

Tax Function of the Future

Harnessing the power of uncertainty

Tax priorities for 2020

With a US presidential election on the horizon, doubts about political and economic stability, and continuing shifts in global tax policy, 2020 promises to be an eventful year with uncertainty around the impact that these factors will have on the business and tax community. Although the unknown can be concerning, change can be an opportunity for organizations to build needed resilience and agility. How should you prepare for what lies ahead in 2020? Here are several matters to keep top of mind this year.



The US economy – Is a downturn on the horizon?

2019 concerns that we were heading towards an unavoidable recession have waned since the official unemployment rate remains at a near record low as of December 2019 (Figure 1).

In addition, Blue Chip economists continue to forecast increases in economic growth throughout 2020 (as of January 2020, Figure 2); however, 2020 growth rates are expected to be lower than they were in 2019. This forecasted trend towards a softening economy may require you to take action.

Figure 1: Unemployment near record lows

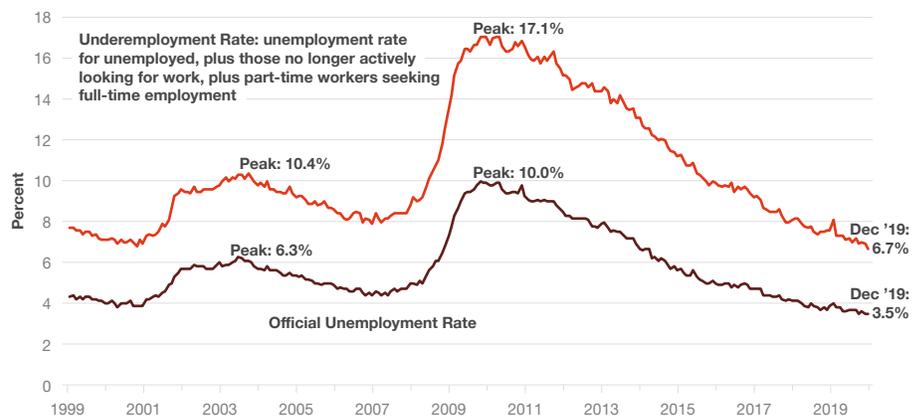
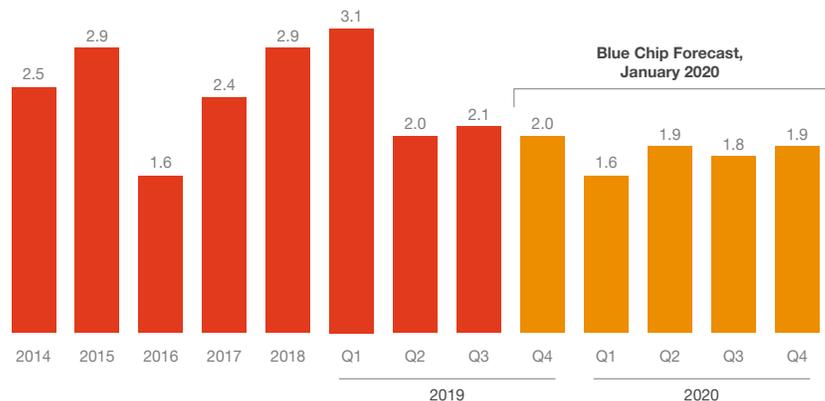


Figure 2: Blue Chip economists forecast slowing US GDP growth



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'No regrets planning'

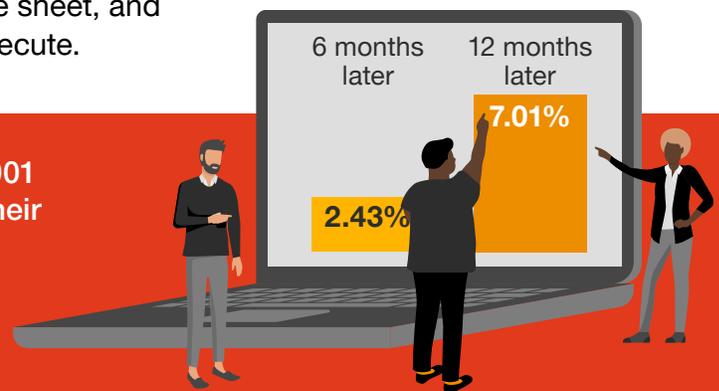
Scenario planning has the power to give you confidence in the decisions you make amidst uncertainty. Proper planning can have a significant impact across your enterprise, including the following areas.

The Deals environment

Our PwC analysis shows that an economic downturn could present opportunities for buyers due to the level and mix of available capital; however, buyers will need to prepare, aligning their business, strengthening their balance sheet, and performing the analysis needed to successfully execute.

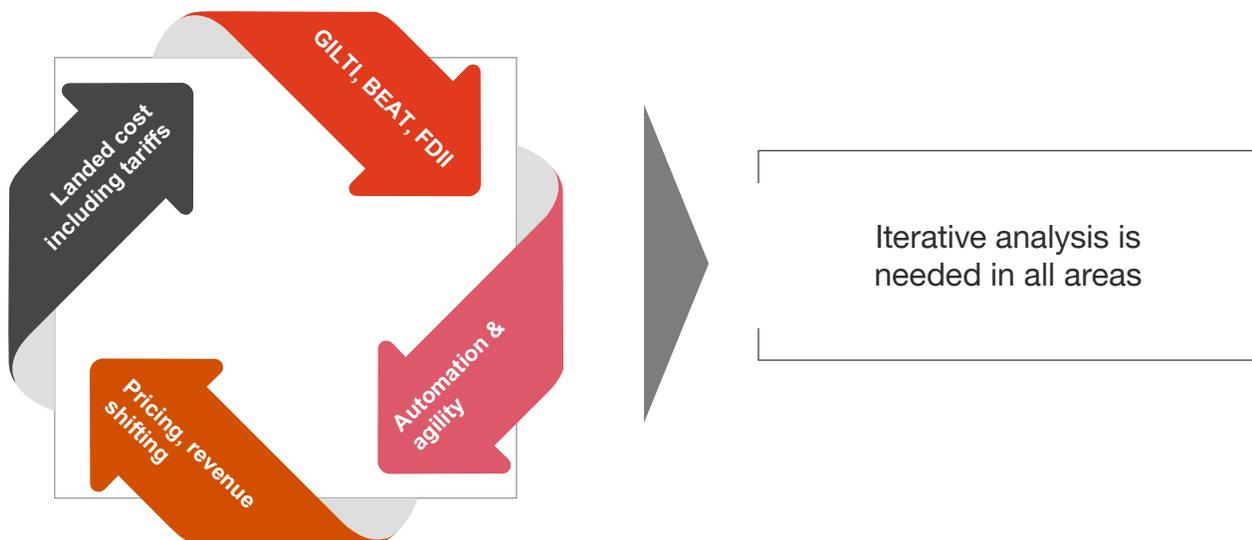
Companies that made acquisitions during the 2001 recession saw better shareholder returns than their industry peers in the months that followed:

Note: Median returns for each deal vs. relevant S&P 1500 sector index
Source: PwC analysis of Capital IQ data



Supply chain efficiency

An economic downturn combined with trade and tariff concerns may cause businesses to modify their global footprint to reduce costs. Such operational changes could have overlapping impact across various tax areas. Iterative analysis that considers tariffs, pricing, and new US tax reform provisions (GILTI, BEAT, FDII) is needed to estimate overall impact.



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Do you have good data for analysis?

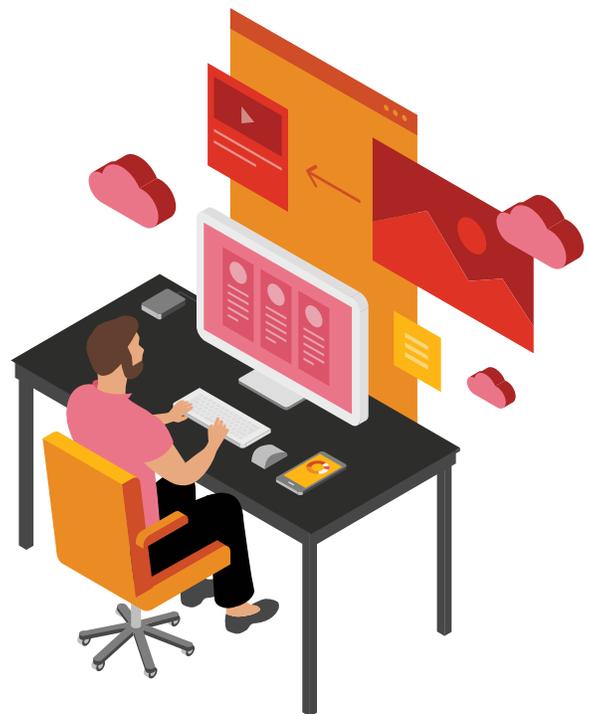
Tax impact is an important aspect of a business scenario planning exercise; however, such analysis is useless without good data – and, at worst, poor data could lead to faulty decision making. What approaches are you taking to secure good data for timely analysis?

Automation and integration

In our 2019 tax priorities edition, we discussed the emergence of ‘small automation’ – tools that Tax professionals can use themselves to automate the extraction and analysis of data from source financial systems. The next phase of automation for tax is gaining popularity. It builds on the foundations of earlier efforts and focuses on broadening scale, integrating automation across multiple solutions and functions, and applying governance for sustainability.

Governance

The modern Tax function is embracing the concept of a structured group within or outside of the Tax function that oversees automation efforts, enabling Tax to broaden its use of solutions and collaborate across enterprise functions in a consistent, controlled manner to gain access to data that is impactful across the enterprise.



Based on a 2019 joint study conducted by PwC and the Manufacturers Alliance for Productivity and Innovation (MAPI), 52% of companies need to access more than three additional data sources to perform US tax reform calculations.

Source: PwC's 23rd annual CEO survey

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The evolution of US and Global policy

For the past two years, we've been tackling the most comprehensive US tax reform in decades. The 2017 Tax Cuts and Jobs Act resulted in such far-reaching change that there is still uncertainty surrounding some rules. In addition, major shifts in global tax policy are on the horizon as organizations are being pressed to pay their “fair share” of taxes. And, global trade controversy will continue to be an area to monitor in 2020. Let's consider several key highlights that will affect your tax operations.

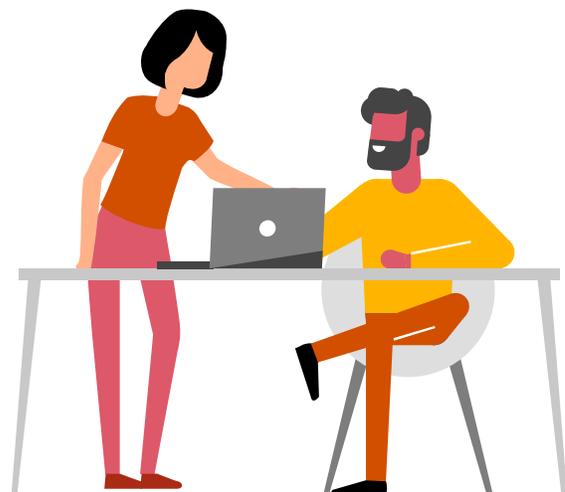
US tax reform – New BEAT Regs

In December 2019, the IRS issued final and proposed regulations on Sec. 59A base-erosion and anti-abuse tax (BEAT). Although this guidance offers welcome clarification and certainty in several areas, one of the key challenges for taxpayers is the capabilities needed to access and analyze data necessary to monitor the impact of BEAT and comply with its rules. Unbundling, grossing up, and characterizing a myriad of intercompany transactions to understand the extent of “base eroding payments” is one such challenge.

Another challenge lies in the heavily computational and interrelated nature of BEAT – Annual changes in business footprint and geographic mix of income, global intangible low-taxed income (GILTI) profile, regular US tax and foreign taxes, and/or tax attributes are examples of factors that can cause unexpected BEAT “surprises” from one period to another. In addition, the IRS provided guidance on the reporting and recordkeeping requirements for BEAT under Sec. 6038A. Do you have the data and processes in place to comply?

The US presidential election impact

With the focus now on 2020 elections, it is unlikely that we will see significant new legislation, including additional guidance on 2017 tax reform provisions. Although 2,300 pages of federal regulations implementing US tax reform have been released, many questions remain, and significant guidance still needs to be finalized. Tax functions will not only need to establish new processes, these processes will need to be adaptable to change as additional guidance is released, or alternative scenarios modeled to align with your organization's risk tolerance.



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Global Tax Policy – The digital economy and global transparency (BEPS 2.0)

Transparency and paying a “fair share” of tax

The OECD (Organization for Economic Cooperation and Development) is engaged in a base erosion and profit shifting (BEPS) project that is causing jurisdictions around the world to adopt wide-ranging tax reforms to address BEPS and transparency issues and to promote “fairness” in taxation. These proposals include the possible expansion of country-by-country reporting with a CFC-like minimum tax (like GILTI) and a base eroding payment rule with a denial of deductions and imposition of withholding tax.

Tax in a digitized economy

The OECD is also tackling the challenges of taxation in a digital economy, proposing its own multi-tiered approach to digital taxation in October 2019. The proposal has contributed to an atmosphere of uncertainty and many open questions as to reach and impact, which is troubling given how quickly the initiative is moving forward.

The impact will be wide-ranging, across industries and structures, extending to many companies and industries that may not view themselves as fitting the original ‘digital’ focus. The proposals would result in potentially a higher tax liability and an increase in compliance obligations/burdens – including jurisdictions where there is currently no physical presence or existing liability.

There are also financial reporting considerations which are important since financial statements have been mentioned as a potential starting point for these determinations. These new rules will strain existing resources as Tax departments will need to work with the business to develop processes to identify the location and level of sales to end-customers.

“Major shifts in global tax policy are on the horizon as organizations are being pressed to pay their “fair share” of taxes.”



Anticipated tax disputes – The need to prepare

These tax reforms are creating a significant impact on the global tax landscape and present an opportunity for organizations to begin now to prepare for the data needed to comply with new rules and to support the perhaps inevitable increase in disputes with global jurisdictions.

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Trade

Over the last two years, we've experienced a "chess-match" of trade controversy with China and the US being major players. In December 2019, the United States and China announced that they had reached an agreement in principle and this 'Phase One' trade deal was signed in January 2020. In exchange for China's commitment to increase purchases of US products in addition to other structural trade changes, the United States agreed to modify its Section 301 tariffs.

Even with a Phase One agreement in place, there is still a significant increase in US tariffs on over half of all Chinese imports and uncertainty remains over US and China trade relations. Trade continues to be an area for Tax to monitor due to its impact on the supply chain, transfer pricing, and US tax provisions.



Although there is now more certainty in trade, managing the high volume of transactional data will require the use of technology and analytics to identify opportunities to reduce costs and avoid tax risk.

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Being an effective Tax business partner

Greater collaboration

Businesses are certain to face many challenges during 2020 and much of what's at stake will have a tax impact that should be brought to the table. Tax needs to be proactive in keeping up with economic and policy changes and the impact that these changes may have on business decisions.

The power of technology for tax

Forging closer collaboration with Finance and across enterprise functions, Tax can leverage existing enterprise tools or drive adoption of technology solutions to enable end-to-end innovative business planning in support of M&A, supply chain, and changes in operational footprint. New automation, analytics, and emerging technologies such as artificial intelligence (AI) and machine learning (ML) can propel you beyond the basics to facilitate tax compliance with new complex and overlapping rules.

Examples of technology capabilities

Tax planning:

- Predictive models for planning and forecasting
- Determining the tax implications of transactions

Tax reporting and analytics:

- Trial balance and transaction account classification
- Streamlined data gathering and analysis, including machine vision (scanned tax data extraction)
- Natural language processing (converting scanned images to text)
- Robotic process automation (RPA): mimicking human actions by executing pre-programmed rules on mostly structured data (i.e. performing structured tax accounting and compliance activities)
- Cognitive automation: Making inferences based on information contained in unstructured data. (i.e. making determinations such as levels of tax risk)
- Deep question and answering: Answering specific questions by searching a large database of compiled information (i.e. research and data gathering/documentation)



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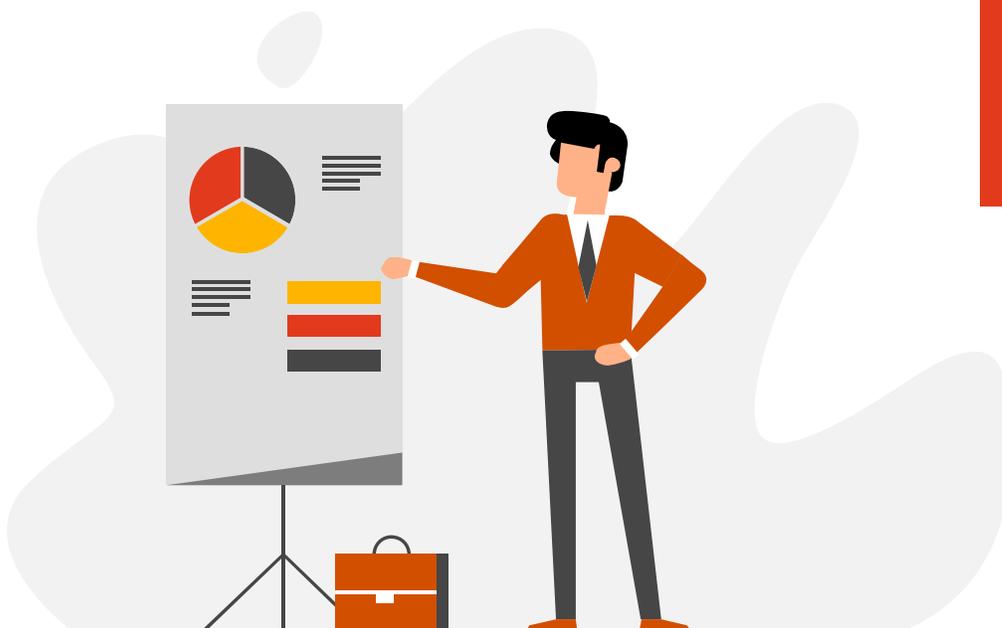
Upskilling Tax – Adding value beyond “bean-counting”

What does “adding value” mean from a Tax function perspective? In today’s environment, adding value suggests the ability to produce accurate, timely and compelling tax data and analytics to drive change beyond the Tax function and influence broader business decisions. To be successful, Tax professionals need to demonstrate many skills in addition to tax technical knowledge. A broad range of capabilities—including relationship building and cross-functional collaboration—are needed; however, digital upskilling is perhaps most urgent in this era of the Fourth Industrial Revolution (4IR).

In our Spotlight **How Tax is leveraging AI**, we describe 4IR as a period characterized by the use of various technologies (including artificial intelligence), that connect the physical, digital, and biological worlds, impacting all industries, functions, and economies. This period of rapid technological advancement and “connectedness” is affecting every aspect of life and work. The workforce, including Tax, needs to understand these new tools—especially in an environment fraught with uncertainty—as these solutions can be used to manipulate large volumes of data and perform tasks more efficiently. “Citizen-led” innovation, easily deployed solutions with quick results, will continue to be a focus for Tax functions in 2020.

CEOs with more advanced upskilling programs cite improved engagement, innovation and ability to attract and retain talent.

Source: PwC’s 23rd annual CEO survey, January 2020



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Are you agile enough to pivot? Consider your operating model

The ability to quickly adapt to change has become a necessary competency of the Tax function. Are you prepared to respond to business changes and policy developments as they unfold? Do you have the needed technology, skills, and processes to handle increasing complexity? You don't need to go it alone – There are a variety of operating models to meet your specific needs.

Operating models range from fully in-house to co-sourcing or fully outsourced managed services. These models can be applied to fit your purpose in combination or separately for some or all aspects of tax operations.



Connect with us

Click [here](#) for more information on Tax Function of the Future.

If you would like more information on addressing key tax priorities in 2020, please contact:

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