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Bring Tax Advisers to the Board Room to Navigate Volatility

By Kevin Flynn
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- *EY's Kevin Flynn says tax can help strategic business planning*
- *Leaders must have direct, regular communication with advisers*

Tax considerations often can take a back seat in strategic business discussions, especially during times of volatility and uncertainty. Integrating tax into business decisions, however, is a critical step in capturing value and developing a robust risk management approach.

Companies increasingly are looking for ways to work with their tax advisers—whether in-house or external—to stay on top of tax changes that may affect the company's operations and plans, and how they can fold that knowledge into the decision-making process.

Tax issues are complex and can touch on a wide range of topics, from trade to immigration or nearly any business issue in-between. An action in one area can trigger tax consequences in a seemingly unrelated area, which can be difficult to unwind.

Available tax credits and incentives that can help offset the cost of planned investments may be missed if tax isn't integrated into strategic planning discussions.

Tax is a key lever in a company's operations—49% of respondents to EY's 2023 tax and finance operations survey said tax planning was very important to drive cash flow. Establishing harmony between tax and the broader business strategy can help encourage that flow.

That strategy should include discussions of potential tax policy changes. Election outcomes can whipsaw tax policies, and companies need to understand how these shifts could affect their short- and long-term business outlook.

For example, when tax modeling is part of the mergers and acquisitions transaction planning process, it can help an organization understand how proposed tax law changes could affect deal pricing. To explain these effects, tax needs to be in the room where strategic business decisions are made.

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Congress is likely to pass tax legislation in 2025, and Republicans are expected to make the expiring provisions of the 2017 Tax Cuts and Jobs a primary focus. Extending the TCJA provisions would cost approximately $4.6 trillion.

In addition, many more tax proposals that aren't associated with the TCJA, but that were raised by President-elect Donald Trump during the campaign session, may add to the scope of the debate. These additional proposals— including eliminating taxes on overtime, tips, and Social Security, and providing a 15% corporate rate for domestic manufacturing—are estimated to cost approximately $3.8 trillion over 10 years.

Concerns over the US deficit and debt levels may produce broader changes to the tax code to offset the cost of extending the TCJA provisions—and these changes could affect businesses.

Trade policy is another area where changes could happen quickly, triggering potential tax implications for organizations.

New and enhanced tariffs could affect companies' existing structures and supply chains, promoting them to consider restructuring to better align their overall business models with revised trade policies. This could include re-evaluating distribution channels and sourcing locations, as well as using certain customs valuation techniques.

Some of this activity is already taking place—79% of respondents to the 2023 EY survey already made moderate or significant changes by moving to other locations to reduce supply chain risks, and 88% anticipated making additional moderate to significant changes to their supply chains by 2025. Consulting early and often as these plans take shape can help companies better prepare for and address their potential tax consequences.

Executives who aren't actively incorporating tax into business decisions may miss opportunities to integrate tax savings into their larger business approach. They also may leave the company open to increased tax liabilities and controversy risk. Those looking to better integrate tax into business decisions should consider the following steps.

Evaluate. Analyze how and when decision-makers in the organization and their tax advisers interact. Are there regular status meetings? If not, what is the right cadence for ensuring upper management stays informed of new tax developments?

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When are the effects of tax proposals modeled out, and how are those results shared? Is there a documented process to consult on tax issues as part of strategic planning? If so, is that process sufficient or do tax advisers need to be consulted earlier?

Implement. Once the gaps are identified, it’s time to create regular, direct channels of communication. Leaders should identify the appropriate points at which to consult their tax advisers on strategic business decisions, establish a schedule for check-in communications, and get it on the calendar.

Revisit. Keeping connected isn’t a one-and-done exercise. Existing processes should be re-evaluated as an organization grows and as roles shift. Determine whether the right resources are still in place to handle the volume of tax, regulatory, and legislative changes the organization faces, or whether to consider adding more resources or co-sourcing some of the work.

Having the tax function at the table for strategic decision-making is a must for forward-looking companies, offering benefits that extend beyond today’s planning cycle. Companies will want to review how tax is integrated into business decisions, identify any shortcomings, and work to close those gaps as tax policies begin to take shape under the new administration and Congress. This way, they will be better able to manage the effect of potential tax changes on business operations.

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