

Moving Forward: New Tax Strategies to Reimagine the Future

In the recovery phase, demand for goods and services continues to rise to pre-pandemic-recession levels. The wisest companies won't spend this time resting on their laurels but will instead use it to reimagine their futures in a world forever changed.

Plans made prior to spring 2020 may no longer make sense in a post-COVID world. To stand apart from competitors, companies need to not only recover from COVID-19, but also integrate the lasting forces of change brought on by the pandemic to emerge more resilient and agile than before.

It's time to reset vision and strategy—and tax needs to be an integral part of that process.

Here are some ways that tax can align with new business strategies:

- **Workforce:** In this phase, businesses have likely confirmed near-term strategies around where employees will work. While these plans need to balance employee safety and operational efficiency, they also come with important tax impacts.
 - **Tax Considerations:**
 - Assess the tax implications of the business' mid- to long-term workforce strategy, whether it's on-site, fully remote or a hybrid approach
 - Ensure tax compliance with state or local tax withholding for employees working remotely
 - Consider the tax implications of outsourcing any business functions
- **Finances:** As demand for products and services increases, it's likely that profits will grow as well, meaning many companies that may have been incurring losses may find themselves with taxable income again. At this point, the tax strategy should focus on lowering the organization's total tax liability.
 - **Tax Considerations:**
 - Optimize the use of any available credits, incentives, deductions, exemptions or other tax breaks
 - Maximize the benefit of changes to the net operating loss rules included in the CARES Act
 - Consider the foreign-derived intangible income (FDII) deduction if applicable (i.e., companies that earn income from export activities)
- **Transactions:** Many businesses may be considering strategic transactions, such as acquiring another company, merging with a peer, selling certain assets or purchasing new resources. Each of these actions can have multiple tax consequences.
 - **Tax Considerations:**
 - Assess potential tax benefits or liabilities of strategic transactions before they take place as a part of the due diligence process
 - Identify loss companies and plan around utilizing losses and credits
 - Structure acquisitions and divestitures in a tax-efficient manner to increase after-tax cash flow

- **Innovation:** As companies reconfigure their businesses to adapt to COVID-19 changes that are here to stay—from greater shifts to e-commerce to outsourced back office functions to partially remote work arrangements—they should determine how to use tax strategies to offset the costs of these investments.
 - **Tax Considerations:**
 - Consider using federal, state and non-U.S. tax credits and incentives for R&D and R&D-related activities to maximize the return on investments in product, process and software development
 - Explore whether previously undertaken activities may have qualified for these credits as well

- **Regulations and Legislation:** As the economy improves, regulatory oversight likely will increase as well. Noncompliance can be costly and can reverse much of the progress a business has made in its recovery. At the same time, it’s likely that additional tax law changes are on the horizon, and companies will need to be able to act quickly when they appear.
 - **Tax Considerations:**
 - Ensure compliance with rules around federal funding received during the pandemic, including extended filing or payment deadlines
 - Monitor tax regulatory and legislative developments at all levels, especially in the area of digital taxation, post-election tax reform, and federal, state and local policy changes
 - Scenario plan to outline the potential impact of future tax legislation on the company’s overall tax liabilities

- **Transformation:** Staying ahead in the “new normal” means accelerating efforts around digital transformation to build a business with agility and resilience at its core. This should always include evolving the tax function. Businesses must strive to fully integrate processes, people, technology and data to understand total tax liability and forecast how decisions and changes will impact their tax position.
 - **Tax Considerations:**
 - Collaborate with leadership and other areas of the business on a company-wide approach to digital transformation efforts
 - Establish a clear, shared vision of the future state of the tax department
 - Develop the business case for transformation efforts

Whatever pivots your business takes once the worst has passed, tax strategy needs to be a crucial part of the plan to move forward. Evolving your tax approach alongside business strategy will help prevent unforeseen costs and maximize potential savings.