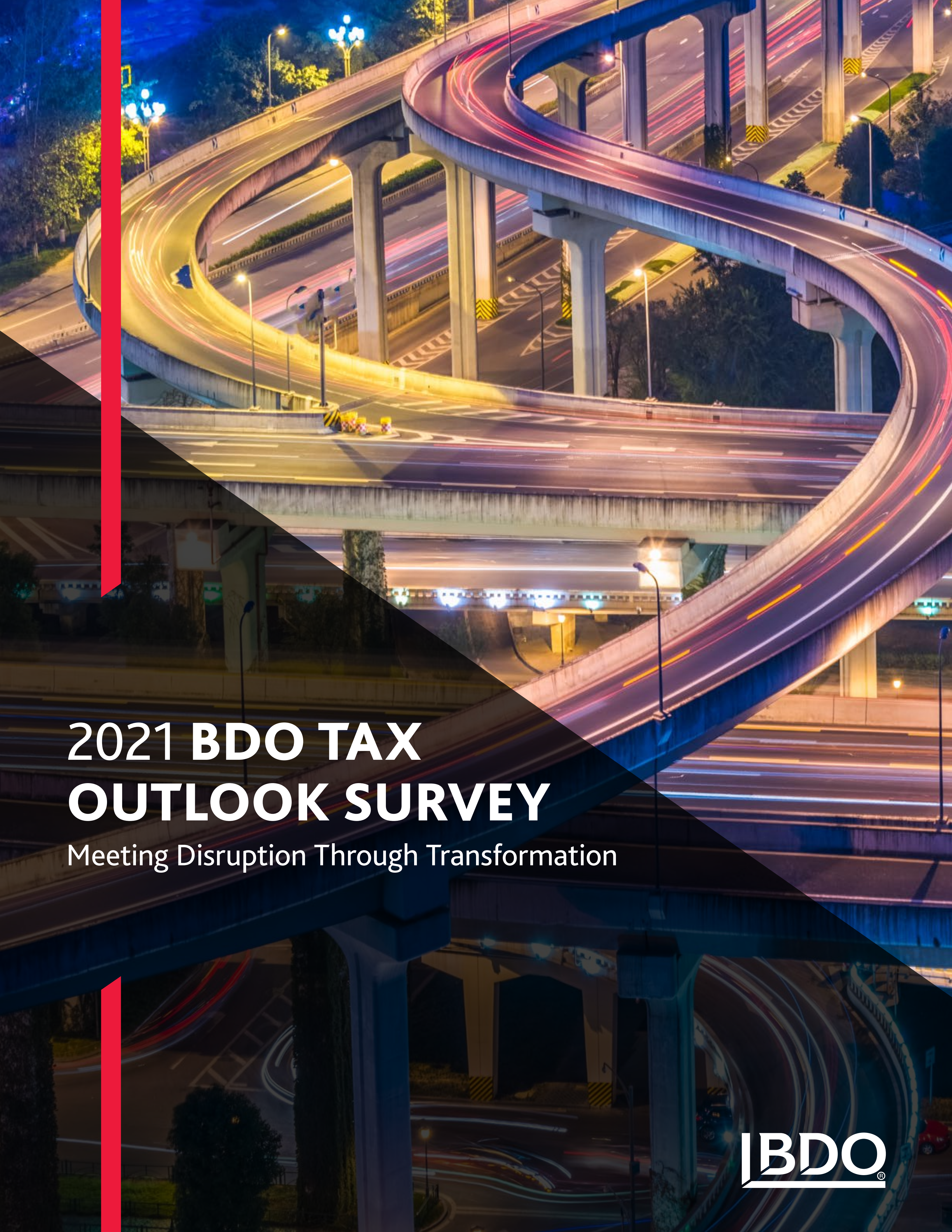

2021 **BDO TAX OUTLOOK SURVEY**

Meeting Disruption Through Transformation

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Introduction

Increased complexity and accelerated change has become the norm in the world of corporate tax. From the passage of tax reform to new legislation allowing states to levy taxes on remote sales to increased requests for tax transparency around the globe, tax executives have had to flex their agility to steer their companies through a multitude of challenges.

Despite the changing tax landscape, nothing could have prepared the world for 2020. A global pandemic and economic recession threw businesses into a tailspin, and most companies had to put long-term plans on hold to focus on mitigating immediate risks and ensuring business continuity. More than ever before, effective tax strategies proved key to survival.

Looking ahead, while the world appears to be inching back toward some semblance of normalcy, the post-COVID-19 landscape remains uncertain. Tax executives, though, predict that disruption and change will not only continue but accelerate, particularly as tax authorities worldwide look to recoup at least some revenue that was lost in 2020.

According to the *BDO 2021 Tax Outlook Survey*, tax executives are up to the challenge, focused on managing their total tax liability and transforming their operations to adapt to whatever lies ahead.

COVID-19 Highlights Tax as a Strategy for Resilience

While a potential economic downturn had been long-forecasted, the emergence of the COVID-19 pandemic in the U.S. in March 2020 quickly turned speculation into hard reality—one without modern comparison. Businesses across industries suddenly faced the simultaneous challenges of continuing their operations, protecting their employees' health and safety and reacting to unexpected demand fluctuations and supply chain issues. In response, companies had to **quickly pivot** and adapt their near-term plans.

For tax departments, this often meant shifting to remote work and pushing to meet key deadlines while continuing to look for opportunities arising from the **Coronavirus Aid, Relief and Economic Security (CARES) Act** and other relief programs, which was no easy feat.

Although the impact of the pandemic varied across industries, liquidity and access to capital were universal keys to survival, and the tax department was crucial in finding and maintaining them. In 2020, tax executives leveraged a **variety of strategies** aimed at preserving cash when businesses needed it most.

Tax executives plan to continue those efforts during 2021, adjusting their focus from immediate savings to longer-term optimizations, such as supply chain shifts and outsourcing certain tax functions to external vendors.

#1 tax issue in 2021:
Mapping the tax impact of COVID-19-related business strategies (50%)

Greatest challenge to tax departments:
Managing essential tax work in light of COVID-19 (34%)

#1 personal challenge for execs:
Keeping up with regulatory/compliance challenges (25%)

TOP STRATEGIES FOR RESILIENCE

USED IN 2020

47%	R&D tax credit studies
42%	NOL carrybacks/ AMT refund credits
42%	Reverse audits
38%	Social Security tax payment deferrals
37%	Supply chain restructuring for more tax efficiency
37%	Relaxed tariff/ duties payment extensions

PLAN TO USE IN 2021

43%	Supply chain restructuring for more tax efficiency
43%	Outsourcing of specialized tax work
38%	Challenges to assessed property tax values through appeals
35%	Relaxed tariffs/ duties payment extensions
33%	R&D tax credit studies
32%	Employee Retention Credit

PANDEMIC SILVER LININGS

Although the pandemic challenged all businesses, a crisis often crystallizes perspective. Tax executives found that the events of 2020 led to some positive changes, both to their own operations and how the tax department was and continues to be regarded within the greater business ecosystem.

WHAT POSITIVE CHANGES HAS YOUR ORGANIZATION EXPERIENCED IN THE LAST 6 MONTHS?

Enhanced role of tax as a strategic partner	49%
Improved workforce culture and unity	46%
Fostered faster decision-making	45%

56% of respondents say their management team always includes the tax department in strategic planning and decision-making

> *The events of 2020 proved that involving the tax department in business strategy is a key factor in increasing resilience and agility. From conserving cash to helping businesses avoid new liabilities, the importance and value of the tax function has never been clearer.*

MATT BECKER
National Managing Partner of Tax

COMPLIANCE CHALLENGES WITH INCOME TAX ACCOUNTING

Concurrent with managing the pace of tax changes, executives are struggling to remain compliant with income tax accounting rules, especially with many tax departments continuing to work remotely, at least part-time. Failure to comply with the tax accounting rules could result in costly remediation and risks to a business's reputation.

TOP ISSUE WITH FINANCIAL REPORTING FOR INCOME TAXES

29%	Recruiting and training professionals
29%	Staying up to date on accounting standards changes and proposals
23%	Meeting deadlines for interim and annual income tax reporting
16%	Avoiding material misstatements

The Year Ahead: Total Tax Liability Increasing

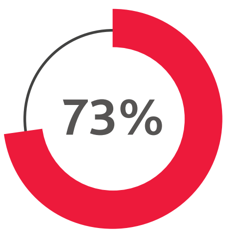
The concept of total tax liability—an understanding of and visibility into the sum of all the taxes a business owes at any given point in time—has gained significant exposure in recent years. While it's clear that businesses are prioritizing taking a total tax liability approach to tax planning, doing so is only half the battle; the next step is reducing total tax liability as much as possible.

Tax executives believe their tax liabilities are increasing, and with good reason. According to tax executives, disputes are already on the rise. Jurisdictions worldwide are facing diminished tax revenues in 2021 and will likely try to recoup them in the near-term. Combine this with a new U.S. presidential administration that holds both chambers of Congress and a growing international push to tax multinationals, and the picture is clear: Tax authorities are cracking down, and the results can be costly.

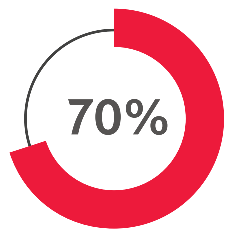
65% of respondents calculate total tax liability across the business **using automated tools** in close to real time and factor it into business decisions

47% say their boards have a **high understanding of total tax liability**; 50% say moderate

TAX EXECS' ASSESSMENT OF TOTAL TAX LIABILITY

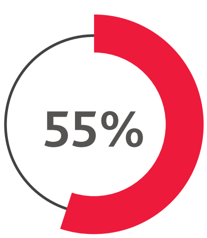


Total tax liability **increased in the last 12 months**

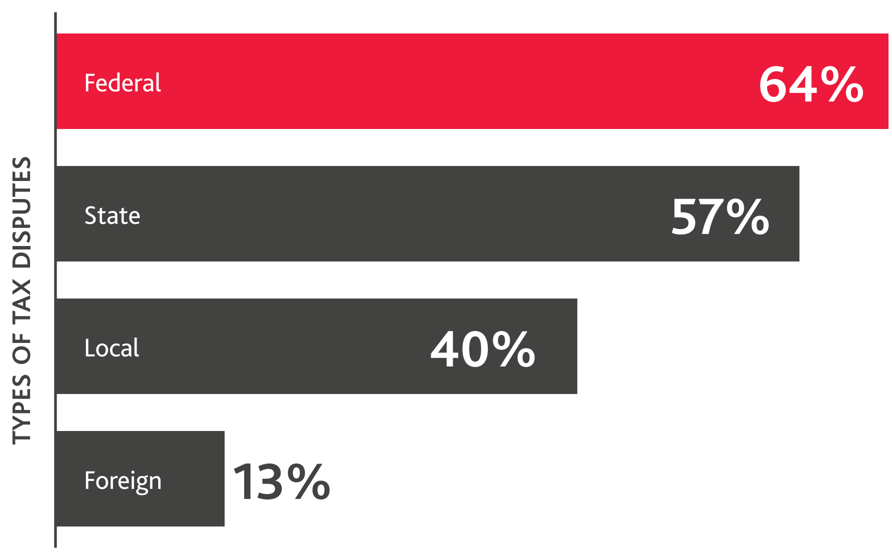


Total tax liability **will increase in the next 12 months**

TAX DISPUTES ARE INCREASING



of respondents have been **involved in a tax dispute in the last 12 months**, up from 40% last year



Federal: Tax Reform Redux

The U.S. tax environment changed in 2017 with the passage of the Tax Cuts and Jobs Act, which cut the corporate income tax rate and introduced a host of changes prioritized by congressional Republicans and the Trump administration. Four years later, tax reform is back on the table. With the Democrats controlling the presidency and both chambers of Congress (albeit narrowly), the landscape is primed for tax changes that could lead to increased obligations for businesses. When asked what the most significant determinant of their total tax liability would be in 2021, the results of the presidential election was the second most-cited option (following international efforts on the taxation of digital products and services). It looks like these executives' predictions may come to fruition.

92%

of respondents believe the U.S. federal corporate tax rate **will increase in the next year**

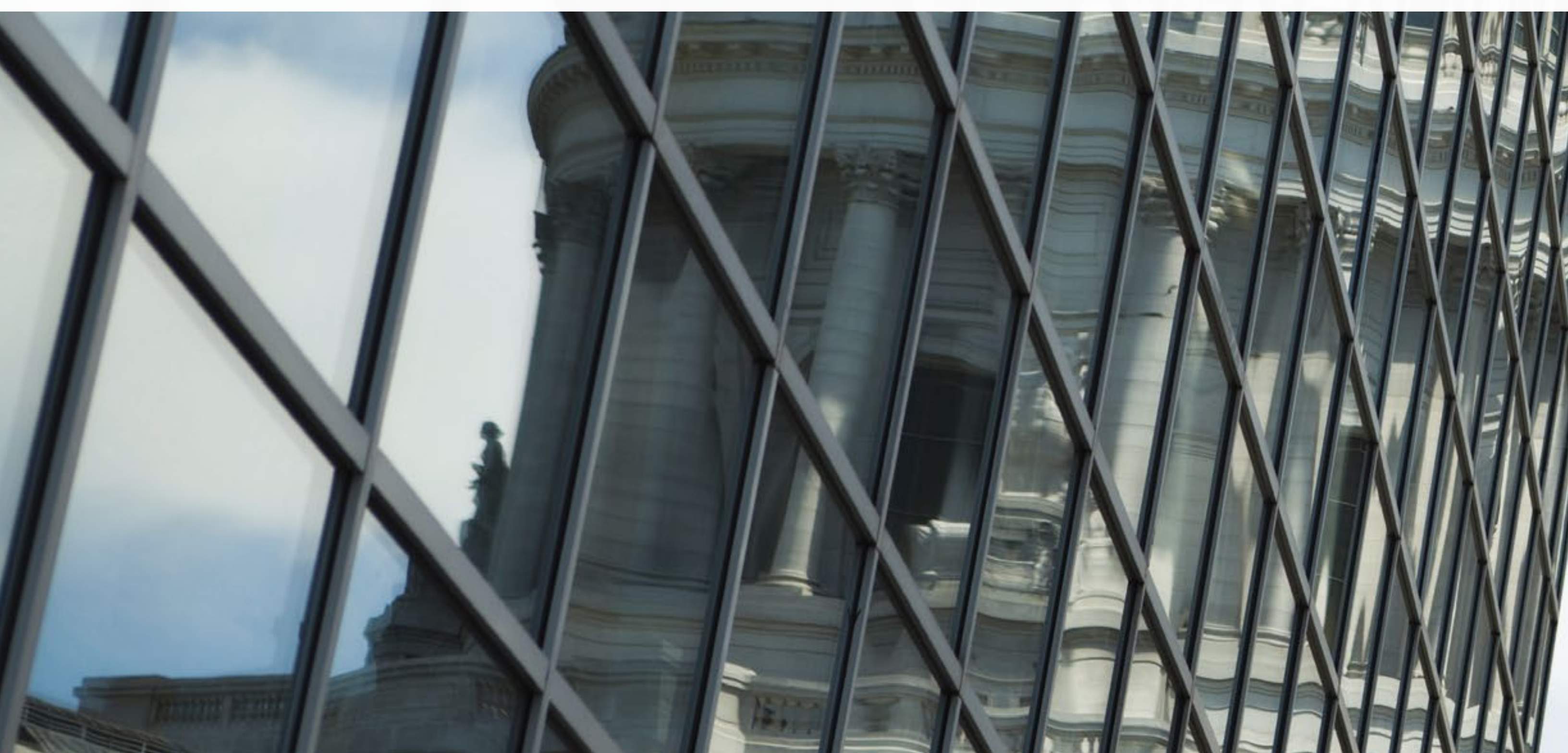
TOP TAX POLICY PRIORITIES

35%
Changes to the federal income tax rate

25%
International tax changes (GILTI, offshoring, etc.)

24%
Payroll tax adjustments

17%
Trade and tariffs



President Biden has expressed some clear tax priorities, which include increasing the corporate tax rate, increasing capital gains taxes and paring back other changes from the Tax Cuts and Jobs Act. With the possible legislative runway to reach some or all of these goals, businesses should start planning for how they will respond to such changes in federal tax policy.

TODD SIMMENS
National Managing Partner of Tax Risk Management

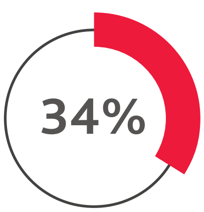
International: Digital Taxation Goes Global

DIGITAL TAX

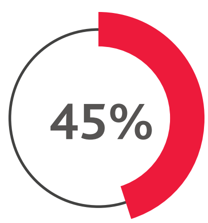
The perception that existing tax systems need to be adjusted to address the digitalization of the economy is widespread and overwhelmingly supported by U.S. tax executives, according to our survey data. Several countries already have unilaterally enacted (or are intending to introduce) taxes on digital services and transactions, and as a follow-on from the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting project, the Organisation for Economic Co-operation and Development (OECD) has released proposals to address the tax challenges of the digital economy and tax avoidance through a global minimum tax. This **global two-pillar approach** would allocate profits among countries in which a company makes sales or derives value so that companies are paying income tax based on where their consumers/users are located rather than based on the physical presence of the company.

Although implementation details have yet to be finalized, U.S. tax executives predict an agreement on a digital tax is likely to come sooner rather than later; the OECD is targeting mid-2021. While the OECD has no lawmaking capabilities, finalizing a global agreement on digital taxation would prompt a host of domestic tax law changes that could result in new and significant tax liabilities for many companies.

WHEN DO YOU THINK THE OECD WILL REACH AN AGREEMENT ON A DIGITAL TAX?



in the next **6 months**



in the next **7-12 months**

96% of respondents say there is a need for an established international framework on taxing the digital economy

29% say understanding the OECD's work on digital taxation & global minimum tax is their biggest international tax concern

$$$

Potential impact of taxation of digital products and services is predicted to be the **#1 factor in total tax liability in 2021**

> *While much remains to be seen in the final details of the OECD's plan, it's safe to say that shifting profit allocations away from the home country of the seller would be a major change for any business that sells digital products or services, not unlike what we experienced domestically with the* South Dakota v. Wayfair *decision. The result is that businesses may suddenly be responsible for paying taxes in many more countries than they were before.*

MONIKA LOVING
Managing Partner and International Tax Services Practice Leader

A consistent framework for levying taxes on digital products and services isn't the only international tax consideration. U.S. companies conducting cross-border operations or non-U.S. companies operating within the U.S. will need to ensure they are in compliance with evolving U.S. tax rules, such as those applying to foreign-derived intangible income (FDII) and global intangible low-taxed income (GILTI), as well as the base erosion and anti-abuse tax (BEAT). Compliance with federal tax reform provisions (29%) ties with understanding the OECD's work on digital taxation as tax executives' chief international tax concern. Multinationals should ensure they are current on these and other rules.

TRADE AND TARIFFS UNDER CONTROL

The trade tumult of the last several years has undoubtedly created business challenges, particularly those arising from the U.S. trade war with China. Despite the inauguration of a new administration, President Biden has said that he won't abandon the tariffs former President Trump imposed on Chinese goods, at least in the short term. While the new administration will presumably continue to take a hard line with China, it's likely to seek alignment with other allies around the globe in its approach.

Complicating matters further is the expiration of the Brexit transition period (i.e., the period for the United Kingdom to fully withdraw from the EU), because customs and value added tax (VAT) formalities and taxation now apply to businesses engaging in cross-border transactions with the United Kingdom.

The good news: Despite the importance of trade issues, tax executives have adjusted and deployed a broad array of tactics to manage these issues, although their preferences have shifted slightly.

IMPACT OF TRADE TENSIONS

92% of respondents say trade tensions have had a moderate/high impact on their business

31% of respondents rank import and customs duties as largest tax liability

TRADE TACTICS: THEN VS. NOW

	USED IN 2020	PLAN TO USE IN 2021
1.	Reevaluate supply chain and logistics (59%)	Alter sourcing (53%)
2.	Alter sourcing (55%)	Factor into M&A (46%)
3.	Increase prices (52%)	Reevaluate supply chain and logistics (43%)
4.	Apply for exemptions (51%)	Apply for exemptions (41%)
5.	Factor into M&A (50%)	Increase prices (40%)

State & Local: States Seeking Revenue Recoupment

The COVID-19 pandemic changed the way people operate on a day-to-day basis, including how people shop. Almost overnight ecommerce became a mandate for most businesses, as customers stayed at home to avoid crowded brick-and-mortar locations, many of which were forced to close. In Q3 2020, it's estimated that nearly $1 of every $5 spent came from orders placed online. While this pivot was a boon to many businesses, businesses selling online witnessed an explosion in their sales and use tax obligations. Following the U.S. Supreme Court's 2018 decision in *South Dakota v. Wayfair*, most states shifted to an economic nexus standard—rather than a physical one—for sales and use taxes. Throughout 2020, states using economic nexus were able to gain revenues from online sales in their jurisdictions.

Looking ahead, it's likely that state governments will continue to crack down on sales that cross state lines. The Brookings Institute projects state and local government revenues will decline by $155 billion in 2020, and these jurisdictions will be seeking new avenues to help close that gap. Florida and Missouri, the only two states that don't have an economic nexus standard in place, may finally adopt one. Other states may crack down on sellers' noncompliance.

Wayfair also led to the creation of marketplace facilitator laws—which require companies that facilitate online sales to collect and remit sales tax—in most states, and these laws could become more burdensome in 2021. Whatever happens, states are in dire need of revenue and are turning to online sellers to collect it. Technologies that provide a comprehensive view of sales tax rates and obligations that update in real time will be key to becoming and staying compliant, as well as minimizing liabilities where possible.

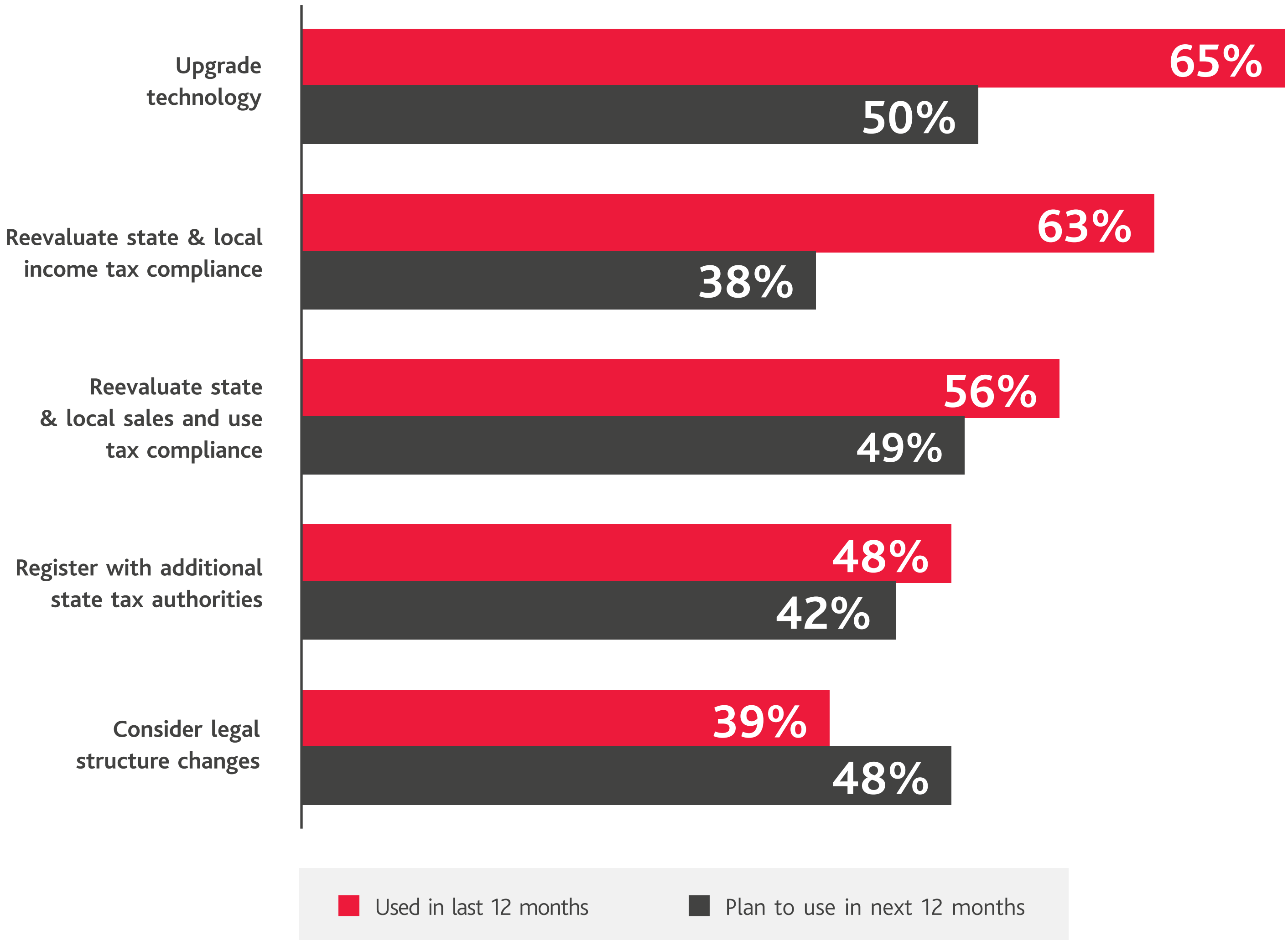
Largest portion of tax liability:
Sales and use taxes (31%)

-TIE-

Import taxes and customs duties (31%)

#1 state tax compliance issue:
Keeping pace with changing sales and use tax rates (35%)

STATE & LOCAL TAX STRATEGIES



For most business, the ability to sell goods and services online helped buoy them through the events of 2020, and for many it even opened up new potential for growth. But the flipside of these opportunities is increasing sales and use tax obligations. As states look to recoup revenues after a challenging year, it's likely any company that sells online will need to invest in technology solutions to ensure they can manage this complex web of tax liabilities.

ROCKY CUMMINGS
Managing Partner and State & Local Tax Services Practice Leader

Tax Technology: Key for the Resilient Tax Department

For tax departments to manage all of the conflicting areas demanding their attention—be it new federal legislation, shifting state sales tax rates or changes on the international tax front—having the right technology resources in place is imperative. This was never clearer than in a year where many tax executives were forced to manage their teams remotely. More than half (56%) of respondents report that technology and process limitations had a major impact on their ability to keep pace with tax changes. Not surprisingly, nearly the same percentage claim the pandemic **accelerated digital transformation** within their tax departments.

Looking ahead, it's clear that tax executives believe that there will be continued changes to tax rules and regulations. Understanding how a business's total tax liability shifts as a result of these changes, alongside other business decisions, is the critical first step to reducing overall tax costs, and having the right technology capabilities in place provides that needed line of sight.

#1 mandate for tax departments in 2021: Transforming the tax function for greater efficiency and better insights (33%)

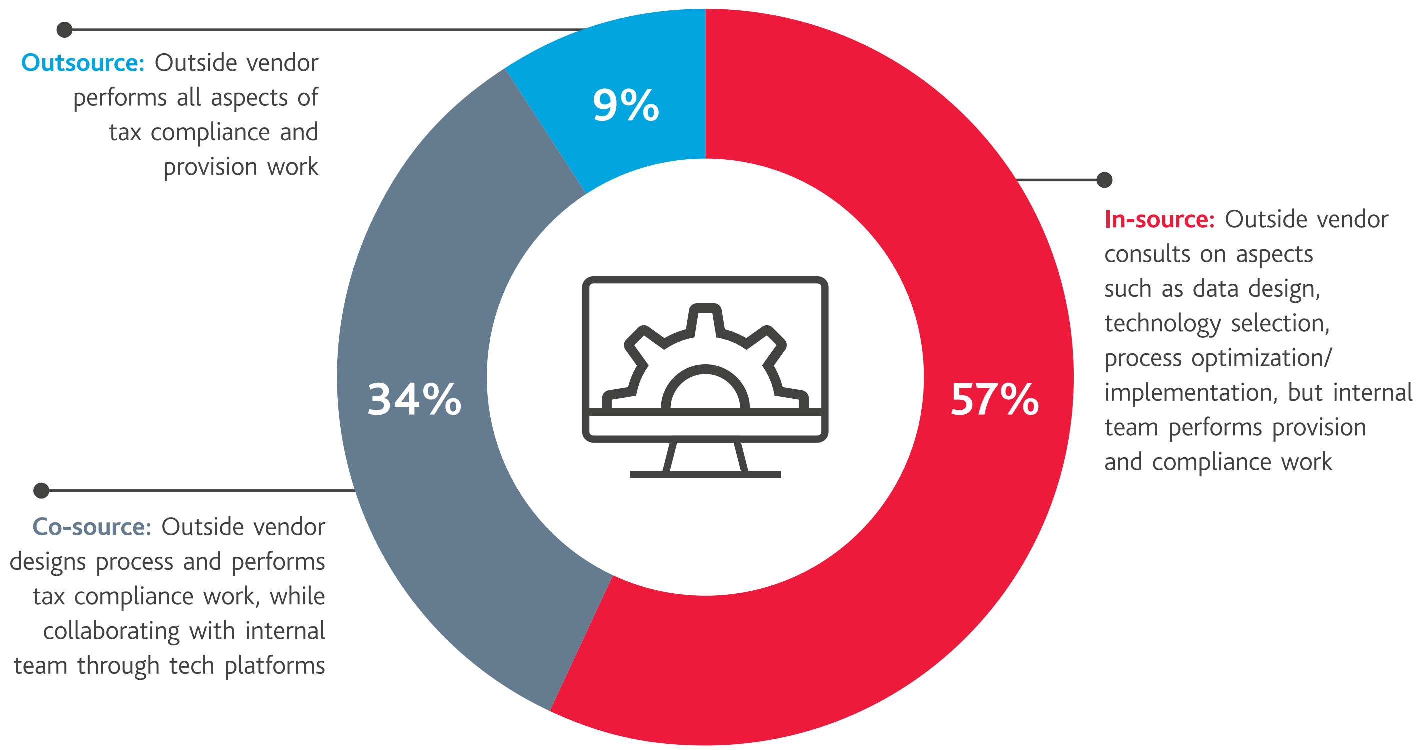
#1 pandemic "silver lining": Accelerating the digital transformation of the tax function (55%)

Top area of investment in 2021: Identifying and implementing new technologies (51%)

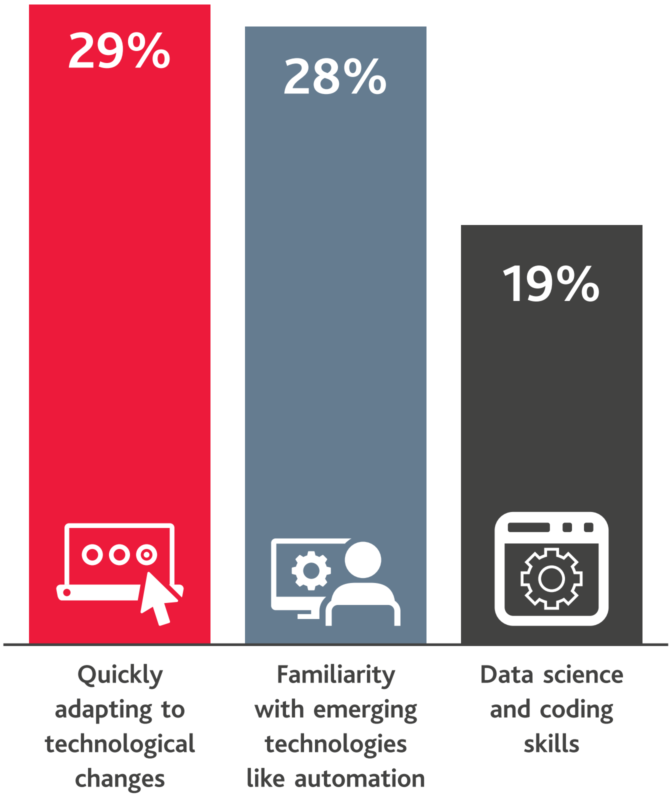
In 2021, tax executives plan to continue to invest in transforming their own technologies and processes in order to build more agility and resilience. While they often look to outside vendors for guidance, their goal is to build skills internally to execute these efforts going forward.

This isn't limited to the U.S.—the most mature tax departments around the globe are leaning into technology to help them manage the compliance burden. Learn more in our [Global Tax Outlook Survey](#).

WHAT IS YOUR APPROACH TO TAX TECHNOLOGY AND TRANSFORMATION PROJECTS?



TOP SKILLS FOR TAX PROFESSIONALS IN THE NEXT 5 YEARS



> *Like most journeys, digital transformation isn't an overnight venture—it's a steady drumbeat of improvements aimed at optimizing technology, data and tax processes. Tax executives hoping to gain greater efficiencies and insights in 2021 should look first to the areas that will provide near-term ROI and should prioritize not just investing in the technology itself, but also in ensuring their people can leverage it effectively."*

SCOTT HICE
Tax Performance Engineering Managing Partner and National Practice Leader

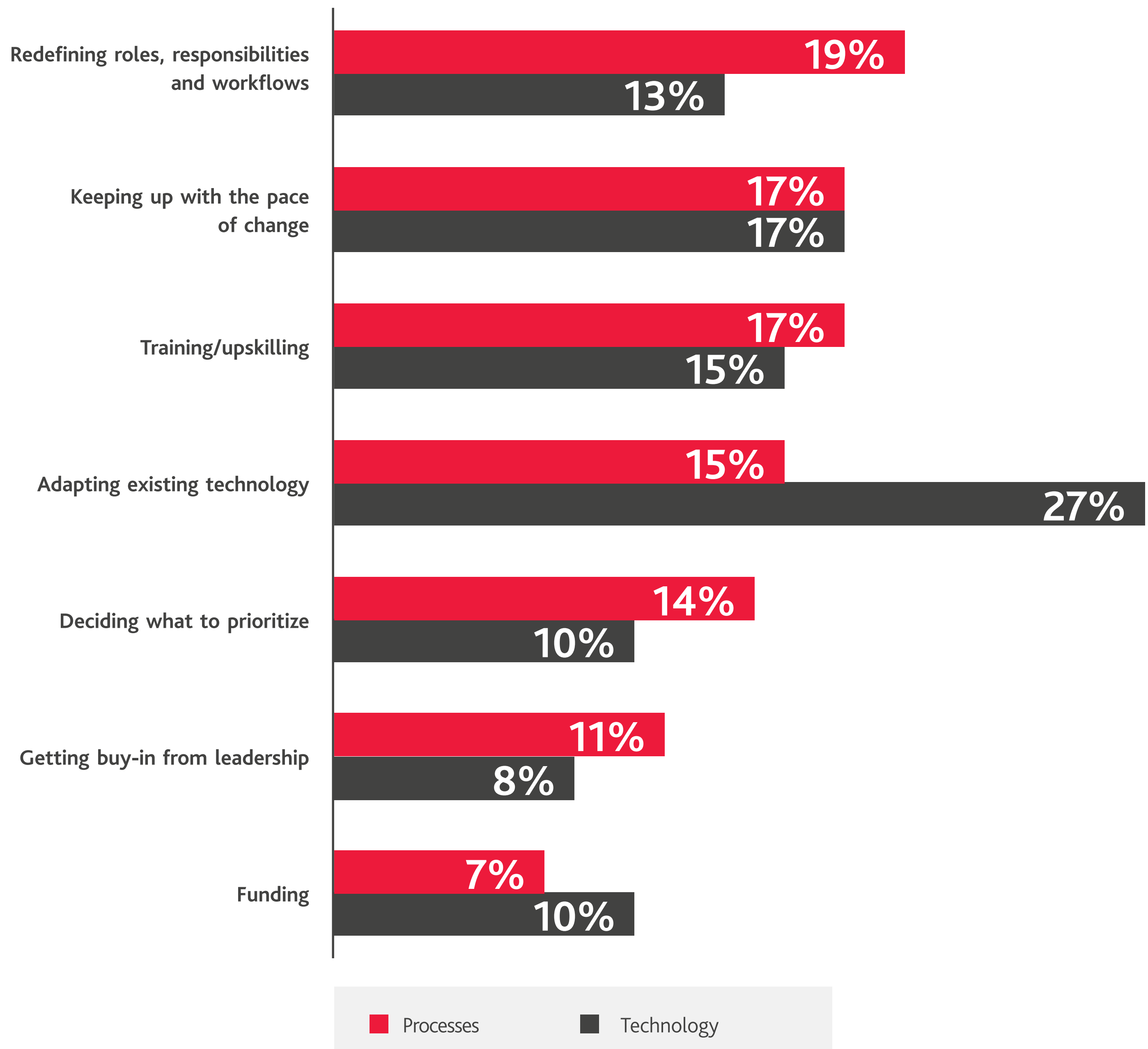
After managing essential tax work (34%), the biggest challenges to the tax department are…

20% Training teams to use available tools and processes

17% Automating routine processes

Putting these plans into action, however, rarely goes smoothly. For their part, tax executives face a diverse range of challenges in optimizing their processes and technology, many of which arise from adapting legacy capabilities and getting their own professionals up to speed on new tools.

TAX OPTIMIZATION CHALLENGES



Conclusion

After the events of the last several years, tax executives are no strangers to change, but 2020 threw the momentum into overdrive. With additional shifts on the horizon, 2021 is likely to feature more of the same. For tax executives, though, the spotlight on their ability to help make or break business strategy has never been brighter, and with the right people and tools in place, the tax department is poised to help build businesses that are ready to take on what's next.

ABOUT THE 2021 BDO TAX OUTLOOK SURVEY

The 2021 BDO Tax Outlook Survey polled 150 senior tax executives at companies with revenues ranging from $100 million to $3 billion. The survey was conducted by Rabin Research Company, an independent marketing research firm, from November through December 2020.

ABOUT BDO TAX

The Tax practice at BDO is among the largest tax advisory practices in the United States. With over 65 offices and more than 740 independent alliance firm locations in the United States, BDO has the bench strength and coverage to serve you with a global network of more than 91,000 people working out of over 1,600 offices across 167 countries.

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