Chief Tax Officer Insights

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Topics in this issue

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.

Taxation of the digital economy

CTOs are increasingly focused on the growing worldwide debate related to initiatives on taxing the digital economy. Much uncertainty exists as tax authorities are pushing for short-term measures while also working through the OECD to develop a permanent solution. Some of what is at issue in the long term is the allocation of the taxable income "pie" across jurisdictions and getting the United States to participate in the conversation.

Digital Services Tax (DST) proposals by the European Commission and by individual countries on a unilateral basis are particularly concerning for CTOs who originally believed that only certain large technology companies would be affected. They now recognize that other industries may not be far behind as they grow increasingly dependent on data and digital capabilities as a value source. There is a growing concern that if DST measures proliferate around the world, they will eventually include more than digital advertising, taxing the revenues of all taxpayers to the extent they can be tied to "digital assets." Although the proliferation of revenue-based DST measures can be forestalled by reaching a global consensus on how to change the international tax system to address the digital age, CTOs worry that these long-term changes to global tax norms may extend into all industries—not just technology.

To make matters more complicated, while efforts by Brussels and France's government to establish an EU-wide DST have failed to garner the necessary support to become law due to rejection by some countries such as Ireland and the Netherlands, other countries are actively advocating for the new tax. This has led to a number of countries enacting or announcing the enactment of unilateral DST regimes, each likely to be different in its own way. Global consensus on how to adapt current international rules is essential to impede proliferation of unilateral DST measures. In this regard, the OECD is working hard through an "inclusive framework" of more than 120 countries and jurisdictions to gain that consensus, but time is running out. If consensus on an approach is not reached by the June 2019 G-20 Summit in Japan, additional countries are likely to "go it alone" with a DST.

CTOs are generally concerned that their voice is not being heard on these issues. While they believe that the U.S. Treasury is open to engaging with the business community on this issue, many CTOs feel Treasury is limited in understanding the full implications of these proposals across different business models. The ability to influence these initiatives will depend in part on the business community's willingness to work towards a solution that satisfies governing bodies and businesses alike.

Questions to consider

- **How closely are you following the digital tax debate?**
- **How could a DST impact your company?**
- **Are you prepared to respond to Europe's proposed digital tax law?**
- **How would the changes to the digital tax law affect plans to expand operations in Europe?**

Evolving the modern role of tax and talent

Questions to consider

- When seeking potential hires, what do you value more—tax knowledge or technology skills?
- What additional skills would your ideal tax hire possess?
- How is your tax function evolving to foster a better understanding of tax among upper management?
- How will you help develop better "soft skills" among your existing staff?

Emotional intelligence. Technology expertise. Effective communication. Innovative mind-set. Previously, such traits may not have been closely associated with tax professionals. But that was then, and this is now.

With U.S. tax reform and the complex global tax environment driving significant change, tax is increasingly a subject of great interest and sensitivity. As a result, CTOs face increasing—and evolving—demands on their tax functions, which require new skills and abilities.

It's no longer enough to be a good tax technician with insightful planning approaches. The CTO role is now one of a skilled collaborator, who is proactive about the tax process and maintains frequent interaction with other business leads. It's not uncommon for CTOs today to find themselves meeting weekly with the CFO to run scenario projections, frequently attending investor relations calls, and routinely fielding questions from board members and investors.

So, it's not surprising that CTOs are looking to staff their departments with talent able to handle more sophisticated and strategic, value-added work. Many in the industry agree that the most sought after tax talent today is truly a hybrid—part tax technician, part data scientist with a passion and curiosity for both. It's a coveted combination that, more often than not, is created by training one half to learn the other half. Opinions vary on whether it's easier to teach tax technical skills to IT staff or technology prowess to tax staff, but both will help tax departments modernize their approaches.

While cost-efficient automation will likely take on more basic compliance and provision tasks, the tax professional of the future, like the CTO, will not only need to be tech savvy but also be an effective communicator and strategic partner working closely with other business units to successfully move tax forward.

Navigating state and local tax uncertainty

Uncertainty continues to grow over the potential impact U.S. tax reform will have on state taxes and how different states will react. In fact, it's generally expected to be a source of volatility for the next year and a half or more. Add in the absence of clarity in certain instances and the situation becomes even more challenging.

Tax reform is shining a light on state issues that may not be new, but which may now be catching senior-level executives by surprise, with bonus depreciation add backs as just one example. That's why many CTOs are keeping an immediate focus on prioritization and education to keep board members and senior executives aware of evolving tax developments at the state level. The message is clear: Change is underway and state tax is now a bigger, and riskier, piece of the pie.

Consider the recent Supreme Court decision in *South Dakota v. Wayfair*. The ruling concluded that the physical presence standard that existed for decades for sales and use tax nexus is "unsound and incorrect," overruling its prior decisions in *National Bellas Hess* and *Quill*. Thus, the door is open for states to require remote sellers to collect and remit sales and use taxes. More than a dozen states have already taken action, enacting laws or regulations similar to South Dakota's law.

In the weeks and months to come, as more of these laws may go into effect, sellers will need to respond accordingly. So, what can they do now? Many may begin by conducting nexus analyses to determine in which new states they will be required to file sales and use taxes. Another proactive step includes adjusting sales tax processes to account for vendors collecting tax. Reviewing collection and filing processes could also help determine potential impacts of sales tax nexus on income tax. Any additional efforts to clean up collection and filing processes with a view on actual tax liability is a step in the right direction toward helping companies only pay tax once, and to the correct state.

As these and other state and local tax changes continue to unfold, some CTOs are giving additional senior tax team members direct responsibility over state taxes. Others are considering outsourcing portions of state tax compliance as well as automation possibilities, both internally and with external third parties.

Questions to consider

- **How have you looked to revise your business strategy in anticipation of changes to sales and use tax nexus standards?**
- **What steps are you taking to prepare for the potential repercussions of the *Wayfair* decision?**
- **Are you able to quickly and effectively review and revise your collection and filing processes?**

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 website

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

Tax Reimagined website

Think unconventionally to inspire new ideas that transform the tax function.

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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