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Emerging trends: Shifts in the semiconductor landscape

Tax insights and actions

Demand for semiconductors has led many companies to build out manufacturing capabilities across the globe. Change in this industry is typically driven by supply chain and economic concerns, new legislation, incentives in several jurisdictions, as well as a changing workforce. Implications are being felt across the ecosystem, not only for semiconductor companies but for supporting infrastructure such as data farms, real estate, financing, workforce training, and more.

5 insights you should know

1. **New opportunities.** The CHIPS Act was recently passed in the US, creating potential opportunities for semiconductor manufacturers or semiconductor equipment manufacturers to get additional funding to support capital intensive expansion. Other incentives are available around the globe.

2. **State by state considerations.** Many state and local jurisdictions are providing credits, exemptions, and grants to promote manufacturing expansion. These can impact direct and indirect taxes, as well as offer cash refunds/grants in some cases.

3. **New locations, new rules.** Moving manufacturing to a new jurisdiction will inevitably result in different tax consequences and compliance obligations. For example, companies that have never manufactured in the US may need to consider state and local indirect taxes such as Sales and Use or new VAT obligations as part of the manufacturing process for the first time.

4. **Implications beyond IT.** The change in the semiconductor supply chain is impacting many industries. Typical projects include real estate/site selection, construction, financing, energy-efficient smart features, collaboration with local governments and educational institutions to train workforce, and coordination with travel and hospitality opportunities.

5. **Purpose-built chips.** Chip manufacturing is collaborating more closely with innovation/developing technology enterprises. Companies are working together upfront in joint ventures to get the right chips, at the right price, with the right material, at the right time for specific functions.

5 actions to take now

1. **Evaluate incentives.** Companies should understand any changes in guidance or incentive opportunities in relevant jurisdictions as planning for potential changes in manufacturing and supply chain begins.

2. **Perform comprehensive site selection activities.** Taxpayers should evaluate all aspects of site selection in addition to potential incentives. Available financing, workforce, climate, sustainability, efficient travel options, and proximity to supply chain and customers are some of the important considerations.

3. **Analyze guidance.** Model tax considerations not only at a federal level but also at state and local levels in all impacted countries. Taxpayers should also model the tax consequences for proposed legislation such as Pillar 2, recently enacted US AMT, and other signigicant changes around the globe given the long-term nature of this type of project.

4. **Identify and remediate ERP system gaps.** Taxpayers should identify data and reporting requirements for appropriate tax computations and compliance. Once requirements are understood, enterprises should evaluate gaps in data and remediate ERP system data needs. This is one of the most important steps in planning any business model change, given that changes to ERP systems after implementation can be extremely costly.

5. **Model tax considerations and planning to account for business changes.** Evaluate the overall ecosystem to identify efficiency-boosting opportunities such as partnerships, joint ventures, or acquisitions. Consider documentation needs for due diligence to a potential interested party, and also important areas of focus for the company's own diligence.

TMT + Tax series
Tax planning for emerging trends

Digital trends are impacting every industry. Regardless of vertical, every company is now a tech company. Whether you're modernizing IT, moving to the cloud, exploring blockchain, or expanding into the metaverse, technology creates exciting opportunities, and raises critical questions. Technological advances are outpacing guidance from regulators and tax authorities, and challenge even the most advanced companies. Deloitte's TMT + Tax series applies a tax lens to emerging trends to help you identify potential benefits as technologies evolve, while preparing for tax and regulatory developments.

Emerging trends

- SaaS and XaaS
- Digital Platform Companies (DPCs)
- Metaverse and shoppable media
- Semiconductor and digital infrastructure
- Blockchain and digital assets

Business imperatives

- Anticipate marketplace and supply chain shifts
- Know your products
- Know your customers
- Keep up with evolving guidance and compliance requirements
- Document the right data elements at the right level of granularity

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