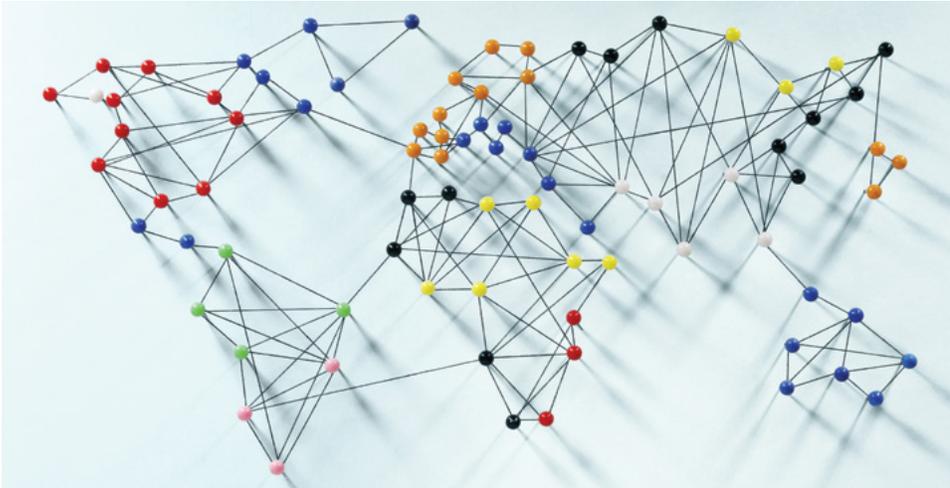


FIRST ANNUAL

# BDO TAX OUTLOOK



## TAX DIRECTORS FORESEE DOMESTIC AND CROSS-BORDER GROWTH OVER THE NEXT THREE YEARS

**2015 could mark a period of international and domestic expansion opportunities for businesses.**

According to the first ever *BDO USA, LLP Tax Outlook Survey*, which surveyed 100 tax directors at \$1 billion-plus public companies, 50 percent of respondents say their organizations are planning to enter new geographic areas in the U.S. during the next three years, and 63 percent of respondents say their organizations are planning to enter or expand to international markets during the same period.

The survey also finds that only 10 percent of tax directors say that business decisions are being made without robust tax planning as their primary concern, strongly indicating that many organizations are focused on their tax posture. If a company is executing against a growth strategy, giving attention to how taxes could impact the opportunity should continue to play a significant role.

Despite the strong indication that organizations understand the importance of tax planning, uncertainty about foreign, federal and state tax legislation – and its impact on tax rates, credits and other incentives – continues to be the primary tax concern identified by tax directors (45 percent). This sentiment is likely impacted largely by the cyclical nature of many non-permanent credits and incentives, which could sunset at year-end, as well as by newly proposed or enacted tax regulations.

### **BDO USA, LLP'S Tax Practice**

BDO Tax, a division of BDO USA, LLP, delivers clients a wide range of fully integrated tax services in the U.S. and around the world, leveraging BDO's global network of over 55,000 professionals. Having a depth of industry expertise, we provide rapid, strategic guidance in the most challenging of environments to achieve exceptional client service.

### **CONTACT:**

**MATTHEW BECKER**, Grand Rapids  
616-802-3413 / [mkbecker@bdo.com](mailto:mkbecker@bdo.com)

**PAUL HEISELMANN**, Chicago  
312-233-1876 / [pheiselmann@bdo.com](mailto:pheiselmann@bdo.com)

**TODD SIMMENS**, Woodbridge  
732-491-4170 / [tsimmens@bdo.com](mailto:tsimmens@bdo.com)

**ANDREW GIBSON**, Atlanta  
404-979-7106 / [agibson@bdo.com](mailto:agibson@bdo.com)

**ROCKY CUMMINGS**, San Jose  
408-352-1962 / [rcummings@bdo.com](mailto:rcummings@bdo.com)

**CHRIS BARD**, Los Angeles  
310-557-7525 / [cbard@bdo.com](mailto:cbard@bdo.com)

**ROBERT PEDERSEN**, New York  
212-885-8398 / [rpedersen@bdo.com](mailto:rpedersen@bdo.com)

**YOSEF BARBUT**, New York  
212-885-8292 / [ybarbut@bdo.com](mailto:ybarbut@bdo.com)

**BOB HARAN**, Boston  
617-239-4165 / [bharan@bdo.com](mailto:bharan@bdo.com)

**Top Issues Weighing on Tax Directors**

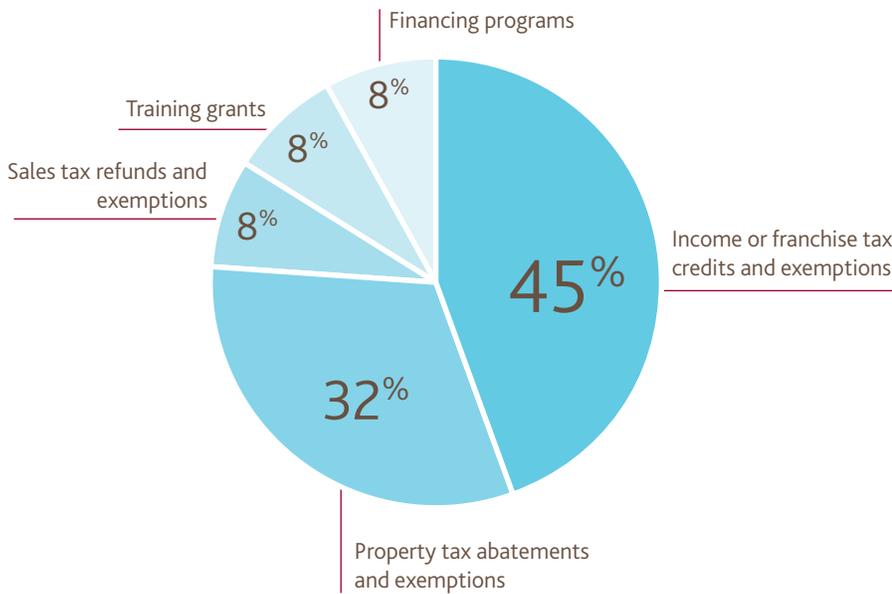


**FOR MANY COMPANIES, EXPANSION BEGINS DOMESTICALLY**

According to the Duke/CFO Global Business Outlook Survey, "Economic optimism of U.S. finance executives took another tick upwards in the first quarter of 2015. On a scale from 0 to 100, confidence in the economy came in at 64.7, rising one percentage point from the rating at the end of last year." The increasingly positive economic outlook could lead some organizations to act upon their domestic growth strategies.

Additionally, despite rumblings about a U.S. corporate tax code overhaul, tax directors seem undeterred by potential tax changes when it comes to domestic growth, with 50 percent of respondents saying their organization is likely to enter a new geographic market in the U.S. during the next three years. Of those planning to expand, 45 percent say income or franchise credits and exemptions will have the greatest impact on their decision to enter a market.

**Those Planning to Expand into New U.S. Markets Identify Credits & Incentives That Would Have Greatest Impact**



"Tax incentives will only increase in importance, especially as companies look toward domestic growth opportunities," says Matthew Becker, tax partner and National Tax Office leader at BDO. "Credits and incentives not only have a positive impact on an organization's bottom line, but they can also help drive economic advantages in local economies."

“For many companies, state and local taxes can make up a significant portion of their tax liability. Yet, there are many incentives organizations can take advantage of domestically to reduce their tax exposure, which may further motivate companies to capitalize on growth opportunities within the U.S.,” says Rocky Cummings, Tax Partner at BDO.



### INTERNATIONAL TAX POLICIES PLAY A ROLE IN BUSINESS EXPANSION STRATEGIES

Tax directors' attitudes on international expansion seem generally positive, with the majority of tax directors (63 percent) saying that their organization is planning to enter or expand into international markets during the next three years.

Forty-two percent of tax directors at organizations with operations outside of the

U.S. report moderate concern around the proposed rules from the Organization for Economic Cooperation and Development (OECD) on base erosion, profit shifting, increased disclosures and transfer pricing, while 36 percent feel a high level of concern. More than one in five, however, express low to no concern at all. While the proposed OECD rules may appear to undermine current corporate tax positions, they could create an opportunity for better transparency and guidance for organizations implementing complex tax strategies.

“With a number of OECD proposals on the table, multinational companies should understand the potential implications and be proactive in making any necessary adjustments to mitigate undue risk,” says Robert Pedersen, Tax Partner at BDO.



## TAX DIRECTORS REFINE TRANSFER PRICING STRATEGIES

Of the 90 percent of tax directors familiar with transfer pricing mechanisms, 82 percent say their organization's current tax strategy includes transfer pricing mechanisms.

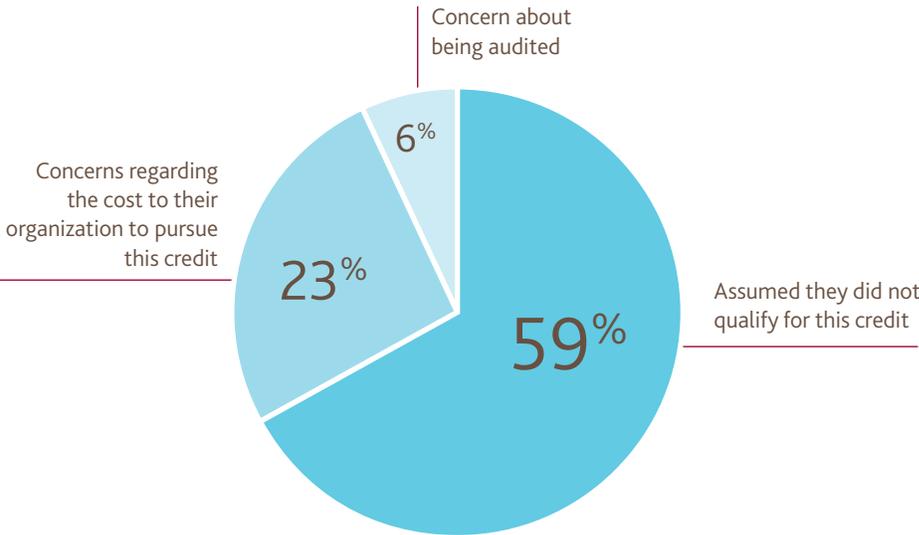
While the IRS may home in on transfer pricing mechanisms during a review, if implemented properly and in accordance with the arm's length rule, an organization may be able to leverage the practice and be in full compliance. Of the 44 percent of tax directors who say that transfer pricing was a significant issue for their firm during an IRS examination over the past five years, 90 percent say that the financial effects were minimal in terms of adjusted taxes owed (including penalties and fees).

## R&D CREDITS' ADVANTAGES REMAIN POPULAR AMONG TAX DIRECTORS

About two-thirds of respondents say their company takes advantage of the federal research and development (R&D) tax credits, and 56 percent note that they claim state and local R&D credits as well. Despite the majority of surveyed tax directors leveraging both federal and state R&D credits, 59 percent of those not claiming the federal R&D credit say their decision is based on an assumption that their activities did not qualify.



## What's Driving Tax Directors Not to Claim Federal R&D Credit



“As innovation continues to be a pillar of organizations’ business goals, it will become increasingly important for tax directors and financial executives to understand the widespread benefits of claiming incentives like the R&D Credit and Domestic Production Activities Deduction (DPAD) as well as their breadth and scope in terms of what qualifies,” says Chris Bard, practice leader for Specialized Tax Services, Research and Development at BDO. “For example, companies often think only costs associated with developing a new and groundbreaking product can qualify. Instead, the credit and DPAD are intended also for investments to attempt to improve products, manufacturing processes and software, among other activities, whether the activities succeed or not.”

“Financial reporting of income tax continues to be ‘flagged’ as high-risk accounting by the Securities and Exchange Commission (SEC) and Public Company Accounting Oversight Board. Maintaining high-quality financial reporting of income tax is an ongoing challenge, which requires robust internal controls, a well-developed income tax provision process, and solid tax accounting technical know-how. Whether an organization is expanding internationally or domestically, or undergoing a merger or acquisition, tax directors and financial executives should focus on how they can mitigate their ASC 740 risk when reporting their tax position on their SEC filings or privately issued filings,” says Yosef Barbut, tax partner at BDO.

### ASC 740 COMPLEXITIES REQUIRE A PROACTIVE APPROACH TO REPORTING

When it comes to financial reporting for income taxes, 35 percent of tax directors cite avoiding material misstatements of income taxes as most challenging to their organizations, followed by meeting deadlines for interim and annual income tax reporting (29 percent), staying up-to-date on accounting standards, changes and proposals (22 percent) and recruiting and retaining professionals responsible for financial reporting of income taxes (14 percent).

### COST OF COMPLIANCE NECESSITATES A NEED FOR EFFICIENCY

According to three-quarters of respondents, the cost of compliance within the tax and financial regulatory environment has increased over the past three years. While the cost of compliance may seem unfavorable, the larger opportunity that this trend presents to tax directors is in determining how best to generate efficiencies through more streamlined programs and practices.

### Tax Directors Identify The Most Challenging Aspects of Financial Reporting of Income Taxes



“While compliance and its associated costs, as well as ongoing uncertainty in the tax environment, may seem like a moving target, early-stage tax planning can help organizations proactively manage resources and lay a foundation for a more effective and responsive tax infrastructure,” says Paul Heiselmann, National Managing Partner of Specialized Tax Services at BDO.



### **ABOUT THE SURVEY**

*The BDO Tax Outlook Study of Tax Directors* is a national telephone survey conducted by Market Measurement, Inc., an independent market research consulting firm, whose executive interviewers spoke directly to 100 tax directors, or those with tax director responsibilities, using a survey conducted within a scientifically developed, pure random sample.

### **ABOUT BDO USA**

BDO is the brand name for BDO USA, LLP, a U.S. professional services firm providing assurance, tax, financial advisory and consulting services to a wide range of publicly traded and privately held companies. For more than 100 years, BDO has provided quality service through the active involvement of experienced and committed professionals. The firm serves clients through 58 offices and more than 400 independent alliance firm locations nationwide. As an independent Member Firm of BDO International Limited, BDO serves multi-national clients through a global network of 1,328 offices in 152 countries.

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms. For more information please visit: [www.bdo.com](http://www.bdo.com).

Material discussed is meant to provide general information and should not be acted on without professional advice tailored to your firm's individual needs.

© 2015 BDO USA, LLP. All rights reserved.

**People who know, know BDO.<sup>SM</sup>**

