Voice of the CFO

A recurring conversation with CFOs on finance-related issues

August 2024

CFOs brace for the US tax trifecta

In our conversations with chief financial officers (CFOs), we're amazed at their command of tax matters. The US election will bring with it the tax trifecta: $4 trillion in scheduled tax increases regardless of which party wins, a global minimum tax of most interest to multinationals, and a switcheroo in the way regulations are written and reviewed that will impact all agencies, including the Internal Revenue Service. Our nonplussed CFOs are already embedded in proactive tax management, from advising their board to presenting options to repatriate IP with an eye on mitigating risk. Tax is a major opportunity for CFOs to lead their organizations. What's required is an integrated, multiyear tax perspective. Along with taxes, CFOs discussed their recent experiences with the global information technology (IT) challenges. Experiences varied, from no impact to business disruption for hours at a great cost. A key learning is the need for a balance between investing for crisis response and measures to build resiliency to help prevent such adverse events.

On the CFO agenda

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Managing corporate tax obligations

CFOs face a tax trifecta

CFOs are tasked with predicting the possibility of major tax changes, identifying opportunities for tax planning, and minimizing tax liabilities. This challenge applies at home with US taxes, as well as abroad with global tax reform efforts. John Gimigliano, Tax principal with KPMG LLP and the professional services firm's Washington, DC go-to tax authority, refers to 2025 as the trifecta of tax policy disruption. John shared the details.

"There is $4 trillion of tax increases scheduled to happen if Congress doesn't act. There is a real risk that Congress raises corporate taxes regardless of which party wins in November. There is also a movement toward a global minimum tax of 15 percent that will impact multinationals. The third tax disruption is regulatory in focus and deals with the fallout from the Supreme Court decision that eliminated the Chevron doctrine that governed policy development and regulatory guidelines. It's anybody's guess the legal and tax regulation ramifications with every agency, from the SEC and EPA to the Department of Labor." Our CFOs are already game planning for the tax trifecta and taking steps to mitigate risks. The CFO for a major American transportation company shared their approach.

"We're modeling out increases just to have bookends for the impact on cash flow, and we're trying to stay focused on what goes on with tariffs."

Another CFO of a top financial services company is approaching the tax increase differently.

"We're developing cost targets and budgets and then working back from a level of financial performance and therefore scaling back investment levels to at least partially compensate for an increased level of taxes."

With the global minimum tax of 15 percent, it's anybody's guess which countries will adopt it. The US role will be decided by the next administration. CFOs of multinationals must plan accordingly.

"We operate in over 35 countries and are still working through the planning phase," said a CFO for an American multinational manufacturing company. "We provided guidance of a rate today on corporate tax of 20 percent to somewhere between 22 and 24 percent over the next couple of years."

The fallout from the end of Chevron deference remains to be seen and will be discussed by CFOs in future conversations.

Reshoring company's IP

The pros and cons

Along with the global minimum tax, CFOs are also considering the tax implications of repatriating intellectual property (IP). Bringing IP back to the US offers business advantages like stronger legal protection, greater control and access, more jobs, and the possibility of special tax benefits in the US. However, doing so may subject companies to higher taxation if Congress reverses course on taxes next year.

John Gimigliano, experienced in the ways of Washington, has been down this road before.

One of the concerns with onshoring IP is the tax that is scheduled to increase next year. In 2017, onshoring IP at a favorable tax rate was encouraged. "Please don't give us policy whiplash on IP."

A CFO of an American semiconductor manufacturer viewed returning IP to the US from a risk perspective.

"If you do decide to restore your IP and all your eggs are in the US basket, how much risk are you taking? With 80 percent of our profits offshore, exposure to other tax regimes is still attractive to me."

The CFO for an American multinational transportation company shared another drawback with onshoring IP—moving it back offshore.

"Once onshore, you know the costs of your options. But planning to move IP offshore, it starts to get more expensive, and you're held captive by the wrong administration."

Managing risk and avoiding a toll or tax charge to move IP out is John's best advice to CFOs. "The easier thing to do is develop new IP outside the US to mitigate the risk from having too much IP in the US."

In certain industries, companies may choose to retain their IP in foreign markets for a cost advantage due to lower expenses or different regulations. As noted, any changes in political or regulatory climates can impact the protection of IP rights.

As one CFO noted, cross-border cooperation between tax authorities globally is bureaucratic and slow. The CFO for one of the world's largest fast food chains was more blunt and specific.

"You cannot survive in Europe today if you don't have people sitting in Brussels, as well as working with local governments in your markets."

Every firm's situation is different. Bottom line: every CFO needs an integrated view around tax.

> "Don't give us policy whiplash on IP."
>
> John Gimigliano, Tax Principal, KPMG

Elevating business and technology resiliency

Global IT outage creates endpoint vulnerabilities

We live in a world that is highly connected, so an event like a global IT outage shouldn't come as a surprise. However, it was surprising given the expectation that adverse events are typically caused by bad actors. A recent event created a tech outage that impacted business from not at all to catastrophic with costs as high as $1 billion overall.

CFOs had to bear the brunt of the financial cost from the faulty rapid-response content update. Some were fortunate and got an early warning from overseas operations. Others had business continuity plans that were untested with this scenario. All companies should consider the lessons learned. Marcus Murph, CIO Advisory principal at KPMG, has wisdom to share.

"Most companies don't think about their PCs and end-user devices in their backup and resiliency plans. They focus instead on their applications and data centers to make sure they can be restored quickly. This outage has companies asking, "What happens if I don't have remote access, physical access, or network access?""

While CFOs have chief information officers and chief information security officers using a global IT outage as an opportunity to request budget increases, many CFOs are also helping the cause in other important ways.

"One of the conversations we've had with the board was about contract structures and insurance," said a CFO with a world leader in consumer finance.

A contract requirement stipulating how a vendor updates its software could help prevent the type of major disruption from occurring in the future. Cyber insurance is often taken out for ransomware but given the financial impact of this event, an insurance policy to offset losses might make financial sense.

One CFO's company sits in key vendor meetings to ensure a clear understanding of how they're addressing cybersecurity and handling patch updates.

For all CFOs, the key question is, what is our resiliency strategy to get our business back up and running? Disaster recovery plans think about this all the time, factoring in the restart of operations around the crown jewels and what comes back up first, second, third, and so on.

The challenge for all CFOs is balance, investing in both a rapid recovery if an adverse event occurs and resiliency to prevent bad things from happening in the first place.

"We are in a world that is absolutely, completely different."

Sanjay Sehgal, Principal and Head of Advisory Markets, KPMG

Key considerations

- Develop an integrated, multiyear view of tax management
- Form a cross-functional team to look at IP reshoring holistically
- Revisit third-party contracts for software update testing

Additional resources

How We Got Here: The Tax Cliff of 2025

Biden Tax Agenda

Make operational resilience your North Star

Be organizationally and operationally resilient when—and where—it matters

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