CPA Practice Advisor

beginning to understand ramifications of these changes and how intricately they are
..

Apr. 25, 2018

While some touted U.S. tax reform as a long-awaited holiday gift in 2017, this year tax professionals are dealing with its realities. Since then, they've worked tirelessly to evaluate and report on the immediate impact to the financial statement, but the hard work of tax reform is just getting started. At nearly 200 pages, the Tax Cuts and Jobs Act* introduced some of the most sweeping corporate tax changes this country has seen in over 30 years. Significant changes include:

- A sharp reduction in the corporate tax rate to 21 percent;
- New limits on interest and net operating loss deductions;
- The retirement of the corporate Alternative Minimum Tax;
- The repeal of IRC §199 Deduction for Manufacturers;

- A switch to a quasi-territorial tax regime for foreign earnings and its

corporate tax just got a whole lot more complicated. Tax professionals are only just beginning to understand ramifications of these changes and how intricately they are interwoven.

With Challenge Comes Opportunity

Unraveling tax reform details will be a focus for some time to come. However, savvy professionals will quickly realize there has never been a greater opportunity for their departments to stand out to the C-suite. Not only can they help the C-suite better understand changes, they can also guide them as strategic advisors by evaluating the impact of reform on current operations and identifying options for restructuring operations and/or legal entities. To elevate the tax department to the role of business strategist, tax leaders should be asking themselves two important questions.

How Will Tax Reform Change Tax Processes and Posture?

To answer this question, leaders should examine the impact on all phases of the income tax life cycle, from provision and compliance to planning and audit.

Provision and compliance

Tax reform has brought with it new, complex, data-intensive calculations that are delicately intertwined. Will you need new data or just the same data at a lower level of detail? Do you know what new forms will be required and where to get needed information?

If tax departments thought effective tax rate (ETR) management was challenging before tax reform, it just became an even bigger challenge. From a tax provision lens, these new tax reform calculations will likely mean companies have some new drivers of the ETR. What are those drivers for your company? On what data do those drivers depend? How will you forecast them? Will "same as last period" be good enough for certain provision calculations? And how will you be alerted to changes in the

Tax planning

Just like ETR management, traditional tax planning has also become more complicated. There is much to plan for—from revisiting intellectual property ownership, supply chain and corporate financing entity structures to evaluating new merger and acquisition scenarios driven by tax reform. Tax professionals need data and business intelligence (BI) tools to advise the business.

U.S. tax reform is just the beginning of what promises to be a long wave of regulatory and legislative changes tax departments need to monitor. Whether in the form of new U.S. regulations and notices, or in the form of inevitable responses from other jurisdictions, either at the U.S. state level or changes to foreign tax legislation, more changes are coming. How quickly will you respond to these new changes?

How Well Positioned are Your Current Tax Systems to Deal with New Data Demands?

With data at the center of every question above, tax leaders should consider a data management system specifically designed for the needs of their tax departments. They should look for one that collects timely financial and tax data from around the world using standardized methods and that provides the ability to use that data to reliably produce and persist complex calculations. In a post-tax reform world, visibility into the data points that drive the effective tax rate will be critical, as well as a mechanism to produce alerts about changes. The system must support repeatable processes to preserve data control and integrity. Finally, the ability to produce scenarios and what-if calculations to support ETR analyses and other tax planning will allow the tax department to be a strategic advisor to the business.

The Strategic Value of Tax Departments

If tax departments can affirmatively answer all of the above questions, they will be

———

Nancy Manzano is Director in the Chief Tax Office at Vertex, Inc.