

The Tax Professional's Guide to the Cloud

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cutting through complexity

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Introduction

Cloud technology has brought some of the most fundamental changes to the global business model in decades. Cloud offers significant potential for organizations, not only by cutting costs and increasing efficiency, but also by offering new ways to meet the needs of consumers, companies and communities in a changing world.

But for all this potential, Cloud also raises challenging issues relating to the potential tax implications of new business models. For tax professionals, Cloud-enabled business models have created additional complexity. Organizations look to their tax professionals to provide the specialized support they need to make the right choices—and enhance the potential of these business decisions.

This guide explores a number of hypothetical scenarios that illustrate some of the potential issues and implications that companies and their tax professionals may face in Cloud-enabled business transformations. These stories, reflective of KPMG professionals' collective experiences in the field, may represent real and pressing Cloud-related business transformation opportunities businesses are facing today.

1. How an automotive company went hybrid

Using data centers to outsource, consolidate and simplify IT

A global automotive manufacturer operates with a series of decentralized information technology (“IT”) departments and local data centers spread across three continents. As part of an initiative to mitigate certain costs, the company consolidated its network of dispersed server rooms into one “super-datacenter” located in a U.S. state. This data center consolidation provided economies of scale, reducing the costs of maintenance, upgrades and day-to-day operations. It also helped better match capacity to demand across the business and enabled IT professionals to move from a “keeping the lights on” function to providing value-adding business enhancements.

Simplification and consolidation of the IT infrastructure provided clear business benefits, but company leadership still felt that, “Our core business is making cars and yet we are spending a lot of time and money running computers.” They decided their next step was to outsource the running of the technology infrastructure to a global IT provider. As technology specialists, the IT provider could run systems, trouble-shoot, recommend developments and provide disaster recovery—all at a much lower cost.

With all its business-critical processes now running in a Private Cloud (i.e., a private, outsourced consolidated data center), the company faced another choice. They needed to ramp up computing power to support an ambitious research and development (“R&D”) program: The aim was to integrate customer

insight data into the manufacturing supply chain to provide highly personalized vehicles at a mass-production scale. This program might just transform the industry, but it would require a huge increase in processing power.

The question was, should the business buy more servers for the U.S. datacenter or rent capacity in the Public Cloud? Ultimately, they settled on a hybrid solution, in which different parts of the infrastructure are split between Public and Private Clouds. The R&D Cloud solution offers scalability, immediate access and low cost of entry; it also means that the research can be located anywhere—an important issue when some jurisdictions and governments offer incentives to encourage R&D to remain in the local community.

Potential Tax Considerations

If you consolidate and outsource the management of your data centers, you may be changing the location of your people and property. This in turn may change where you are considered to have a taxable presence and could subject you to various taxes in multiple jurisdictions. These conditions are why a company like our automotive manufacturer should consider, among other factors, permanent establishment and nexus rules when undergoing this kind of transformation; they need to plan for potentially new indirect tax liabilities and corporate income tax liabilities. They should also consider the possible interplay between creating taxable presence in new jurisdictions and negotiated incentives.

Consolidation and outsourcing the management of data centers gives businesses within the affiliated group access to pooled resources they can use as necessary. However, this arrangement can also result in new intercompany transactions that must be priced and documented. While sharing resources can result in significant cost savings, the company will also need to consider transfer pricing rules and regulations when trading occurs between related parties. Additionally, the implementation of Private Cloud solutions may generate net savings, but how will that savings be shared between the “related entities”?

Careful analysis is required to work out the value of the savings and how the benefit should be allocated to each entity across the supply chain. When related entities all using the same pooled resources are located in different countries, new cross-border payments can arise when one entity pays another for the use of the pooled Cloud solutions. Namely, the payor corporation may be required to withhold tax on its payment for the use of the internal Cloud solutions.

In The KPMG Cloud Tax Benchmarking Survey (the “[Survey](#)”), 58% of the respondents reported that their companies were not withholding or collecting tax relating to payments outside of the United States for Cloud technologies.

Because withholding tax rules vary by jurisdictions and the application of the rules to payments for Cloud solutions may not be clear, attention must be given to withholding taxes when introducing pooled resources for entities in multiple countries. If proper analysis is not done, the company may not be applying the withholding tax rules correctly.

Other Potential Tax Considerations:

- Negotiated Tax Incentives
- R & D Deductions and Credits
- Changes to Taxable Income
- Indirect Tax Liability
- Expense Recognition for Income Tax Purposes
- Unitary Test for Corporate State Income Tax
- Trade and Customs

For more information

KPMG can help your organization understand the potential tax implications of consolidating data centers in the Cloud. For more information, please contact:

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2. Instant connection on a plate

Moving from an in-house ERP system to an enterprise-wide Cloud-based solution

This restaurant chain provides authentic Spanish cuisine in a fast-food format. In growing to become a billion dollar business and expanding on multiple continents, the company had invested in a first-generation Enterprise Resource Planning (ERP) solution, which is now showing its age. The original system had cost millions of dollars to implement and did not deliver all of the anticipated benefits. In many countries, local teams were reduced to using “workarounds” to keep processes running and customers satisfied. As the data landscape became more fragmented, it became harder to synchronize the work of different functions, from human resources to logistics.

Given the level of investment in the legacy ERP system, there was some interest in fixing and upgrading the system to meet the needs of the future. Although this seemed to be an economic solution, the approach would actually continue to incur significant amounts of money and resources. Every time a system needed to be upgraded, it would be a major task in itself, involving capital investment and a high risk of obsolescence. And because the restaurant chain owned a range of legacy technologies, it had to employ a large and diverse IT team to maintain the systems.

All these factors led the company to opt for a Cloud solution that, by contrast, was more or less “plug-and-play.” There are many Cloud service providers that offer complete systems virtually on demand: you load the data and you are ready

to start. Not only are these Cloud solutions generally cheaper and quicker to implement, their functionality can be more scalable and versatile—which can make them especially powerful in expanding businesses. Central upgrades can be economical and easy, meaning that the company would generally be running the latest software. On a straight like-for-like cost-and-benefit analysis, the company determined that the Cloud route was clearly the way to go.

Automatic synchronization of data from different functions reduced administrative workloads, enabled closer relationships with customers and fostered collaboration between colleagues—irrespective of location. Integrated analytics and “joined-up” reporting drove creativity and innovation, as well as efficiency. What started as a simple cost-cutting exercise became a lever of business transformation.

Potential Tax Considerations

The move from an in-house ERP system to an enterprise-wide Cloud-based solution converts a continuing capital expenditure into an operating expense. Depending on the nature of the transaction, the payment for Cloud solutions may be subject to an indirect tax liability.

The indirect tax rules relating to Cloud solutions vary by jurisdiction. For example, the characterization of Cloud solutions may vary depending on whether the transaction is characterized as a sale of tangible personal property or as data processing services, communication services and intangible rights. Such inconsistencies increase the risk that companies are incorrectly (or not) charging tax on the Cloud solutions they sell. This means that purchasers of Cloud solutions such as the restaurant chain should not rely solely on the seller to determine the potential taxability of the transaction. The company should confirm the taxability of its Cloud solution transactions; if the company leaves it all up to the seller it could incur penalties and interest for not paying tax at the time of the transaction.

Moving to an enterprise-wide Cloud-based solution can also have an impact on the collection and reporting of tax data. The company will need to capture, organize and retain data elements for indirect tax, corporate income tax (including fixed-asset systems), withholding tax and international tax. Systems and applications will need to be configured to deliver the right data from the outset; this will involve rigorous data mapping during the ERP implementation process, and continuing checks to determine the right data is actually being collected throughout the transition period.

For more information

Moving from an in-house ERP system to an enterprise-wide Cloud-based solution can mean changes to your organization's tax liability. To find out how KPMG can help sort through the relevant regulations, please contact:

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Other Potential Tax Implications

- Changes to Taxable Income
- Expense Recognition for Income Tax Purposes
- Withholding Tax
- Transfer Pricing
- Trade and Customs



3. The big question: “buy or rent?”

Investing in a data center or paying a third-party

Company A is a retailer that generally delivers 80 percent of its turnover between October and January. If the company buys enough processing power of its own to handle that seasonal peak of activity, it will have capacity lying idle for three-quarters of the year. The shift to Cloud can offer benefits of functional scalability and, therefore, reduced operating and maintenance costs.

Company B is a European tech company expanding into the U.S. and needs to set up a data center. However, the capital is not available for a big investment up-front and uncertainty about likely growth make it difficult to predict how much transactional processing power will be necessary. With technology advancing so fast, the business is also reluctant to invest in systems that could be obsolete as soon as they are implemented. Low cost of entry, scalability and high-speed implementation can make Cloud a good choice.

Company C is a niche professional-services firm that specializes in logistics solutions for the fashion and textile industries worldwide. It already has three data centers, but they are costly, time-consuming and difficult to operate. A decision is made to focus on their core areas of expertise and outsource everything else.

Potential Tax Considerations

The choice between “buying” or “renting” is really the difference between capital expenditure and operating expenditure: the cost of buying servers is compared to the cost of using or renting server space. However, for a more complete and accurate cost analysis, companies also need to consider the tax costs or savings that may result through the creation or elimination of a taxable presence in the jurisdiction where the server is placed or removed.

Depending on the tax type, taxable presence is determined according to the rules of each jurisdiction. By owning a server or using/renting server space in a new jurisdiction, the corporation may create a taxable presence and become subject to an income tax or indirect/transaction tax. This is why the tax costs associated with creating a taxable presence should be considered in any “buy vs. rent” decision.

Many taxing jurisdictions offer credits and incentives intended to encourage economic development. The “buy vs. rent” cost analysis should also consider available credits and incentives that relate to building a data center and employing people in a particular jurisdiction. The potential tax savings recognized through the credits and incentives could help support an argument for making a capital expenditure. One such credit is the R&D credit. Further, renewable energy incentives may apply to the extent power (or back-up power) to the data center is supplied by solar, geothermal, or fuel cell based power. This may apply for U.S. federal and state income taxes and may also exist in some foreign jurisdictions. The R&D credit may be available for companies undergoing innovative data center projects. There can be significant integration work involved in building a data center and that may rise to the level of qualifying research activity.

Given the substantial costs involved in developing, constructing and operating these facilities, incentives like the R&D or renewable energy credits can generate significant cash tax savings and a greater ROI in the data center.

Other Potential Tax Considerations

- Changed to State Apportionment
- Indirect tax Liability
- Changes to Taxable Income
- Transfer Pricing
- Withholding Tax
- Trade and Customs

For more information

Whether your organization decides to buy or rent a data center, you'll need to consider the potential tax implications. To find out how KPMG can help, please contact:

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4. Retooling proven processes for a new purpose

Building a new product around existing applications

A niche provider of mobile Customer Relationship Management (“CRM”) systems to the pharmaceutical sector had identified a gap in the market. It uncovered a need for a mobile CRM interface tailored specifically for pharmaceutical sales reps working directly with doctors. The global company took an existing Cloud-based product (a proven CRM package that integrates customer information with email and calendar tools) and wrapped a dedicated “pharma-facing” application around the core technology.

The resulting product allows sales reps to optimize their call planning by integrating various sources of information about doctors—from accessibility to buying behavior. They can see which doctors require a prior appointment and which won’t see reps under any circumstances. They can see relevant areas of interest or clinical specialty. They can also correlate their in-person meeting schedules with campaigns that pharmaceutical companies run alongside direct sales activity. This tool is an example of niche development where a technology-based solutions provider builds a new white-label product around existing applications. In this situation, components and functionality may come from—and draw data from—many different sources. However, what makes the solution well suited for its purpose can also create a complicated tax position.

Potential Tax Considerations

When a solutions provider like our example company uses existing Cloud-based products to build a new product, the company may create an intangible asset in the process. Valuation issues can arise when determining the worth of the intangible property for both financial reporting and tax purposes.

Where the intangible property is created within a group of related entities, transfer-pricing issues can also come into play: it is important to define who owns the intangible property and the arm’s-length price that will be charged for related entities to use it. As a global company, it will be subject to different rules and regulations in each of the various jurisdictions in which it operates. Careful attention to transfer-pricing rules and regulations can help prevent the risks and penalties that follow from non-compliance.

As a seller of Cloud solutions, the company may also need to comply with complex indirect tax rules in multiple jurisdictions. Cloud providers are challenged by outdated and intricate indirect tax rules when making taxability decisions about characterization and sourcing, accepting customer exemption certificates in good faith, and determining the potential tax implications of bundling and

unbundling solutions on invoices. However, if these indirect tax issues are not addressed, companies face an increased risk they will owe penalties and interest on under-collected indirect tax. Conversely, over-collecting the tax can damage the reputation and brand of the company and may lead to customer relationship issues.

Other Potential Tax Considerations

- Revenue Recognition for Income Tax Purposes
- Changes to Taxable Income
- Research and Development Credits
- Trade and Customs

For more information

Using the Cloud can assist and accelerate product development, but it can also expose an organization to new tax liabilities. To learn how KPMG can help, please contact:

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5. Focusing on customers with the roving point of sale

Creating a more versatile and scalable business model

A premium national clothing chain implemented a Cloud-based Point-of-Sale ("POS") system enabling all transactions to be done through smartphones and tablets. The cash registers have disappeared, allowing more space for merchandising and customer interaction. The sales assistant who helps you choose your item can also take your payment. There's no more standing in line to pay, which means greater convenience for consumers, while encouraging impulse buys. If you don't see what you like on the shelves, your sales adviser can use the same tablet to log into the national product inventory and show you a wider product choice.

The roving point-of-sale creates a full-cycle sales professional and a customer-centric shopping experience. It mimics the convenience and choice of online shopping, but adds in personal service and professional advice. And because the system is mobile, sales teams can have an opportunity to engage with potential customers out in the mall.

Not only does the hand-held POS offer more convenience for the customer, the Cloud-enabled functionality of the system is more powerful, more versatile and more scalable. The retailer can step up the number of sales points instantly

and economically to meet demand, so the lines disappear. If a customer buys something in Washington State and ships it to New York City, the system can compute the correct sales tax. The insights into what people are buying feeds into enhanced CRM, intelligent sourcing and a streamlined supply chain. Cloud brings a fundamental shift in the retail model. Cloud-driven shopping may have started with the tech retailers, but it is becoming more universal.

Potential Tax Considerations

While a Cloud-based POS system will simplify the customer's buying experience, it needs to be configured to make indirect tax calculations, across the store network, quickly and accurately.

This configuration may involve capturing multiple data points at the time of the transaction, including the store location, the customer's billing address and the ship-to address. The POS system will need to be connected to a tax calculation engine that can apply the appropriate tax rate to the transaction, almost instantly. Specialized tax advice can help mitigate the risk that a customer's seamless buying experience is disrupted by slow or inaccurate tax calculations.

As well as configuring systems for indirect tax purposes, the implementation of a new POS system requires significant support from IT teams working in concert with tax professionals; they will be involved in integrating old and new systems to capture the data required for corporate income tax, withholding tax, international tax and R&D credit documentation purposes. If the correct tax data is not captured, companies could miscalculate their tax liabilities and may not have the right data to support compliance, tax planning and audit defense.

Other Potential Tax Considerations

- Taxable Presence
- Transfer Pricing
- Expense Recognition for income tax purpose
- Withholding tax

For more information

KPMG can help address the complex tax issues retailers face when implementing Cloud-based POS technology. To find out more, please contact:

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6. Another big question: what to do with all that data?

Potential Issues and implications of supercomputing

Companies are generating immense volumes of data, and that volume is growing at an exponential rate. At a 2010 Technonomy Conference, Google CEO Eric Schmidt said, "There were five Exabyte's of information created between the dawn of civilization through 2003, but that much information is now created every two days, and the pace is increasing." Some critics challenge those figures, but the fact remains—the world is creating *a lot* of data. And it can have real value.

It's not just about describing what happened in the past: integrating different sources of information and real-time data feeds can provide businesses with a sudden and decisive competitive advantage. Big-data insights can make production processes more efficient and marketing more effective. They provide increased understanding of how our world works, from the spread of disease to the behavior of customers. And it's a race. If Company A does not harness the value of its data, it will lose out to Company B that does. So, there is scope for huge commercial advantage, but it depends on immediate access to supercomputer processing power with highly specialized analytics applications, which are beyond the budget or knowledge of most organizations. Companies may be used to spending six or seven figures on technology, but a true supercomputer could cost more like \$50m to \$100m or more. In this context, all the advantages of Cloud suddenly come to the fore, from speed and agility to scalability and reduced cost of entry.

Consider these examples:

- Company A is conducting a national survey among post-retirement populations in North America that correlates historic alcohol consumption, social class and current health levels. Both the volume and complexity of data are huge, but the project schedule occupies a compressed six-month window for both data gathering and analysis. The company does not have the necessary computing power in-house. It doesn't make sense to invest in the development and deployment of systems that are large enough and specialized enough to complete the task, given the speed and complexity of the project. A Cloud solution offers the capacity to handle huge volumes of data within a demanding schedule.
- Company B, a utilities company, is interested in matching its electricity generation and energy trading activities more closely to demand. There are considerable peaks and troughs in electricity use through any 24-hour period, but there are also hidden and more subtle trends driven by multiple factors, from weather conditions to sporting events to national "mood" data. Ultimately, a sophisticated grasp of energy use could shape everything from the company's trading strategies to the siting of new power stations. This extensive data collection may be beyond the scope of existing in-house computing resources—or commercially viable cap-ex investment. Cloud technology may offer the best combination of processing power and sophistication to crunch the data.

- Company C is an innovative financial-services provider that delivers mobile banking services in the developing world. In certain countries, technology innovation is actually leapfrogging more established markets because financial services have been forced to “go straight to mobile” to work around the shortcomings and inconsistencies of local infrastructure. Company C is interested in using the latest advances in behavioral economics and psychology to understand how customers in fast-growing economies make choices about loans and investments. However, mapping attitudes to risk and return requires deep analysis of multiple variables in a vast data set—well beyond the capability of business-as-usual transactional systems.

Potential Tax Considerations

Companies undertaking R&D activities may be able to recover a portion of R&D costs through the Federal R&D tax credit. To qualify for the R&D tax credit, research activities must satisfy various requirements defined in the Internal Revenue Code. If the R&D work rises to the level of a qualifying research activity, eligible expenditures for the credit might include wages, supplies and contractor costs. Additional consideration can be given to R&D tax credits/incentives that also may be available on a global, as well as state and local level.

One major activity involved in harnessing big data may be the development of software needed for data analysis; however, the development of internal-use software must pass additional tests to be deemed a qualifying research activity. Also, collaborations with third parties require a thorough contract review to determine which party retains the rights and risks to the R&D and is therefore allowed to claim the research tax credit. Through careful analysis of R&D activities and expenditures, qualifying activities and costs can be identified and substantiated for the R&D tax credit, resulting in potential cash tax savings and increased return on R&D investments. The payment for supercomputing processing power is

similar to paying for a utility – you pay for what you consume. While the “pay as you go” option for infrastructure and applications can reduce costs for R&D projects, unplanned indirect tax liabilities (including penalties and interest) for purchases of Cloud solutions could reduce the true return on R&D investments.

The indirect tax rules on taxability vary by jurisdiction and depend, in part, on local sourcing and characterization rules for the sale of Cloud solutions. For example, one state may define the payment for the use of infrastructure as a non-taxable service while another state treats the same transaction as a sale or rental of tangible personal property. The inconsistencies in indirect tax rules increase the risk that companies are incorrectly charging tax on the sale of Cloud solutions. Purchasers of Cloud solutions generally should not rely entirely on the seller to identify the taxability of the transaction; by confirming the taxability of their Cloud solution transactions, they can reduce the risk of unknown indirect tax liabilities. Yet around half of the respondents in KPMG’s Cloud Benchmarking Survey said that they either trust their vendors or do not pay close attention to how tax is collected or remitted on Cloud transactions. This suggests that their companies could be losing opportunities for revenue generation and significantly increasing their exposure to risk.

Other Potential Tax Considerations

- Taxable Presence
- Expense Recognition for Income Tax Purposes
- Transfer Pricing
- Taxable Presence
- Changes to Taxable Income
- Trade and Customs

For more information

Companies are looking to data and analytics for greater insights into their business. But activities around harnessing Big Data can raise a number tax issues. KPMG can help sort through the confusion. To find out how, please contact:

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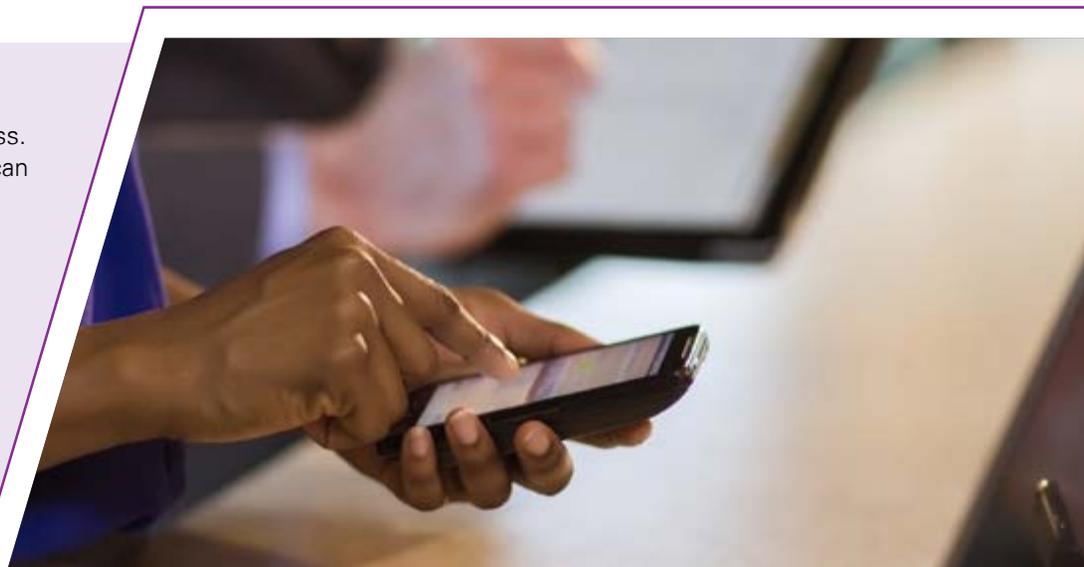
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7. Delivering software for global consideration

Enabling a new business model

When a customer of Company X Software Solutions buys a license to use Cloud-based software, a single headquarter (“HQ”) license may provide access for employees in multiple taxing jurisdictions.

This scenario introduces the indirect tax concept of “multiple points of use.” Businesses that purchase software for use in multiple jurisdictions may provide a seller with a “multiple points of use” exemption certificate that will shift the burden of tax payment to the purchaser and allow the purchaser to allocate the indirect tax liability across all jurisdictions where the software will be consumed. The seller’s obligations when accepting these exemptions from its customers vary by jurisdiction. This is why proper document retention policies and systems configuration are so important; it must be easy to see whether a customer has a valid exemption certificate on a particular account.

The shift from digital download to a Cloud-based access model often means changes to a company’s international intercompany structures and transactions. A sales structure based on digitally

downloaded software being sold from a low-tax jurisdiction could be highly tax-efficient: when the delivery mechanism moves to a Cloud model, the original tax benefits may no longer exist, from either a U.S. or foreign perspective. Although such changes to transactional flows can have significant tax repercussions, nearly one-third of respondents in KPMG’s Cloud Tax Benchmarking Survey admitted they do not have a clear policy to identify the principal contracting entity on their Cloud-related contracts (either as user or provider).

Intercompany contracts should be updated to reflect the change in business model, and new transactions priced and documented according to transfer pricing rules and regulations; they should also be analyzed for potential withholding tax liabilities. Migrating from a downloaded enterprise software model to a Cloud-based solution can require a significant increase in hardware and software capacity to meet customer demand. The customer will no longer own or maintain the hardware on which the software runs. As the responsibility shifts to the Cloud Service

Provider, a company like Company X Software Solutions will need to provide server capacity and processing power to meet the demand. This could raise issues of taxable presence, R&D tax credits, negotiated tax incentives and transfer pricing.

Other Potential Tax Considerations

- Changes to Taxable Income
- Revenue Recognition for Income Tax Purposes
- Research and Development Credits
- Trade and Customs

For more information

Entering a licensing agreement for Cloud-based software can open a company up to new tax liabilities. KPMG can help your organization understand the rules. To find out how, please contact:

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8. The future of consumer finance is mobile

Allowing consumers to bank and pay on demand

A global financial-services group has extensive experience in consumer and commercial banking. However, in this fast-changing market, this company has publicly acknowledged advancing technology and changing customer behavior as a major threat to their future business.

These are the facts: consumers want to conduct their banking business at times—and through channels—that are convenient to them, and for many, that is not during normal business hours. After some early concerns about the security of online banking, people are becoming more comfortable and conversant with the use of online banking tools. Future growth will be heavily impacted by mobile banking: use of ATMs which have been such a big part of the landscape for more than twenty years is likely to change as more people embrace mobile banking.

Cloud-enabled financial services means that people can do whatever they need to do by mobile, including deposits or small payments to friends. So, if you buy my ticket to the game, you can transfer money to my account instantly by phone, even if we use different banks. The processing capacity, scalability and interoperability of new-era, Cloud-enabled financial services could finally turn the idea of the cashless society into a reality, because high functionality is available through a hand-held device. A retreat from conventional banking has the potential to both cut costs and increase convenience for customers.

Potential Tax Considerations

The introduction of mobile banking and mobile payment services will require increased server space, both to handle the volume of transactions and to address data-security concerns. There are important tax implications when a company decides to buy additional computing infrastructure: the location of a server may create a new taxable presence. Depending on the tax type, taxable presence is determined according to the local rules in each state or foreign jurisdiction. If taxable presence, or nexus, is created in a new jurisdiction, the company could have a new income tax and/or indirect tax filing requirement.

On the plus side, many taxing jurisdictions offer credits and incentives that encourage economic development. Building additional server space and mobile applications may well involve qualifying activities and expenditures for these credits and incentives. One is the R&D credit; this is offered for U.S. federal and state income taxes – and also exists in some foreign jurisdictions. The R&D credit may be available for companies undergoing innovative data center projects or software development. The work involved must rise to the level of qualifying research activity as defined by the taxing jurisdiction. There are likely to be substantial costs involved in developing mobile banking and mobile payment applications, including the creation of additional computing infrastructure; where data center development costs and construction expenditures do qualify for tax incentives like the R&D credit, the result could well be cash tax savings and a greater return on program investment.

Other Potential Tax Considerations

- Taxable Presence
- Revenue Recognition for Income Tax Purposes
- Changes to Taxable Income
- Indirect Tax
- Transfer Pricing
- Withholding Tax
- Trade and Customs

For more information

Financial-services companies looking to provide their customers with the flexibility and convenience of Cloud-enabled transactions need to consider the tax ramifications—both pro and con. That's where KPMG can help. To find out more, please contact:

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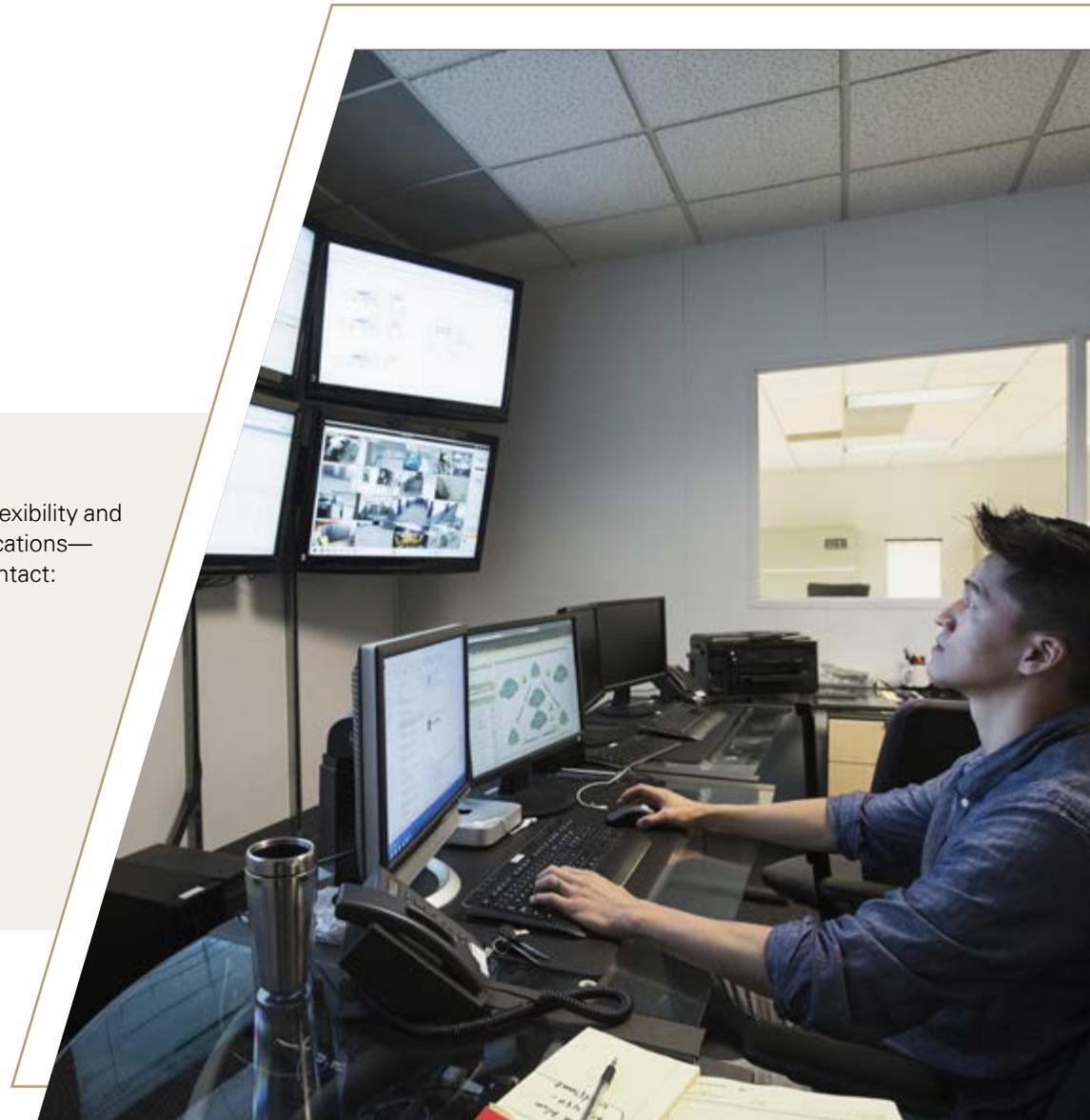
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CONCLUSION



Conclusion

With such potential benefits as lowering operating costs, creating flexibly and enabling instant scalability, Cloud is rapidly transforming business models. But according to KPMG research¹, many companies are still unaware or unsure of the potential tax implications of doing business in the Cloud, and may be bringing their tax departments into their Cloud business discussions far too late. Tax can be an afterthought when it comes to Cloud strategy, which means that many cost-saving opportunities, such as tax credits and other incentives related to Cloud, could be missed, while the potential for risk and liabilities, including significant penalties down the road, could increase.

The Cloud-transformation scenarios described here demonstrate how tax has a vital role to play when it comes to mapping out a Cloud strategy. The evaluation of potential tax implications of Cloud business transformation—performed early in the planning stages—can help bring about increased cost savings, greater return on investment and enhanced risk management across the enterprise.

KPMG LLP's Tax professionals understand the rapidly changing environment brought about by Cloud-enabled business transformation. We use our real-world experience and technical knowledge to provide advice on these complex issues. We apply our in-depth industry knowledge and, through our collaborative approach, help clients implement decisions that can deliver real value to their businesses.

¹Tax in the Cloud Survey Report: Forecast calls for greater awareness, better data and transactional transparency.

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