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# Tactics for achieving a tax-first mindset

October 2024

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Companies looking to offset major investments and expenses through tax and trade planning are increasingly turning to strategic shoring. But how can executives ensure they capture the full benefits available in the Americas?

Effective tax and trade planning can offer significant financial and operational benefits for US organizations seeking to bring their supply chains closer to home. These range from government incentives for businesses relocating their operations to free-trade agreements (FTAs), tariffs and other trade deals. However, only companies that plan strategically will be able to make such tools work effectively for them.

New research from KPMG canvassed the views of 250 US senior executives involved in supply chain development and strategy. This research suggests that for companies considering strategic shoring in the Americas, tax and trade planning is front and center. Strategic shoring is defined as the shift in a supply chain's geographic footprint to encompass more countries closer to the US, Latin America and Canada.


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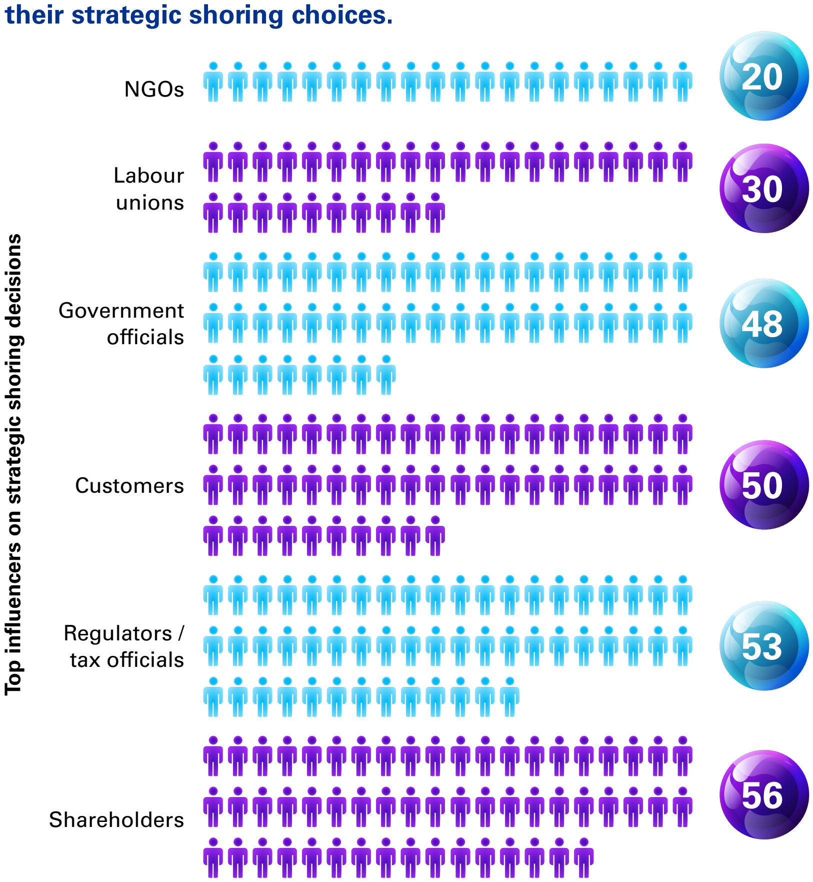
Over half of companies (53 percent) cite regulators and tax officials as significant influences on strategic shoring, second only to shareholders. This figure rises by 7 percentage points among "leader" organizations (those who are "extremely satisfied" with the overall performance of their supply chains). Furthermore, nearly two-thirds of companies surveyed (64 percent) consider indirect taxes, government grants and incentives, and transfer pricing rules at the outset of their strategic shoring decisions.

**Figure 1: The majority of executives surveyed cite regulators and tax officials as significant influences on their strategic shoring choices.**



## Connected thinking around tax

Connected tax thinking empowers the tax executive to act as an integrated strategic decision-making partner within their organization. The complexity and evolving nature of global supply chains leave little room for complacency where tax is involved. Without due care, changes to supply chain nodes can trigger significant unexpected tax liabilities across multiple tax types, including indirect, trade, tariffs, transfer pricing adjustments and income/direct tax. So, while the majority of executives surveyed claim they explore tax considerations at the outset of strategic shoring decisions, to be successful in their efforts they must ensure that these tax and trade analyses are comprehensive. Connected tax thinking will help elevate the tax function with a broader understanding of the business – understanding the business like the board.

General awareness around tax incentives, including where they can be utilized and what exceptions might apply, is frequently lacking, according to Doug Zuvich, Tax Partner, KPMG US, and Latin America Regional Managing Partner, Tax & Legal*, KPMG Americas.

"Often, companies don't include tax as part of strategic cost management studies," says Zuvich. "But that is one of the reasons why companies find tax so complicated. They don't truly bring tax in until the back end, and that makes it look really complicated because it is half-baked. If they do it right, and are more proactive, it's going to have a greater impact."

Brian Tessin, Chief Tax Officer, at Dow Chemical Company encourages companies to pay attention to indirect tax implications such as VAT and customs duties and the broader tax landscape – not just income tax.

"I've seen companies enter into certain transactions, for example, an acquisition, divestiture or to make changes in their operational model, and then ignore the indirect tax implications of such changes – but that can really backfire," Tessin warns. "It can create significant above-the-line EBIT implications that were never anticipated and eat into the expected return on investment. It can also compromise existing credits and incentives that were obtained in the past."

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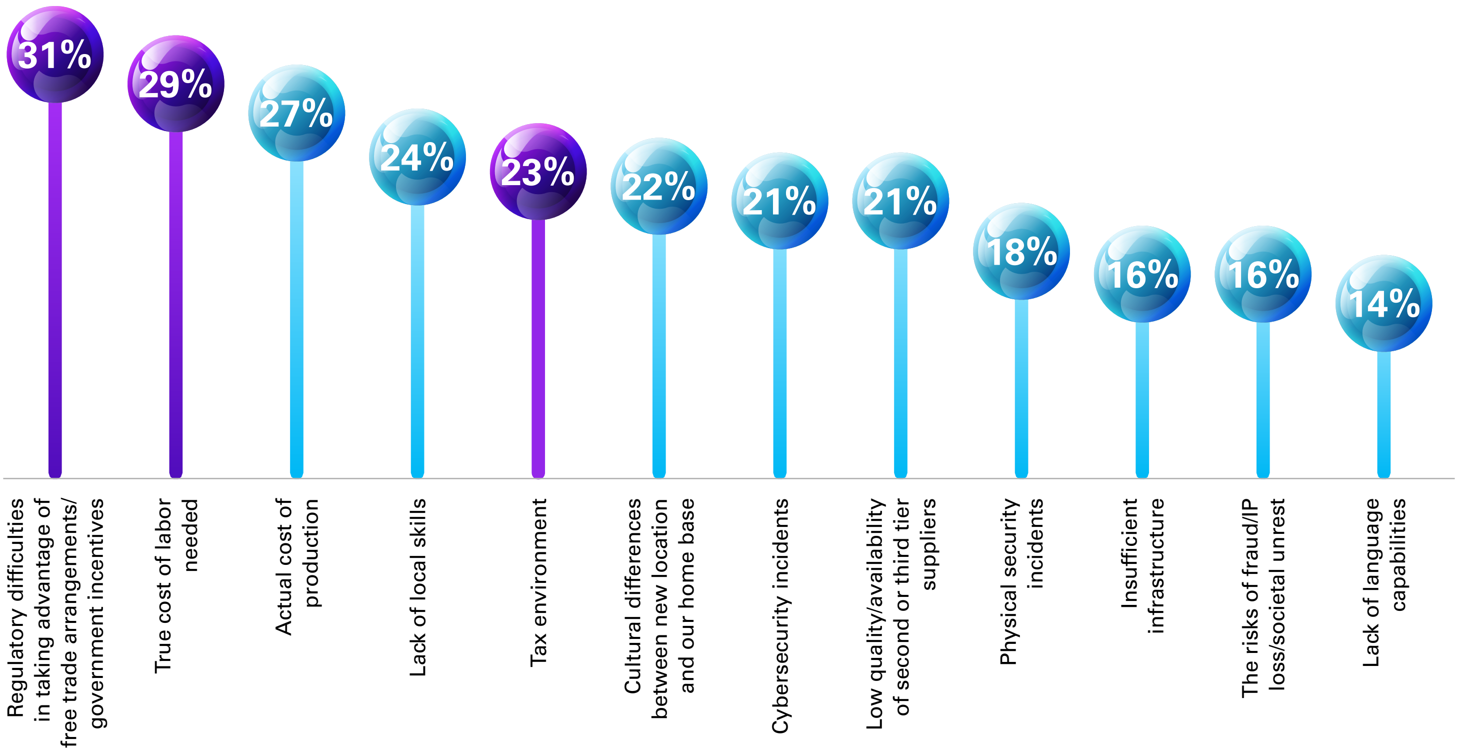
## Reading the regulatory small print

Given the various complexities at play, consensus from the KPMG report ***The Proximity Premium*** sees regulatory challenges in taking advantage of FTAs and government incentives as the toughest obstacle faced in strategic shoring activities.

**Figure 2: Tax and trade difficulties are among the top five toughest challenges in strategic shoring.**




To minimize costs and maximize efficiency, Niren Saldanha, Tax Partner, KPMG US, and Latin America Deputy Tax Leader, Tax & Legal*, KPMG Americas, recommends taking a close look at each country's FTAs and incentive programs. In some situations, he says, the tariff relief can be significant and an important data point in the final decision. But identifying these opportunities can be tricky.

"These factors have to be analyzed from multiple angles," he says. "For instance, in the US there may be taxes and incentives that apply at federal level, state level and local level too. In Latin America, you can navigate tax matters at the state and federal levels (maquilas in Mexico, for example).

So, with strategic shoring, there are a lot of taxation variables and opportunities that could impact both profit and cash flow."

## Considering tariff-sensitive sectors in site selection

The underlying tax and trade structure of a prospective supply chain network should guide companies in choosing the site for their operational footprint. Inevitably, some industries are more vulnerable to tariff changes and geopolitical volatility than others. Take the highly contentious semiconductor industry. The US CHIPS and Science Act, signed in 2022, pledged more than US$75 billion in incentives for reshoring advanced semiconductor production,[1] which is likely to have a significant bearing on where companies establish their operations going forward.

"High tariffs are usually a bigger deal for companies than labor costs, for example, so that will be the key focus," explains Zuvich. "If you're less sensitive to the tariffs, it switches things – but that's why tax should be on the table from the very beginning."

Optimizing tax in the supply chain may be subject to change should a new US administration or changes in the legislative branch result in a significant overhaul of the existing tax landscape. Against this backdrop, companies must not lose sight of what makes most sense for their business and end customer.

"We want to make sure that we're doing everything with the customer in mind, before the point of sale to beyond the ultimate delivery of the goods per their specifications – those are our priorities," agrees Dow's Tessin. "Of course, tax is brought into the picture, but tax optimization must be done in partnership with the business."

A current example of where tax can lead a company's supply chain strategy to the benefit of all stakeholders is in Canada, where the government's investment tax credits are enabling Dow to build the world's first net-zero emissions ethylene cracker and derivatives site in Alberta.

According to Tessin, the lower cost of feedstocks in Canada was an important consideration for the company to build the net-zero emissions facility in the region, but the overall package of incentives from government was also an important factor in Dow's final decision to invest there.

He says, "Canada was able to come up with some attractive investment tax credits that didn't previously exist. It's a lesson that other governments around the world could and should take note of if they want to track the magnitude of investment that Dow is making. They need to think outside the box and see what makes most sense for both the government and for enterprise."

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>
> **Brian Tessin**
> Chief Tax Officer, Dow

[1]https ://www.mckinsey.com/industries/public-sector/our-insights/the-chips-and-science-act-heres-whats-in-it

## Leaning on local support for supply chain relocation

Companies need to resist the lure of public and private investment until they have fully mapped out the tax and trade implications of changes to their operational footprint.

Given this, it is little surprise that supply chain executives rank tax expertise second among the most important areas requiring improvement to realize their strategic shoring ambitions. This expertise is cited by nearly one-third of supply chain executives surveyed (32 percent), second only to data and analytics (43 percent).

**32%**

**Supply chain executives rank tax and trade expertise second among the most important areas requiring improvement to realize their strategic shoring ambitions.**

Local tax advisors and legal experts will be mission-critical to ensuring organizations navigate the latest tax laws, compliance requirements and best practices and avoid missing out on potential efficiencies.

“International tax is a huge factor,” confirms Sam Rosen, President of Ollin Plastics, a custom contract manufacturer of rotomolded plastics parts based in Monterrey, Mexico, whose leadership team is all locally based.

He adds, “Having legal support on the ground who can work with your central legal team is also really important. Shipping costs can vary wildly depending on how you set things up or even where you set them up. There could be an added cost of logistics that could be really detrimental to the overall cost structure. So, making sure you understand those pieces is a key part of the puzzle as well.”

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**For more on how to build resilience into your strategic sourcing efforts for success in the Americas, read our report *The Proximity Premium: Strategically reshaping supply chains in the Americas.***

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**MADE | MDE200503 | October 2024**

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