## The Global Challenges of Covid 19 for Tax Leaders

The on-going pandemic has brought unprecedented challenges for tax leaders and their global tax departments. New tax legislation, managing team members all working from home, increasing tax & transfer pricing audits globally and the need to find ways to add value to the business, all look set to dominate the thoughts of tax leaders for the coming months and years.

There has been a lot written about remote working, but to add something new, there is likely to be a whole new school of thought built around 'how to be an effective leader remotely'. How do we achieve those 'water cooler moments' when we are nowhere near the water cooler? Companies are already encouraging Tax and other Functions to have 'cross-functional' catch ups - many are wondering why these were not happening pre-Covid? The pandemic could cause in-house tax functions to reimagine traditional ways of working and collaboration. Pre-Covid, it was common to centralise regional tax functions in regional hubs. It is anticipated that post Covid, tax functions may be better equipped with collaboration tools to consider placement of tax resources where key businesses are located.

Covid has created additional challenges both from an individual personal tax perspective (because they are not able to spend the required number of days physically in the country where they are employed, to qualify as' tax resident') as well as from a corporate substance standpoint. As a result of lockdown, Board Directors might be physically based in the wrong location when Board meetings need to be held. Could this lead to PE & residence issues? To date, EU tax authorities have been relatively lenient but, as time goes on, it is clear than certain European countries will be looking to receive as much revenue as possible from MNCs.

It appears a number of EU tax authorities are requesting companies that intend to take advantage of their financial packages need to sign a 'code of conduct', so some of the incentives come with strings attached. You can be sure that any overclaiming of incentives will lead to rigorous scrutiny. Tax leaders need to explain to the businesses (and maybe customers & stakeholders) why they have / have not applied for the financial incentives. They need to spend time understanding how to apply for the incentives and know the businesses well enough to make a decision on this point. It is worth noting that some corporates have decided against claiming, for example, employment subsidies, if they feel it would play badly with their customers & stakeholders.

It is unlikely that tax rates will increase until economies recover, but you can be sure they will rise. The tax authorities will want to reclaim the value of the incentives they have offered. Tax leaders need to understand the financial packages on offer in each country and assess whether they are applicable and needed (on a country by country basis). We are also seeing tax amnesties in some countries which could present opportunities.

On top of that, as the workforce becomes increasingly comfortable working away from the office, will companies have to issue more rigorous guidelines on 'where' the work is conducted? If people are completing work in a $2^{nd}$ home, on a beach, etc, are we running the risk of creating additional payroll tax & PE issues? If a US employee has made a business trip to Italy, is then unable to return and is generating global sales could this lead to further PE issues? Will companies need to track where employees are working? In knowledge-based industries, for example, with people not travelling and working from home, will this cause IP to move or migrate across borders? Such employment tax issues are now becoming significant enough for many companies to consider recruiting their first ever Global Employment Taxes expert in the Tax Team.

Additionally, since the US introduced a ban on visas, US MNCs that have been recruiting externally to fill key senior roles in the US, or want to promote internal employees (currently based outside the US) into new roles in the US have been unable to do so. Do you promote the person into the new job title and into their new responsibilities in the country where they are located, or do you have to wait for the visa restriction to be lifted?

Tax leaders need to be prepared for an increasing number of tax & TP audits around the world. We expect many countries, looking to offset huge amounts of borrowing, will target MNCs as a source of public income, so tax reform and audits will be high on government agendas as the long-term economic impact of the pandemic continues. When engaging with tax administrations it is often at face-to-face meetings where breakthroughs occur in negotiations, sometimes even over coffee during the breaks! How will these human interactions be facilitated in the new "normal"? Without them will it be even harder to negotiate settlements?

Increasingly, tax leaders will have to focus on adding value by trying to preserve and improve the cash position of the company and build resilience in a more uncertain climate. This includes developing tax strategies to increase group liquidity, exiting unprofitable businesses, reducing external budgets, taking advantage of any tax payment deferrals, as well as restructurings and finding ways to automate. The pandemic highlighted the fragility of supply chains and over-reliance on one or two particular countries (i.e. China) for manufacturing. Tax leaders will need the support of their regional indirect tax & customs teams to help create new tax efficient, cost reducing supply chains that can withstand future pandemics or similar crises. This period has also highlighted the value of implementing automation and using technology, so it is likely we will see a big push to continue advancing in this space.

In summary, there are many things tax leaders of MNCs have had to think about and will need to be think about in the months ahead - both challenges but also opportunities.

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