KPMG

Tax perspectives from the tech sector

The tax practices of technology companies are keenly in focus from both a global regulatory and corporate responsibility standpoint. To explore these topics, KPMG canvassed the opinions of tech company CEOs and senior executives in two separate global studies (the Technology Industry Survey and the CEO Outlook). These composite findings reveal how technology company leaders view the global tax environment and the role of their tax organizations.

Tax risk is on the rise

In the KPMG 2021 CEO Outlook survey, technology company leaders named tax risk as the #3 threat to their organization's growth over the next three years, higher than even supply chain, talent risk, and climate change. Across all sectors, tax risk was the #8 threat. Even just in the previous CEO Outlook survey in 2020, tech executives ranked tax risk at the bottom of potential threats.

Historically, tax risk represented the straightforward concept that increasing tax rates erode profit margins. Today, tax risk is more nuanced and influenced by factors such as M&A activity, the transition to largely remote workforces, negotiations around global tax reform, and evolving regulation on digital products and services.

The renewed focus on environmental, social, and governance practices (ESG) also adds a new element to tax risk—namely, the perception that a company is not paying its "fair share" of taxes. Company reputation can be negatively affected, which in turn can adversely impact investor interest, customer sales, and employee retention. All of this can lead to a potentially larger impact than an increase in the corporate tax rate would.

Top three risks posing the greatest threat to technology company growth over the next three years[2]

1 Cyber security

2 Disruptive technology

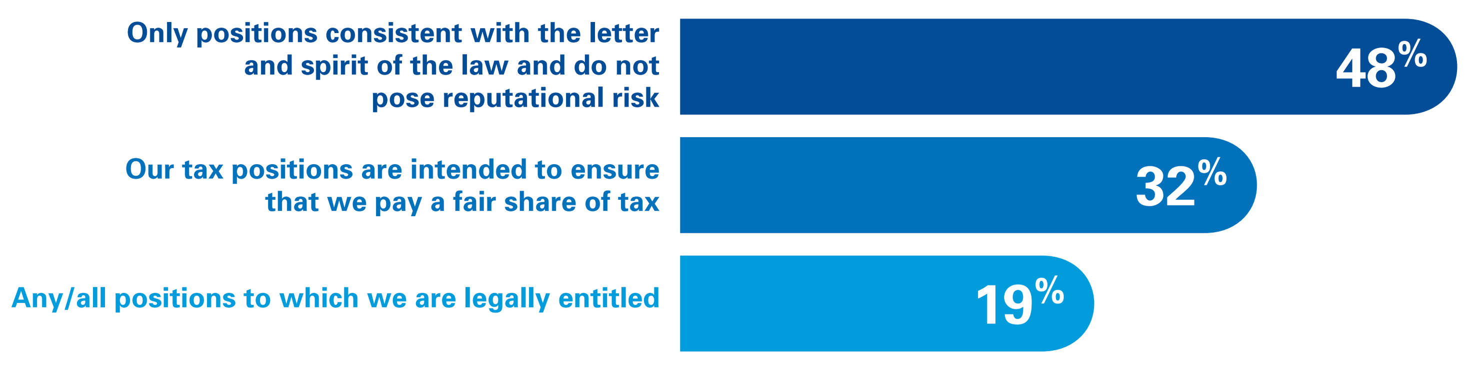
3 Tax

Sustainable tax practices are in demand

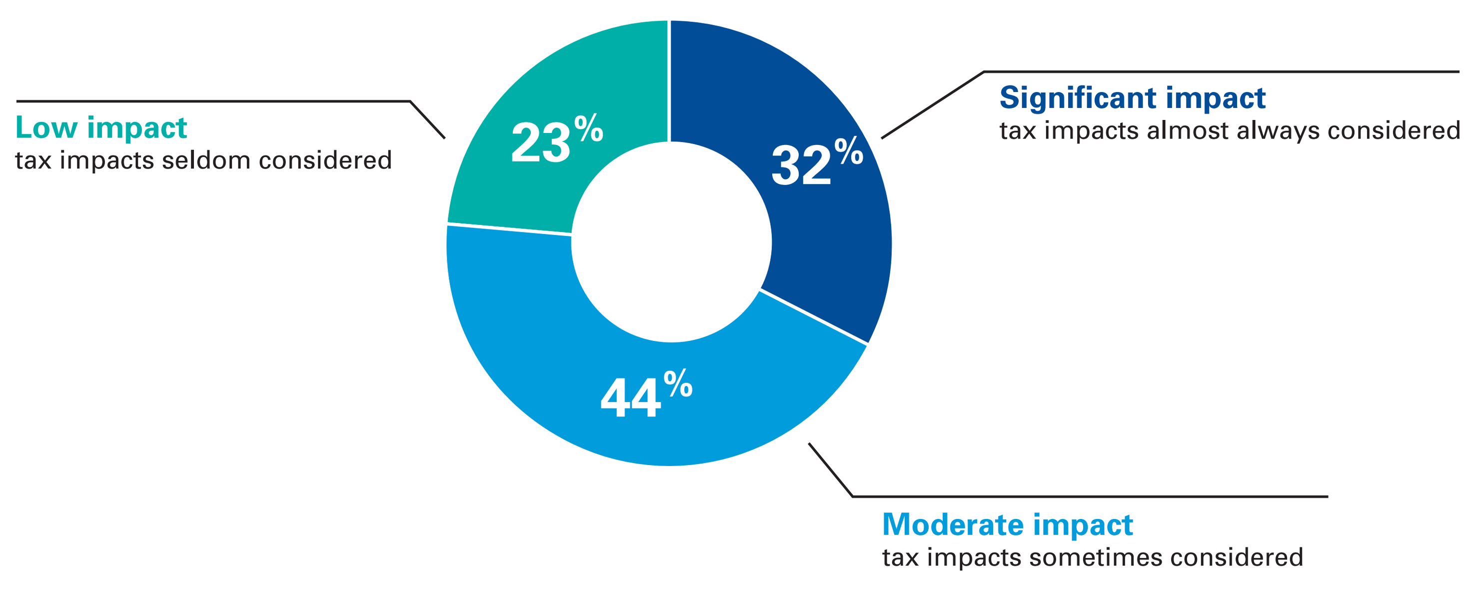
The focus on corporate ESG practices has been increasing since the 2008 financial crisis and today these practices are under high scrutiny. Stakeholders focused on ESG expect companies to conduct their tax affairs in a sustainable manner, measured in terms of good tax governance and paying a "fair share." They view the public disclosure of a company's approach to tax, the amount of taxes paid, and where those taxes are paid as important elements of a sustainable, transparent tax practice.

Technology company CEOs have taken notice. Seventy-three percent say their organization is feeling increased pressure to increase public reporting of global tax contributions.[2] The same amount also believe there is a strong link between the public's trust in their business and how their tax approach aligns to organizational values.[2] Seventy-six percent of tech leaders report that tax impacts play a moderate or significant role in developing their ESG initiatives.[1]

Tech companies' approaches for claiming tax benefits[1]



Tax's role in developing ESG initiatives[1]



Tax is a strategic adviser

These forces are adding exponential complexities to how and where tech companies are establishing new operations, employing their people, and recording revenue. Eighty-three percent of tech CEOs also agree the pressure the pandemic has put on public finances has increased the urgency of multilateral cooperation on the global tax system.[2] The ability to navigate this rapidly changing environment is a valued skill, making the reimagined tax function a more strategic adviser rather than just a cost center.

How tech company leaders primarily view the tax function role[1]

Confidence in tax compliance

Evolving and complex global tax regulations can make it challenging for multinational tech companies to remain in tax compliance in every country and jurisdiction they operate in. Nevertheless, almost half (49 percent) of tech company executives are very confident their companies are meeting their global tax reporting requirements, with another 33 percent saying they are somewhat confident. Conversely, almost one in five (18 percent) remain not very confident, underscoring just how difficult understanding and managing these matters can still be.[1]

Having the right technology and skills is crucial to achieving and maintaining tax compliance. In this realm, 84 percent of tech leaders are comfortable they have the right technology in place for global tax compliance.[1] In terms of skills, technology companies are actually employing a variety of methods to manage their global tax compliance obligations:

Primary methods technology companies are using to manage their global tax compliance obligations and associated costs[1]

About the research

1 The KPMG 2021 Technology Industry Survey, now in its ninth year, included responses from more than 800 global executives in the technology industry. Twelve countries were included in the online survey, and about two-thirds (65 percent) of the respondents were C-level executives. The data collection for this publication was completed in the third quarter of 2021. Percentages may not equal 100% due to rounding.

2 The KPMG 2021 CEO Outlook asked 1,325 CEOs to provide their outlook on the economic and business landscape, as well as the impact the ongoing COVID-19 pandemic will have on their organizations' future. The survey was conducted from June 29 to August 6 and included leaders from 11 countries and 11 industries. There were 120 respondents from the technology industry.

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.