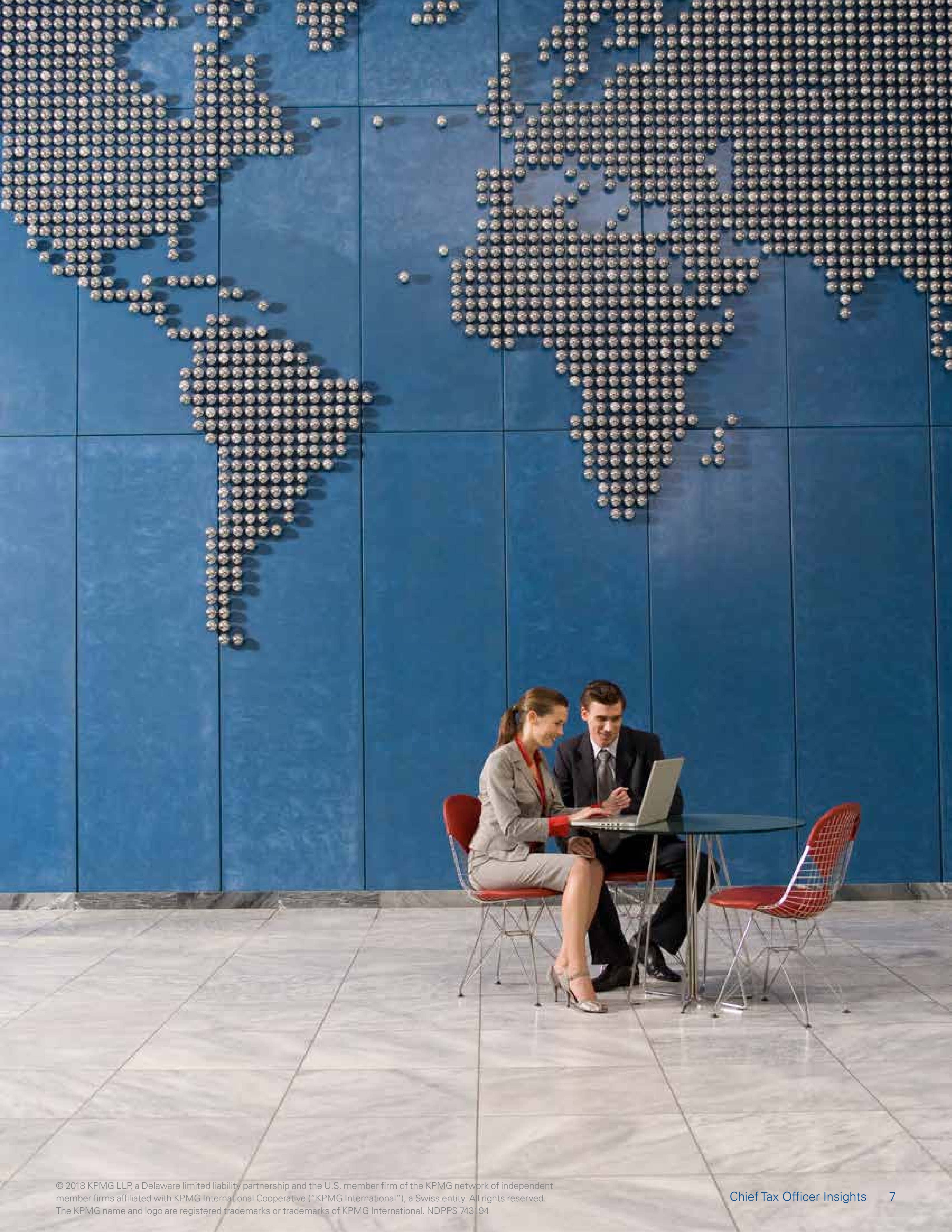
Questions to consider

- How does tax reform change your tax function's business case for technology spend?
- As you build the tax function of the future, is your data good enough for the tools you want to use?
- What tax system alternations will help you address data-related roadblocks?

Tax reform is serving as an impetus for other technology improvements as well. Facing new responsibilities and compliance demands, many CTOs are seeking to embed intelligent automation—a broad spectrum of digital technologies that augment human tasks—into a wide variety of tax processes to assist human tax professionals. As tax teams manage increasingly complex regulatory requirements, these novel tools can help save time, reduce costs, and improve quality. For example, many tax functions are experimenting with intelligent automation for simple and repetitive tasks, such as cutting and pasting content from one tax system to another, as well as far more complex work, such as analyzing unstructured data sets used in certain filings.

Of course, data can sometimes be a stumbling block. We have seen a variety of data issues hamper efforts to transform the tax function through intelligent automation. For example, impure data, particularly in the general ledger, often delays automation goals. Even tax functions that are already far down the road with an automation solution may need to go back and add front-end data cleansing processes, reducing planned efficiencies.

To solve data quality challenges, some tax functions are deploying user-friendly tools to advance data gathering, organization, and analysis—and get data ready for automation. Others are building data lakes or warehouses designed to draw in the underlying data required to improve overall data quality and drill down capacity in the general ledger.



For further information

Explore the resources below for deeper insights on the topics in this edition of *CTO Insights*.

Topical resources

KPMG's tax reform Web site

The site contains numerous resources to help stay abreast of the latest developments.

KPMG Tax Innovation Web site

For insights that will change the way you think about tax.

KPMG's Tax Function Benchmarking Study 3.0

The survey helps tax professionals gain insight into their practices and identify improvements needed to demonstrate the strategic value that their department can bring to their overall organization.

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