KPMG

Voice of the CFO

A recurring conversation with CFOs on finance-related issues

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CFOs navigate trade and tax in complex, uncertain times

CFOs face significant hurdles due to proposed or actual tariffs and the stated goal of Congress to reinitialize the Tax Cuts and Jobs Act (TCJA). Tariffs introduce a layer of complexity and uncertainty, complicating forecasting and operational planning. For example, companies could confront sourcing requirements like determining the percentage of aluminum or steel in products. Companies are experiencing increased costs and modeling with underlying data that changes daily. Reupping TCJA, which could cost up to $5 trillion, has prompted policymakers to consider revenue-raising measures, including changes to tax deductions and excise taxes that may impact corporations. To navigate these tariff and tax challenges, CFOs should engage in scenario planning, collaborate on pricing strategies, and actively participate in advocacy efforts. By articulating the corporate impact from policies and leveraging industry relationships, CFOs can help shape a more stable and supportive business environment.

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Trade concerns

Tariffs create complexity and uncertainty

The new administration adopted tariffs as a trade strategy and ushered in complexity and uncertainty. CFO responses varied depending on where in the world their company traded.

Andrew Siciliano, who leads International Tax, Trade & Customs for KPMG, notes the moving target aspect of the tariffs and shares the current state, which he updates daily. Fluctuating data in a CFO's forecasting model doesn't exactly inspire confidence in the numbers. The CFO for a food company shared the dilemma.

"You can't get to the long term until you get to the short term. If you're doing a merger and acquisition, the cost going up 25 percent could blow up a deal."

Siciliano put the spotlight on the Section 232 tariff on imported goods deemed a threat to national security. The big deal is the steel aluminum derivates that could apply to everything from nails, tacks, and wires to kids' baseball bats that are made of aluminum or steel.

Notes Siciliano: "Also, reciprocal tariffs are coming in April and this could have a big impact for a lot of companies. These tariffs will not be broadly assessed and could vary by country. The rationale is that foreign countries in certain cases have higher tariffs than the US. For example, if you export a product to India, the tariff rate could be 25 or 50 percent more than the rate imposed by the US."

With any of the tariffs or sourcing requirements, there is no guarantee when or if they'll become valid. Siciliano knows the issue—implementation.

"If you have a derivative product, you'll have to figure out how much non-US aluminum and steel is in the product. Do you know how much non-US aluminum or steel went into that fishing pole? It alone is going to cause a tremendous amount of disruption."

Companies are already receiving letters from suppliers stipulating that if the rate goes up due to a tariff, the company bears responsibility. CFOs are challenged to mitigate the situation with many of them turning to scenario planning and updating their tariff models more frequently.

A shipping CFO shared an example of how tariffs also create unintended consequences. E-commerce packages below a set value go through a clearance process for duty and tariffs. Without the rule, everything must clear customs. It's a simpler, more efficient process. Due to the rule, there is a massive backlog of processing with the major shipping companies—all because of the value determination.

"Do you know how much non-US aluminum or steel went into that fishing rod?"

—Andrew Siciliano, KPMG Partner, Tax, Trade & Customs

Extending TCJA

Offsets may upset CFOs

The TCJA passed in 2017 and is set to expire at the end of 2025 absent action by Congress. Extending the tax cuts for 10 years is estimated to cost between $4.5 and 5 trillion. The Republican priority is to extend the TCJA, as well as pass some new tax cuts.

Danielle Rolfes, KPMG partner, Washington National Tax, knows the inside of the Beltway.

“To get to $4.5 trillion, the deficit hawks insist on $2 trillion of spending cuts. While they were able to get the votes in the House for the budget resolution, it will be a much harder pill to swallow in the Senate.”

Rolfes digresses and shares many directions for revenue raisers before coming to the upshot. “KPMG is keen to say, ‘watch out, corporates’ because they’re going to come up with some new novel revenue raisers that are likely to come from corporates that none of us are talking about.”

Rolfes outlines the places that elected officials will hunt for revenue. There is the denial of the state and local tax deduction to corporations, better known as SEA SALT. That would raise $210 billion. The stock buyback excise tax is currently set at 1 percent. The revenue optimizing level of that tax is around 4–5 percent.

Another $180 billion would come from closing what some call a loophole for SALT. Denying corporate deductions to the highest-comped individuals in the corporation would net $1.162 million.

Digital services taxes and Pillar 2 taxes could be revenue raisers. Rolfes articulates that a cool revenue raiser with a deferred effective date could be the best of all possibilities.

“It’s like a threat, like the tariffs. You get the revenue from the threat in the scoring, and if the other country changes its laws, the US never has to inflict the pain. The revenue counts without collecting it.”

The CFO for a specialty insurer took the prospect of higher taxes in stride. “We’re still modeling an overall tax increase but not to the same degree as we were before the election.”

The real dollar impact for this CFO and others is the buyback excise tax revenue raiser.

“It’s almost easier for policymakers to talk about weird revenue raisers that nobody understands.”

—Danielle Rolfes, KPMG Partner, Tax, Washington National Tax

Call for forward-looking thinking

The macro view and advocacy

For most, it's the complexity and uncertainty that interferes with planning and forecasting. Models are frequently used, but when underlying data changes daily, it's difficult to generate meaningful numbers. An insurer CFO shows how company leaders are grappling with a way forward.

"We're modeling different scenarios based on multiple products that either have direct or indirect aluminum. How much cost can be passed on? What kind of time lag will there be? That's the kind of exercise we're going through."

Ultimately, CFOs will have to figure out how much trade and tariffs cost and how to pay for them or pricing will allow customers to bear more of the added burden. The CFO for a semiconductor supplier frames the tariff situation in a way that adds pressure on customers.

"It's going to be a customer's problem, although I'm sure they're going to come and say, 'let's negotiate.'"

Another CFO went a level or two up to a macro view of trade and tariffs more applicable long term. It's three questions all leaders should be asking that this CFO says they're wrestling with daily.

"What's the impact on global trade?

How will it influence industrial production?

What are the reverberations on trade flows and where goods are produced?"

It's the macro view that CFOs need to get behind and advocate. Whether tariffs or revenue raisers, it's the views of CFOs that matter to policymakers. A shipping CFO is a big believer in advocacy.

"You've got to pick the handful of battles, leverage your relationships, and it's not an environment to keep your head down in my opinion."

Danielle Rolfes sees the value of advocacy on Capitol Hill, citing the example of pharma advocating its position and getting through to lawmakers.

"If it's a potential revenue raiser that impacts business, companies need to be in on it," said Rolfes. "Advocacy has been effective because business leaders are able to articulate the complexity and unintended consequences of the proposal."

Examples of unintended consequences will be in abundance with tariffs implemented and revenue raisers being discussed in Washington. CFOs can articulate what's bad for business better than any other C-suite member.

"Pick the right battles for your respective company."

—CFO for a shipping company

Key considerations

- Collaborate on pricing strategies
- Volunteer for advocacy program
- Support the tax department

Additional resources

Trade and tariff insights
Customs Valuation Strategies to Manage Tariff Disruption
Breaking up is hard to do: Tariffs & trade wars
Public Policy in Motion: Key Regulatory Changes for Businesses

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