



Leverage enterprise investments in blockchain

One-on-one with David Jarczyk, Principal, Innovation Group, KPMG

How tax, finance & compliance operations offer opportunities to leverage enterprise investments in blockchain.

Executives are beginning to recognize that blockchain can be integrated with other technologies to help transform critical business operations. Blockchain-enabled solutions have the potential to create more transparent transaction processes for data-rich industries — including financial services, supply chain, high-tech, manufacturing, and more.

As blockchain use cases for line-of-business operations are explored, heads of tax, finance, trade, customs — and other operations — may find they have an opportunity to improve complex transversal functions by bringing together disparate data sets from related parties and third parties, such as suppliers and customers. It also offers the opportunity to automate multi-party compliance, regulatory, and tax operations.

We caught up with KPMG's David Jarczyk, Principal for the Innovation Group. Here is what he had to say:

Q Can you give us an idea of how organizations are currently viewing the role that blockchain technology may be able to play in improving enterprise tax, finance, trade and customs operations around the world?

The short answer is that we are in the early adoption phase of this technology within corporations. As you can see in the media, companies are adopting blockchain for critical transactions in areas like supply chain — with Walmart's food trust initiative and Starbucks' ethical sourcing program — and financial services — where the industry is exploring a number of proof of concept (POC) initiatives — such as Know Your Customer — that involve blockchain technology.

Most of the organizations with which KPMG works are looking at critical use cases that stand to derive major benefits from integrating blockchain technology into business operations. We are specifically engaged with clients to identify compelling scenarios in which this technology can contribute to either driving revenues or taking out major costs.

In this context, the tax, finance, trade and customs and other operational functions are rarely — if ever — the starting point of the blockchain discussion. And that, frankly, is what one expects with new technologies.



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That said, as organizations pilot blockchain programs for supply chain use cases and process optimization initiatives such as IBM and Maersk's TradeLens or the Blockchain in Transport Alliance, we think that there may be major benefits associated with leveraging this work into the processes and methodologies that drive enterprise-wide tax, finance, trade and customs and other operations.

Q So when do you think it is a good idea for the tax and compliance leaders to get involved?

I tell our clients — whether they are Chief Financial Officers, Chief Tax Officers and so on — is that if they see that blockchain projects are being explored by their organization... figure out how to get involved in some way.

They can help define the parameters of success or establish the metrics for ROI, while looking for ways that blockchain can redefine their own operations.

This is because some of the major attributes of blockchain — such as its strong auditability, provenance, assurance and immutability characteristics — offer potential opportunities to reduce costs, integrate operations, improve transparency and...most importantly... minimize risks.

The more complex your tax, finance, trade and customs environment is, the bigger the potential to leverage enterprise blockchain investments. It can add to the ROI of an enterprise blockchain initiative.

Q Do you find that Chief Financial Officers and Chief Tax Officers understand the potential benefits of blockchain solutions?

First of all, it is important to understand that "blockchain" is not **the** solution. It is part of an elegant solution that should be considered in the context of broader transformation or modernization initiatives that call for revisiting and perhaps redesigning technology around important business processes.

The blockchain itself is really no more than a very secure, distributed ledger. But that is the beauty of the concept. The elegance is its simplicity.

What CFOs and CTOs need to understand is that it creates an opportunity to enable multiple data services across companies and departments to interact with each other — and accurately record those interactions and transactions — in one place. It has the potential to bring intricate financial reporting and accounting operations in complex operations together. It has the potential for automating and integrating activities that are currently done in manual, highly siloed, and fragmented environments.

Q How, specifically, does it improve tax and compliance operations?

It creates an opportunity to have a single source of information that the entire organization — including those charged with tax and other government compliance functions — can count on.

So, as we identify use cases to apply blockchain to support and enhance business processes — such as sales tracking and forecasting — we should look for opportunities to see how these investments can be extended to improve tax, finance, trade, customs operations.

Blockchain offers the promise to create a trusted source of data that is trackable and traceable across, even the most complex organizations.

This is an important consideration in the race to automation that we are seeing among organizations competing in today's digital economy.

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Q Can you provide an example, or scenario, to illustrate what you are talking about?

Sure. Let's say you work in a major multinational corporation that has hundreds of subsidiaries around the world, each with its own accountants. CFOs, senior tax executives and auditors all have major questions and concerns.

- Can you guarantee that every one of their Excel files are exactly in sync?
- What happens if somebody deletes a row by mistake?
- Can we actually trust the data?
- And the list of questions goes on and on.

Now at a human level, you can trust the person, you can trust the subsidiary, and hopefully you trust the department and the company as a whole. But the fact is that, even under the best of circumstances, people make mistakes. (I won't even go into what can happen under the worst of circumstances.)

Blockchain can play a major role in solving for this use case.

It allows all of these different departments and subsidiaries — even different vendors, suppliers and customers — to come together and get their data into one solid ledger.

So now when we talk about immutability we are talking about the ability to track and trace the origins of every interaction and transaction.

To be clear, it doesn't solve for bad data going in and bad data coming out of a system. That is a problem that remains in place as long as manual operations create room for human error. But when a mistake occurs — let's say someone "fat fingers" a wrong number into an ERP application that is then published on the Blockchain — we have a much cleaner process for solving the problem. Once the error is identified, you can follow it back all the way to where the mistake was made and then correct the mistake. So that's the beauty of it.

Today, if bad data from an Excel spreadsheet or an ERP application makes it into a system of record...good luck figuring out where and when that mistake took place.

Q So what is the tax angle then?

Well, almost every transaction has the potential to create a taxable event. If you order raw materials from China and import it into the United States, there's a tariff to be paid. When materials move from a manufacturing plant in California to a facility in Nebraska for further processing — that can be a taxable event.

The flow of goods through the value chain creates extremely complicated tax liabilities and responsibilities, especially in international transactions that go through multiple customs authorities in different countries.

You have to ask yourself: How are all those taxes paid, tracked and accounted for today?

Well, typically, at the end of the quarter — or year — you export all transactions to the tax specialists — inside and outside of your organization — and spend thousands of hours trying to figure it all out.

When blockchain is integrated — with other important applications and technology-enabled business processes — there is great potential to streamline trade and customs reporting, transfer pricing and related activities.

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Q You mentioned risk before, how does that play into the blockchain equation for tax and compliance?

Organizations have the potential to significantly reduce their risk of failing audits by minimizing mistakes. This is no small benefit. Mistakes in the audit process — long after the transactions took place — can cost organizations dearly. Just look at the tax court cases that are out there — we're talking about anywhere from millions to billions of dollars in penalties that can be triggered by a tax mistake at a multinational corporation.

Like I said at the beginning of this conversation, it may not make sense to have cost centers — like tax, finance, trade, customs departments — start the blockchain conversation at an enterprise.

But once an organization starts exploring its blockchain options for line of business operations, getting the tax, legal and compliance operations involved offers the opportunity to harvest a force multiplier effect from the investment.

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