



Chief Tax Officer Insights

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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. *CTO Insights* from KPMG LLP (KPMG) 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 the information in each issue of *CTO Insights* practical and actionable in demonstrating the value you and your department bring to your organization.

Tax reform: Where are we now?

After the 2016 U.S. presidential election, CTOs were optimistic that tax reform would be imminent. Both President Trump and Congress made reforming the tax code—perhaps radically so—a major priority. In addition, Republican control of both the executive and legislative branches seemed likely to reduce the impact of opposition to any tax bill put forth for a vote.

Now, tax reform continues to occupy the headlines, but meaningful activity is largely at a standstill. Questions still abound, and inconsistencies are still prevalent between the president's tax plan and the GOP Blueprint—the tax reform proposal outlined by the Ways and Means Committee in June 2016.

One fact is clear: Both plans call for the corporate tax rate to decrease—the Blueprint would reduce the corporate rate to 20 percent, while President Trump has promised a 15 percent rate. But many other aspects of tax reform are still foggy.

The Blueprint lacks noteworthy detail around the controversial proposal for border adjustability. The border adjustability tax (BAT) is considered a cornerstone agenda item for a revenue-neutral rate cut, but some CTOs worry it could spark international backlash and lower global competitiveness.

Although a few new details have emerged since Election Day and Inauguration Day—such as a stronger embrace of territoriality than he showed during the campaign—Trump's plan is still basically a high-level outline of his overarching vision for a simpler, lower-rate tax system. It is also still unclear to what extent the White House supports key aspects of the House Blueprint, including the BAT, deductibility of interest, and expensing.

It seems that CTOs are not close to seeing a concrete tax reform package and that almost everything could still be up for negotiation. In addition, repealing the Affordable Care Act (ACA) has taken precedence for the Trump administration, but even that process has been hindered by many setbacks. As the ACA repeal continues to consume resources and political capital in Washington, the road to passage of tax reform seems to only stretch longer.

So how should CTOs expect tax reform to play out? Roughly in order, here are some possible steps ahead before a tax reform bill is signed:

- **Congress approves** a budget, along with budget reconciliation instructions for tax reform. This unlocks the possibility of a 51-vote vehicle for tax reform in the Senate.
- **The House acts:** It releases and passes a tax bill, converting some version of the Blueprint into fully operational legislation.
- **The Administration acts:** It completes its other priorities, including addressing healthcare reform and releasing a more detailed tax budget.
- **The Senate acts:** If the bill passes the House by a convincing margin, the Senate will likely follow a similar approach to tax reform. If it passes with only a minimum number of votes, the Senate may pursue its own plan, possibly not based on the Blueprint.
- **The bills are reconciled:** Congress reconciles differences and develops a compromise bill, which must pass both the House and Senate.

Questions to consider

- **When do you think the earliest effective date for tax reform will be?**
- **How close to the current Blueprint draft do you think final tax reform legislation is likely to be?**
- **What do you think needs to happen in Washington for lawmakers to achieve a consensus and move forward on tax reform?**

Tax reform: What steps are CTOs taking?

Questions to consider

- Have you evaluated how specific tax reform proposals affect your organization?
- How is your organization planning for the anticipated reduction in tax rates?
- Are your modeling efforts giving you a clear picture of how to plan for tax reform?

If you are following the developments in Washington, you know it is hard to say anything with certainty about U.S. tax reform, and that is making preparing for tax legislation very challenging for CTOs.

But the issue is not going away. Whether tax reform proceeds or not, CTOs need to be prepared. So what are CTOs doing today?

Planning

The current uncertainty is raising numerous questions about tax planning for corporations. There are generally two schools of thought: hold tight and do not move anything strategic forward until concrete details are released, or identify potential opportunities to prepare for and implement.

Most CTOs are continuing to plan using a dual path—accounting for best and worst case scenarios of the Blueprint and the Trump plan. Some are drawing up parallel plans of what must be done, with or without reform, to be ready for action either way.

The key tax planning opportunities for CTOs to consider in the immediate term include:

- Accelerating deductions and deferring revenue to prepare for possible tax rate reduction
- Reducing earnings and profits and reevaluating use of foreign tax credits

- Discontinuing measures to develop intellectual property (IP) offshore and revisiting previously offshored IP or assets/businesses
- Evaluating realignment of value chain arrangements.

Modeling

Many CTOs are at least attempting to model tax plans and potential rates under anticipated tax reform. Some are conducting extensive modeling to dig deeper into contingency planning and prepare for potential impacts.

Due to the lack of information currently available, CTOs face significant modeling challenges, especially when it comes to the macroeconomic elements of the reform puzzle. In some cases, different models can produce different results, causing further confusion among tax and business leaders.

CTOs are also challenged to model post reform outcomes based on both reform proposals—President Trump's plan and the Blueprint—without the concrete details they need to make them confident about any decisions that might be drawn from the modeling efforts.

Tax reform: How are CTOs communicating?

The importance of tax reform, the amount of news coverage it is receiving, and the shortage of any concrete details around what a new law might actually look like mean CTOs are having to manage expectations and actively educate senior executives about what the impact of tax reform will be for their individual organizations. At the same time, they are often charged with communicating their company's position and outlook to external stakeholders, including customers and shareholders, analysts, and economists, as well as the policymakers who will shape how tax reform ultimately plays out.

What are some leading practices for tax-reform-related communications?

Internal communications

How do CTOs help CEOs manage the great unknown? Providing something directional regarding tax reform for management is a very difficult challenge. Given such little specific information, so many hypotheticals, and so much expected change before the final product, CTOs are struggling to prepare leadership for what *might* happen.

Typically, senior management presentations are high level, focused on providing context and explaining the moving part of the issue. But some CTOs of organizations suffering from "tax reform fatigue" are moving to less frequent updates. As a result, CTOs are giving less periodic updates and very high-level analysis of impacts to the CFO or audit committee, rather than the full board.

Key topic areas include cash flow, effective tax rate impact, and how and where the different aspects of reform—such as repatriation, lost interest deductibility, border adjustability, and overall lower

rates—will be felt. Many CTOs are also preparing briefings that specifically focus on the convergences and divergences between the Blueprint and President Trump's plan. Others are more focused on managing the rumor mill about different aspects of reform.

The BAT is a significant area for concern and a key focus of many conversations with C-suite leaders and boards. Among those on both sides of the divide—those who see BAT as a risk, and those who see BAT as an opportunity—there is a lot of misunderstanding about the tax and its implications. Therefore, a key task for CTOs has been educating and guiding C-suite leaders on supply chain- and procurement-related decisions.

External communications

For many, lobbying is an important strategy in managing the outcome of tax reform. CTOs have been informed by Congressional tax writers that now is the time to provide input into a tax reform bill. Once the bill is out, changes will be difficult to achieve.

Therefore, many CTOs are working to push their agenda through lobbying efforts to lawmakers in Washington. Direct contact, they find, is most effective. Many CTOs have also joined advocacy groups that share their tax reform interests, including industry-specific groups.

Analyst calls are also focusing on tax reform, especially related to BAT. In talking to analysts and other stakeholders who might take action in the market based on the conversation, CTOs typically try to be extremely cautious in their outlooks and avoid specifics, even if they think their company will benefit under BAT.

Questions to consider

- What message regarding tax reform are you communicating to your company's leadership?
- Are you aware of inaccuracies about tax reform that could shroud management's judgment and decision making?
- How are you seizing opportunities to lobby Congress for tax reform legislation that would be favorable to your company?

Tax tech: Bots have arrived

Digital labor is a buzzword across many industries and functions, including tax. In an environment where they are being asked to do more with less, CTOs today are challenged to understand how digital labor can transform the efficiency and accuracy of their core business functions and enhance the value they bring to the organization. But first, they have to understand it.

The game-changing technology that falls under the broad category of digital labor goes by many monikers: robotics, robotic process automation, “bots,” machine learning, cognitive automation, intelligent automation, artificial intelligence, big data analytics, and digitization. Whatever it is called, it is clear that digital labor is going to be hugely important to the tax profession, changing the way tax departments do business.

Of course, tax departments have been leveraging technology for years to augment how they perform tax services. But this time is different. Digital labor technologies can take over a wide variety of activities previously performed exclusively by humans. At the low

end, that includes automating simple activities, such as cutting and pasting content from one system to another. At the high end, computers can actually be trained to do work that involves thinking and reasoning, such as making tax decisions regarding questions such as what expenses are deductible. Indeed, digital labor technology will enable CTOs to bring together massive amounts of diverse, unstructured data, explore almost-limitless alternatives and hypotheses, and quickly form conclusions about tax strategies and positions.

So how are tax departments benefiting from digital labor today? They are beginning to explore the possibilities. Many are forming teams to identify what processes to automate—usually processes that will provide the most benefit and that have the right circumstances for utilizing digital labor, such as routine, data-driven, and repetitive tasks that are common in areas like value-added tax, sales and use tax, and indirect tax. Some tax teams are test cases for the larger organization, as some basic tax processes could serve as ideal use cases for the use of robotics.



For example, a tax department could use a “software bot” instead of a human to populate a database, in order, for example, to set up state tax folders for unique entities. The bot could set up the folders with a single click, where it might take a human tens of thousands. And the bot would do it with a much higher level of precision than any human could.

As another example, more advanced digital labor solutions could help a tax team efficiently capture and analyze information from hundreds of Form K-1s from hundreds of different funds and partnerships in order to expedite the tax filing process and enhance the quality and consistency of the results.

Clearly, the benefits of digital labor to a tax function could be enormous. Digital labor has the potential to make tax functions run more quickly, smoothly, accurately, and, best of

all, strategically. It is not just about saving time and reducing manual error. Instead of performing manual tasks and checking the outputs of those tasks, tax professionals are freed up for higher-level and higher-value activities—and to take on more work, too. That drives greater job satisfaction within the department and supports tax department goals related to strategy, risk and skills, communications and measurement, and effectiveness and efficiency.

Wherever your organization is on its digital labor journey, change is inevitable. That is why it is important CTOs embrace this innovative technology, understand it, get ahead of it, and be an early adopter. Those who do will be primed to garner big returns in terms of speed, efficiency, improved employee satisfaction, and depth of insights into the business.

Questions to consider

- **Do you believe robotic process automation tools will offer value to your tax function?**
- **Has your tax organization made any digital labor investments or started piloting digital labor solutions for certain tasks?**
- **How are you planning for the impact of digital labor on your functional workforce?**

For further information

For further information, we have included links to relevant materials below. As always, please reach out to us to discuss any of these topics further.

Topical resources

[Outlook for U.S. Tax Reform Web site](#)

For ongoing KPMG insights into the outlook for U.S. tax reform

[Tax Innovation Web site](#)

For tax innovation capabilities that can help improve and sustain performance, manage risk, and deliver value through tax

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