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Why tax should be brought into strategic business decisions early

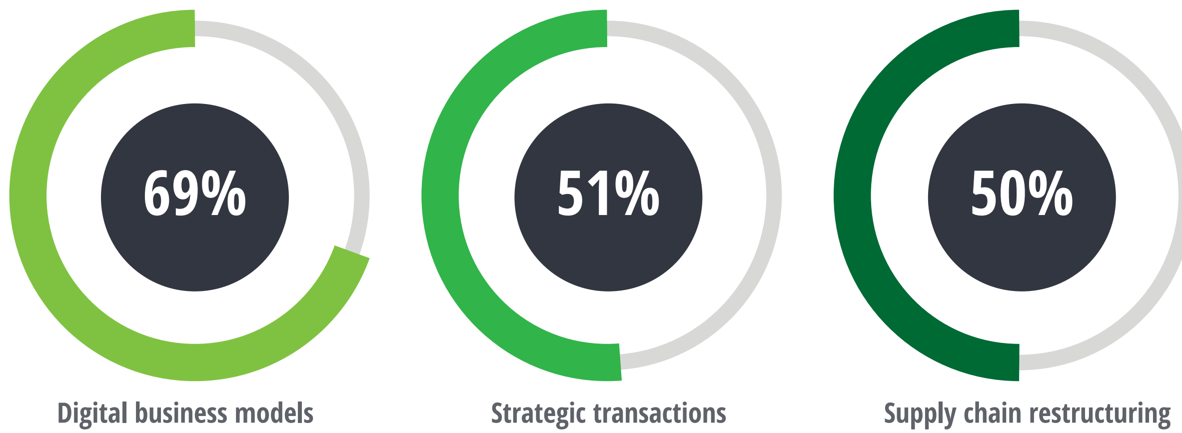
CFOs recognize tax's growing impact on digital models, M&A, and more

Emily VanVleet and Donna Stephens

CHIEF FINANCIAL OFFICERS understand the importance of tax having a seat at the table in major business decision planning. According to Deloitte Global's recent Tax Transformation trends survey, there is increased demand for strategic input from tax related to digital business models (69%), strategic transactions (51%), and supply chain restructuring (50%).[1]

Why, though, is this demand for tax input so prominent now? While tax considerations have been important, businesses continue to expand globally and adapt to increasing digitalization and changing legislation, including the potential for significant legislative change in the near term. Businesses should evaluate these potential tax impacts to mitigate risk and assess the possible costs related to cash taxes, the effective tax rate (ETR), and tax financial reporting.

Demand for strategic tax support is expected to increase in the following areas as business model transformation accelerates



Source: Deloitte Global tax transformation trends study, May 2021.

Scoring highest with executives surveyed, digital business models are the way of the future. While a **digital business model** offers significant benefits and efficiencies, it entails compliance requirements that, unnoticed, can introduce tax risk and costs. For example, supply chain decisions require understanding the impact of digital innovation, such as how new digital assets affect existing IP structures. Businesses also should understand the tax implications of operational changes, such as expanding e-commerce.

During a **strategic transaction**, tax implications exist. For instance, expanding an organization's e-commerce footprint requires knowing where the acquisition target is registered and any open audits that could become risky for the acquiring organization. Critical tax-related items to understand range from incentives and exempt positions taken, net operating losses, open audits, appeals, and tax litigation. All factor into the potential risks and benefits of a transaction.

Supply chain restructuring requires making informed decisions on how to structure the product and service flows to align the tax footprint with business objectives. Having tax involved may reduce the risk of losing tax incentives and exemption opportunities.

In all business events, not knowing what risks you're up against can increase chances of risk exposures, penalties, and costly rework—which is why it's critical tax leaders are brought into the process early.

Endnote

1. Deloitte, *Tax Transformation trends survey: Operations in focus*, May 2021.

About the authors

Emily VanVleet | evanvleet@deloitte.com

As a Deloitte Tax partner and leader of the firm's U.S. Operations Transformation for Tax practice, Emily VanVleet thrives on anticipating what might be next and supporting her clients in staying ahead of market trends and driving incremental value. With more than 20 years of experience in tax consulting, strategic process design, and practical approaches to tax transformation, VanVleet is known for designing and delivering tax solutions that allow her clients to confidently and successfully reinvent their operating models, by varying the elements of data management, technology, and outsourcing services to intensify value, manage risk, and increase efficiency in tax operations.

Donna Stephens | donnastephens@deloitte.com

Donna Stephens joined Deloitte as Tax managing director in 2020 with a focus on growing and strengthening Deloitte's position in the OTT marketplace space. Prior to joining Deloitte, Stephens served as senior director of operations for Tax for a Fortune 500 technology company. In that role, she designed and built several global centers of excellence specializing in global tax compliance. Stephens brings a strong senior Tax leadership and CFO mindset focused on strategic transformations of Tax operating models.

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