Chief Tax Officer Insights

Navigating the new reality: How CTOs are steering the tax function through COVID-19

May 2020

kpmg.com

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 (KPMG) *CTO Insights* is designed to highlight top-of-mind issues for tax executives and ways CTOs are addressing these opportunities and challenges.

Topics in this issue

- Navigating the new reality: How CTOs are steering the tax function through COVID-19
- The CARES Act: How CTOs are seizing the benefits and limiting risks

Navigating the new reality: How CTOs are steering the tax function through COVID-19

The world continues to grapple with the health and financial implications of COVID-19. Organizations are navigating a rapidly changing landscape as they move past their initial reaction to the crisis and work to build resilience, drive a strong recovery, and transform for a new reality.

The tax function agenda also continues to shift, and the day-to-day life of CTOs is changing dramatically. As CTOs lead their teams through the crisis, they face complex risks and challenges—many of them unprecedented in our time.

Working virtually

When COVID-19 began to spread widely, one of the first priorities of CTOs was enabling the remote workforce. Tax professionals, like professionals everywhere, are now working from their homes at a far greater scale than in the past. CTOs are challenged to maintain the team connectivity and productivity in this new workforce environment.

Tax functions that operated virtually before COVID-19 have been less affected than others. But departments accustomed to being permanently on-site are being forced to quickly adapt to new ways of working.

Until people adjust to a virtual workplace, normal tasks may take longer than usual. Team members may not have all the tools they need to effectively work from home, such as large computer monitors. Some CTOs are addressing this issue by providing their people with an "allowance" to buy what they need to build a professional home office.

The shift to remote work has also spurred a broader adoption of video communication tools, which help facilitate connection points between the tax department and the rest of the business that are crucial to productivity.

In addition, certain tasks—such as processing mail and printing checks—still require a physical presence in the office. CTOs have had to develop policies and protocols to ensure business continuity and employee safety.

Employee health is also a concern. Working with other business leaders, many CTOs are taking steps to support their teams through the crisis. Some organizations implement casual virtual gatherings for employees, such as coffee breaks, fitness challenges, and happy hours, to maintain camaraderie within the team and reduce the stress of long-term social isolation. Others host regular virtual town hall meetings to share success stories and inform staff about organizational changes due to COVID-19. Many are offering relief funds to employees facing financial burdens, such as those whose spouses' have lost their jobs or are sick from the virus. And some organizations are stepping up charitable acts to first responders and medical staff, helping instill a sense of organizational pride.

Closing the books virtually

As the COVID-19 crisis continues to unfold, CTOs are now facing the prospect of closing their quarter remotely. Managing a virtual close presents numerous risks that CTOs are taking steps to mitigate.

For one, forecasting the effective tax rate, as well as future earnings and payments, is very difficult given current economic volatility—especially for companies experiencing an extreme loss of revenue due to COVID-19. Given the sensitivities of the annual effective tax rate to small changes in the forecasts of profitability in certain situations, some CTOs are discovering they cannot make a reliable estimate of the annual effective tax rate and are using the actual effective tax rate for the year to date as the best estimate of the annual effective tax rate, including some that have not used the actual effective tax rate for the year to date in previous business cycles.

Second, the physical distance between tax and accounting professionals may lead to increased risk of a miscommunication about the meaning of financial amounts, potentially resulting in missed tax implications. Some CTOs are scheduling regular touchpoints—even daily—to keep teams closely connected. Some are also implementing extra layers of review to ensure nothing is overlooked and no mistakes are made.

Finally, the virtual environment may encourage people to communicate via text message and other alternative communication channels. CTOs are concerned about inadvertent sharing of sensitive material and are encouraging their teams to pick up the phone if conversations start moving that way.

Finding liquidity

Identifying immediate cash opportunities and improving cash generation are now primary focus areas for tax executives as they navigate the impacts of COVID-19.

The current state of the economy is forcing many organizations to review the liquidity of their businesses and take steps to bring cash back to the business. As cash opportunities take precedence, certain tax projects and activities are being put on hold. Some organizations are hitting the pause button on in-progress transactions. Others are implementing hiring freezes and requiring executive approval for discretionary spending.

CTOs of organizations that are facing a cash crunch have the option of deferring tax payments across additional quarters. Some are choosing this option to preserve liquidity now. But others are not. By opting to continue to submit tax filings on time, these CTOs aim to avoid a backlog of other compliance work and give the organization more time to prioritize future planning projects capable of rebuilding damaged business lines.

Navigating nexus

Another oft-overlooked impact of COVID-19 faced by tax departments is its implication on state tax nexus posture.

As shelter-in-place orders lead to widespread telework, it may potentially trigger issues with nexus rules for certain organizations. This includes companies with employees who typically cross state lines to come to the workplace, such as residents of New Jersey and Connecticut suburbs who commute to New York City.

Different jurisdictions are beginning to address concerns regarding permanent establishment rules for virtual workforces. Certain states, such as New Jersey and Mississippi, have stated that they will not include remote workers forced by COVID-19 in state tax calculations, but it remains to be seen if other states will follow suit. CTOs are closely tracking developments in this area to ensure they are in compliance.

Questions to consider

How will you help your tax team maintain productivity, connectivity, and employee well-being in the virtual working world?

How will current economic uncertainty impact your tax department's near-term priorities?

How will your move to a remote workforce impact your tax function operating model after the crisis is resolved?

The CARES Act: How CTOs are seizing the benefits and limiting risks

COVID-19 is disrupting society at a level the world has never seen before, and the implications for business and commerce are immense. As a result, governments around the world are taking legislative steps to protect and ignite the economy and support businesses financially through the crisis.

CTOs are now carefully reviewing the benefits and risks of COVID-19 stimulus packages and relief measures for their organizations. The most wide-reaching bill in the United States is the Coronavirus Aid, Relief and Economic Security (CARES) Act. Most significantly, the legislation provides a substantial employer tax credit for retaining staff through the crisis. As a whole, the bill is quite complex, with both immediate effects (financial aid opportunities) and downstream effects (on operations and supply chains). As such, it isn't always clear which organizations qualify for relief—or whether applying for it is in the best interest of the business and its employees over the long term.

Protecting the corporate reputation

Given concerns over reputational risk, the CARES Act has become somewhat of a sensitive subject in the C-suite of many organizations.

There are two conflicting perspectives on the CARES Act. Taking a government subsidy can bring short-term financial relief that may be critical to the health—or even survival—of certain organizations. However, some organizations—particularly large multinationals—may incur reputational damage if they are perceived to be taking an unnecessary government handout that could have been better used to assist smaller, or less successful, businesses.

Some organizations are taking a long-term approach to business strategy. Feeling the reputational risk of accepting government assistance is too high, they are choosing not to apply for a benefit and are instead taking actions to cut costs, such as temporary employee pay cuts and furloughs and reduced discretionary spending.

For businesses that do decide to apply for a relief credit, communicating the right justification is critical. For example, an organization may prepare a statement to enlighten the public about the costs it has taken on to provide personal protective equipment for their staff and sanitize their facilities. The last thing organizations want is to become the subject of an investigation into predatory stimulus claims.

Implications for financial and tax reporting

The CARES Act offers companies a credit for retaining employees, but this raises questions around its impacts on financial and tax reporting.

For example, the statute has the potential for companies to have to make difficult judgments as to their ability to sustain the credits. The employee retention credit is generally not considered an income tax credit and is not subject to the model on accounting for uncertainty in income taxes. A business may claim a credit in its payroll tax return filings and evaluate the need for a reserve based on whether an obligating event has occurred and the guidance around contingencies.

Form 7200 from the IRS also sheds light on a request for an advance payment of employer credits due to COVID-19. The form instructs taxpayers to utilize the credit not just against Social Security taxes but also against the remainder of payroll. This means many entities can look at how much they're withholding and still fully realize that credit without having to go for a refund. The IRS instructions say to utilize the credit as much as possible against the positive and to utilize the form to get a refund.

CTOs also face difficulties in tracking salaried employee work hours in order to make the retention credit request accurate. Some organizations intend to send out time surveys instead of using a revenue calculation and lean on the conservative side by only claiming the credit that the documentation can support. Others plan to claim the credit only for people who have been kept employed who otherwise would not be.

Questions to consider

How are you approaching the CARES Act?

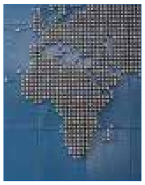
How will you weigh the benefits of CARES Act aid versus the potential risks to your corporate reputation?

How will you adapt tax processes to accurately report employee retention credits?

For further information

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

Topical resources



COVID-19: Insights on Tax Impacts

COVID-19 is having wide-ranging economic, business, and social impacts. Tax, trade, and other authorities around the world are responding with regulatory change, relief measures, and extensions. Updates on these developments and tax insights from KPMG related to the impact of COVID-19 on business can be found here.

The CARES Act – Executive Summary

The main tax and nontax provisions of the more than 800-page CARES Act are summarized in one page, outlining the act's breadth of provisions intended to help businesses and individuals mitigate the impact of COVID-19.

Contact us

For previous editions of *CTO Insights*, please visit read.kpmg.us/cto-insights.

Follow KPMG's U.S. Tax practice on Twitter
@KPMGUS_Tax

Jeff LeSage
Americas Vice Chairman, Tax
T: 212-872-2100
E: jclesage@kpmg.com

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

kpmg.com/socialmedia

The information in *CTO Insights* is based on discussions between KPMG professionals and CTOs at their clients as well as with government contacts.

The following information is not intended to be "written advice concerning one or more Federal tax matters" subject to the requirements of section 10.37(a)(2) of Treasury Department Circular 230.

The information contained herein is of a general nature and based on authorities that are subject to change. Applicability of the information to specific situations should be determined through consultation with your tax adviser.