Taxing Times: Navigating the evolving tax environment

What is changing and how to remain a step ahead

A changing tax landscape

Insurance tax leaders are facing a rapidly changing economic and political environment that is making future projections a challenge. Change and uncertainty are causing delays in decision-making by insurance tax leadership, and there is little progress on required legislation and regulatory guidance, including guidance on various provisions of the Inflation Reduction Act and the complexities of navigating and implementing recent provisions that went into effect from the Tax Cuts and Jobs Act related to issues such as section 174.

The 2017 tax reform introduced several changes, including reduced individual tax rates set to expire in 2025, known as sunset provisions. These expirations can trigger increased corporate tax rates to generate revenue and offset individual tax reductions. To deal with this, alternative tax options need to be on the table. The need for an increase in tax revenue needs to be balanced against competitiveness.

There is a fundamental issue at play—the insurance industry functions quite differently than other industries that manufacture widgets. Insurers issue long-term promises with pricing based on several complex factors. These projections are based on consistency in tax. With a change in policy, every policy priced in the last 10 years is now mispriced. There is a lot of education that needs to be done with the Treasury about how insurance products work.

On the global front, insurance tax professionals must deal with the growing complexity of decision-making and risk management challenges resulting from multiple accounting bases such as generally accepted accounting principles, International Financial Reporting Standards, statutory, and tax. This requires tax experts to thoroughly understand each of these systems and adapt accordingly.

Pillar Two implementation

Insurers will need to pay close attention to the varying timelines of implementation in different jurisdictions and be prepared to accommodate the tax requirements accordingly. This can lead to inconsistencies and coordination challenges. There will be an extensive amount of data and reporting needed to calculate global minimum tax obligations accurately. This includes undertaking country-by-country calculations and keeping track of multiple tax adjustments. In this, the link between tax and finance will be key.

Insurance companies also need to consider how Pillar Two's global minimum tax interacts with the US minimum tax—the corporate alternative minimum tax (AMT) requiring insurance companies to juggle multiple tax systems simultaneously. Insurers with a global footprint will need to prioritize investing resources on compliance, automation, and operations to manage their risk as these intricate tax regimes are implemented.

> Some years ago, new rules made it difficult for companies to move offshore and the reduced tax rate was supposed to help us remain globally competitive. However, with the shortfall in taxes collected and talks of increasing the corporate tax rate, we are back to dealing with the same issues as before. Such uncertainty has made tax planning challenging for companies.
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> — **Joe Vaccaro,**
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Dealing with the IRS

Large corporations have seen a decline in Internal Revenue Service (IRS) audits. This is a result of the fact that companies are no longer engaging in the transactions they did a few decades ago with tax shelters and structured transactions aimed solely at reducing the tax bill. However, there has been an uptick in IRS audits in parts such as payroll tax audits, along with an increase in state and local audits.

As the IRS receives more funding, tax professionals anticipate that the resources may be directed towards technology improvements, taxpayer services, and education efforts for both IRS personnel and taxpayers. There is a clear need to improve how IRS officials understand and approach tax nuances related to insurance. The audits and appeals processes need to be transformed so that insurance tax professionals can focus on pressing issues and current financial reporting needs.

Talent and the future of work

Attracting new talent is a key challenge not just for the insurance tax domain but for the accounting and tax profession as a whole. There needs to be greater awareness of opportunities and diversity of work available to attract graduates to the field. Going forward, just like in many other functions, technology is expected to play a larger role in insurance tax. Even though there is the promise of greater efficiency, human judgment and discernment will be critical. Tax professionals will still be required to determine data validity.

When it comes to new ways of working for insurance tax, real-life proximity reduces some friction in collaboration. Think of having a team in a room with a whiteboard with flowcharts being explained in real time. The process is not as seamless in a virtual environment. There is also knowledge sharing that happens through conversations heard in the office, allowing professionals to learn beyond tax and understand the wider dependencies and structures. At the same time, the flexibility that comes with hybrid work will be critical for attracting talent. With changes on several fronts, tax professionals need to understand and respond to the impact of technological, legislative, and regulatory changes on their functions and the insurance industry at large.

KPMG. Make the Difference.

The tax environment for insurers is changing fast with new regulatory requirements and increased uncertainty. How prepared are you?

At KPMG, our insurance tax specialists can help you remain up to date with your accounting models, financial statements and required disclosures. With backgrounds in accounting, actuarial, finance, project management, data science and technology, our professionals can provide the insight you need to navigate a complex regulatory landscape for lasting success. Take the first step with us to make the difference.

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