A rising tax rate environment dominates the focus of many tax departments, as two-thirds (66%) of the tax leaders responding to our survey rank planning in anticipation of potentially rising effective tax rates as a top priority this year. After successfully enacting COVID-19 relief legislation, President Biden is expected to call for Congress to act on an economic recovery plan that could include increases in tax rates for corporations and high-income individuals, international tax law changes and other revenue-raising measures. Actions tax leaders can take now include modeling and planning for these proposed changes. And it’s not just US tax rates that may be rising. Companies with global operations will need to plan for potential tax rate changes in other countries as well. The UK, for instance, recently announced its intention to raise the 19% corporation tax rate to 25% for large businesses starting in April 2023.

Enhancing the tax department operating model is another priority for almost half (49%) of tax leaders, according to findings from our latest Pulse survey. Companies are evaluating the effects of the pandemic on their internal operations — including across various tax functions — and determining what processes, technology and resourcing models could be improved. Companies also are considering different tax operating models to fit their changing workforce and technology needs, as well as new ways of working post-pandemic. These operating models include in-house, co-sourced, outsourced and managed services models.
While two-thirds of tax leaders are prioritizing planning for rising rates, only 37% responded that engaging with policymakers and stakeholders on tax policy is a priority. Increases in tax rates, international tax law changes and other revenue-raising measures could be proposed this year, so companies should be fully engaging with policymakers now to communicate the potential impact of these proposals on jobs and business operations. Where interests are aligned, coalitions and trade organizations also offer additional ways for companies to engage on key issues to effectuate meaningful change in a streamlined and cost-efficient manner.

Tax leaders may prioritize other areas, such as investment strategy or workforce concerns, depending on their industry or specific needs. Proactively managing tax controversy risk ranked as a top priority for 36% of tax leaders who may believe that domestic tax law changes, increased IRS enforcement and a changing international tax landscape could increase their tax risks.
International tax proposals could harm US competitiveness

More than two-thirds of tax leaders (70%) are concerned about their ability to compete internationally if proposed changes to the US international tax rules are enacted. The proposed increase in the US domestic corporate tax rate would impact foreign-derived intangible income (FDII) and global intangible low-taxed income (GILTI) rates and calculations. In addition, President Biden has separately proposed increasing the tax rate on GILTI income. Either or both of these changes would increase the effective tax rate on the foreign income of US multinationals.

For some US companies that operate globally, these proposed changes to the US international tax rules are of greater concern than a potential US corporate tax rate increase. If US companies are less competitive internationally, economic analysis indicates that domestic job growth and investments will suffer. These changes also could lead to some global companies considering changes to their corporate structure or operations. Conversely, an internationally competitive tax system supports the US operations of global companies, which in turn has a salutary effect on domestic wages and employment.

Globally engaged US companies should model proposed international tax changes and consider tax planning to mitigate the potential impacts. Companies also should engage with policymakers to explain the potential impact on US operations — especially on jobs and wages.

Q: Please indicate how much you agree or disagree with the following statement: I am concerned that potential changes to the US international tax rules (e.g., GILTI) will affect my company’s ability to compete in foreign markets.

Tax has a role to play in ESG initiatives

Many organizations are integrating values, goals and metrics into business strategies to mitigate environmental, social and governance (ESG) risks, while also seizing related opportunities to innovate and reduce costs. Tax departments increasingly are taking part in their companies’ ESG efforts. For example, 45% of tax leaders say they are involved in the diversity and inclusion initiatives at their companies.

Reporting, transparency and total tax contribution is another area where many tax leaders (41%) are playing an important role. ESG metrics and reporting around tax transparency are fast becoming business imperatives. Increased scrutiny from investors, shifts in consumer expectations and likely policy changes under the Biden administration mean companies and their tax departments are under new pressure to measure, disclose and improve on ESG-related issues.

Regulatory requirements and other external factors are likely to lead to additional tax transparency issues. Tax departments can help with the data needed to provide the analysis around the true amount of a company’s total tax contributions — which go beyond corporate income tax — to the countries in which they operate.

Other ESG efforts that tax leaders say they are involved in include ESG-related deals and investment structuring (32%), tax incentives related to environmental and transition investments (31%) and social equity tax incentives (25%). As a way to promote certain ESG goals, governments may take a carrot-and-stick approach by offering various incentives while also taxing certain industries or products. Tax leaders can help drive value by analyzing investment and incentive options as companies transform their business operations.

Meeting a new business imperative

45% Diversity and inclusion initiatives

41% Reporting, transparency and total tax contribution

32% Deals investments

31% Environmental investments and incentives

25% Social equality incentives*

18% Supply chain sustainability

*(e.g., low income housing, opportunity zone and new market credits)

Q: In my company, tax is involved in these environmental, social and governance (ESG) efforts.
Source: PwC US Pulse Survey, March 13, 2021; Tax leader base of 155
About the Pulse survey

155 tax leaders from Fortune 1000 and private companies, along with other C-suite executives, weighed in on their priorities and outlook on the business environment in our latest PwC Pulse Survey, fielded March 8 to March 12, 2021.

Find all of these insights in our PwC US Pulse Survey.

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