KPMG

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Get smart about tax

Leading successfully in turbulent times

Tax is an important contributing factor when considering business liquidity and profitability. During a crisis or unexpected economic downturn, it is important to understand how potential disruptions, such as abnormal losses, additional costs to protect employee safety and welfare, cash flow changes, and unexpected personnel shifts could affect a business's overall tax position.

Effective and efficient tax management during periods of financial stress can help alleviate the burden. Companies can derive significant benefits through effective tax planning and adjusting the timing of their tax payments. For organizations operating across a number of jurisdictions, more vigorous management of tax can provide leverage for improved cash management and tax efficiencies.

Things to do now

Adopt tax-related cash management strategies

A tax management focus should be a part of your overall cash management strategy. This can help to offset falling profits and shrinking margins. Areas to consider include non-cash employee benefits, bad debt write-offs and GCT. Businesses should review the tax efficiency of their operations, making use of any opportunities to defer or reduce payment of tax. Additionally, they should ensure any potential refunds are pursued. Businesses should also consider the customs duty impact if alternate suppliers need to be used.

Improve the tax position

Balance sheet strategies can be adopted to reinforce an entity's tax position. Such approaches may include managing the effective tax rate and regulatory capital requirements. Consider the role of deferred tax assets (DTAs) on your tax positions, for example, where you operate in jurisdictions with thin capitalization rules. Consider also converting 'fragile' DTAs to more robust ones and accelerating the crystallization of deferred tax liabilities (DTLs) in appropriate circumstances.

Review your corporate structure

Some additional risks and opportunities may arise in some jurisdictions. You should review your corporate structure considering the possible impact of thin capitalization, change of ownership, mind and management and M&A restructuring issues, transfer pricing (and ensuring no loss of deductions globally) as well as any specialized industry issues that might apply. Managing these risks and opportunities may deliver savings in the medium term.

Asset sale strategies

Examining the tax implications of asset sale strategies will result in organizations more carefully managing their tax position. This may include writing down obsolete inventory and investments and the crystalization of unrealized tax positions (e.g. forex exposures), and undertaking a more detailed analysis of year-end provisions and accruals. In-house loss utilization plans and loss refreshing techniques can help an organization improve its cash flow.

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Intra-group financing arrangements

Reassess your cross-border financing activities to ensure that the debt/equity mix is appropriate for the current economic times. Also, ensure that the rate imposed on the debt, guaranteed fees and management fees are appropriate and that withholding tax obligations are complied with to avoid penalties and/or typically punitive late payment interest.

Optimize tax incentives and credits

Organizations should consider what government support they are eligible for in turbulent times. For example, grants and tax incentives for research and development activities can offer significant tax savings. Government funded collaboration also could be of benefit in terms of speed to market and financial savings. Businesses should also understand and leverage special tax exemptions and deductions provided by governments during a time of crisis that can potentially improve their cash position. This also can include donation tax credits for companies who make donations to qualified public disaster relief efforts.

Consider impact to employees

Apart from having employees work remotely during a crisis, a secondary consideration may be to relocate employees. Cross-border relocations may have implications for personal taxes, employer taxes and corporate tax. Employers may also be faced with the difficult decision of placing employees on unpaid or part-paid leave or deferring employment offers to save costs. In extreme cases, employers may have to defer payment of wages and other remuneration or to terminate workers. All of these actions have potential tax implications (including personal and corporate tax) and implications for employer withholding and reporting obligations.

Key considerations

- **Is tax an integral part of your cash management plan?**
- **Is your balance sheet strategy optimized to reflect efficient management of the applicable tax rate and regulatory capital requirements?**
- **Have you considered the implications of asset sale strategies and capital management programs on your current and future tax position?**
- **Have you considered the tax and immigration implications of unexpected personnel changes during an emergency situation or economic downturn?**
- **Are your intra-group financing arrangements well structured?**
- **Have you considered how technologies can be implemented across your tax function to ensure business continuity and maintain connectivity to tax authorities during a crisis?**
- **Timely compliance with all tax filing obligations is key to avoid non-compliance holds on refunds**
- **Have you considered the customs duty impact when alternate suppliers need to be used? Does that decision impact your ability to use a free trade agreement?**

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For more information click the links below:

Pandemic planning as a part of an overall resilience strategy

Business continuity in a COVID-19 world