SF bulletin

By Stephen Barlas, John Brausch, Janet Wagner

GOVERNMENT

Growing Bipartisan Reactions to Inversions

By Stephen Barlas

Despite the flurry of headlines about corporate inversion and concerns about it from both Democrats and Republicans on Capitol Hill, legislators are moving slowly toward a possible first step aimed at slowing the trend. Inversion is when one company buys a company in a different country to take advantage of the more accommodating tax laws (i.e., lower taxes) in the second country. At a July 22 Senate Finance Committee hearing, Robert B. Stack, deputy assistant secretary of the U.S. Department of the Treasury, said, "An anti-inversion provision has been part of the Internal Revenue Code since 2004, but experience has shown that this provision insufficiently deters inversion given the large tax rate and other tax disparities between [the] United States and the countries to which formerly U.S.-based multinationals have relocated."

A number of large drug companies have announced inversion strategies this summer. Sen. Orrin Hatch (R.-Utah) highlighted the possibility of legislative response at the July 22 Senate Finance Committee hearings. He said, "There may be steps that Congress can take to at least partially address this issue in the interim." Given the fact that Republicans are the minority in the Senate, Hatch's support for some kind of bill would almost ensure its passage, since almost all—if not all—Democrats would vote for the bill. Whether such a bill would pass the majority GOP House is another question. But there might be Republican support there, too, from Hatch allies.

Hatch has made it clear, however, that he opposes bills that have been introduced by Senate Democrats. One would eliminate an interest deduction that companies can take against U.S. taxes. Another would require 50% of the stockholders in the inverted company to be foreigners if the U.S. company expected to avoid U.S. tax rates. President Barack Obama, as part of his fiscal 2015 budget request, asked for the "50% ownership" restriction. Sen. Ron Wyden (D.-Ore.), chairman of Senate Finance, says the inversion loophole needs to be plugged now. But he—and Hatch, for that matter—would like to do so in the context of broad tax reform, which isn't going to happen this year.

In the background, the group of influential industrial nations known as the G20 has undertaken what's called the Base Erosion and Profit Shifting (BEPS) project. The BEPS Action Plan, which was adopted last year, outlines 15 specific areas where all governments need to work to change the rules that encourage companies to shift their income at the expense of the global tax base. The BEPS project will conclude at the end of 2015 with final recommendations under all of the action items, including policies related to transfer pricing documentation and country-by-country reporting, transfer pricing with respect to intangibles, treaty abuse, hybrid mismatch arrangements, harmful tax practices, and the digital economy, in addition to inversion.

Highway Bill Likely to Include Pension "Smoothing"

What is a corporate pension funding provision doing in a federal highway funding bill? Well, both the House and Senate are scraping for new revenue with which to replenish the Highway Trust Fund, which is on the precipice of bankruptcy. The House has passed its bill, and the Senate is close to doing so. The two bills have three pools of new federal revenue totaling $11 billion, one of which consists of "pension smoothing" revenue. This will affect only single-employer plans, which currently cover about 30 million Americans still working and retired. Those plans charge that the formula used by

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the Pension Benefit Guaranty Corporation (PBGC) to assess future corporate pension liabilities results in excessively and unrealistically underfunded results because of the low-interest-rate environment.

The two bills substitute, at least temporarily, a new formula that will lead to funding more realistic calculations. That means companies will have to dedicate less money to funding future potential liabilities, leading to smaller tax deductions and greater federal revenue. But neither bill does anything to reform the PBGC premium structure, which assesses companies a flat rate per participant and a variable rate that applies only to companies with severely underfunded pensions. Plan sponsors have argued that, instead of companies having to pay the same flat rate, the rate should be adjusted on a per-company basis depending on the degree of solvency for the company. Companies with fully funded pension plans resent having to essentially overpay premiums in order to cover the mistakes made by bankrupt companies, whose legacy pension costs they are forced to cover to some extent.

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LETTERS

Should I feel flattered or concerned?

They say that imitation is the most genuine form of flattery. If that's so, the CGMA (Chartered Global Management Accountant) designation, promoted actively by the AICPA, is welcome flattery of IMA's international presence and the professionalism of my fellow CMAs. One could say our work has been duly noted, and now, belatedly, it's going to be imitated.

But two things puzzle me.

The first, a virtually automatic designation of the CGMA to any CPA with about three years' management accounting experience (with appropriate variation for academicians) is being offered to those CPAs applying prior to January 2015. There's no exam for our colleagues? Let's be honest—we all tend to specialize from the time our professional careers commence. How likely is it that three years in any one role could be a substitute for the breadth of subject matter typical of the CMA exam?

Please note the date—we can expect a large number of CGMA designations to be conferred in 2015.

The second curiosity begins with the choice of cover for *CGMA Magazine*'s second 2014 issue. Below the feature article headline "The race has changed," a rabbit and a tortoise are poised at a finish line, with only the hare's front legs straddling it. An arrow points to the rabbit with the comment "Bet on this one," and one of the later article titles displayed on the front page is preceded with the quote "… speed sure helps." Later, a fold-out section proudly announces the CGMA exam.

Did someone perceive that a race was in progress? For the push to accumulate large numbers of credentialed professionals quickly, should a professional organization be willing to lower the hurdle (i.e., minimum qualifications) for a chartered or certified management accountant?

Please explain—should I feel flattered, or should I be concerned for my profession?

Janet Wagner, CMA
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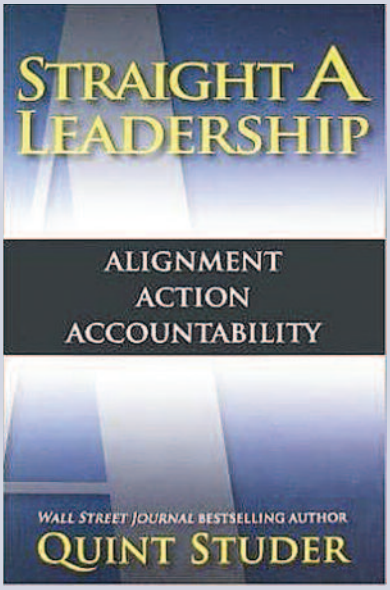
BOOKS

A Constant Leader



Thousands of books are written each year about leadership. Any book on the subject that's worth recommending must stand out in some way. For me, *Straight A Leadership*, by Quint Studer, is one such book, but it's an interesting book to recommend to a group as diverse as *Strategic Finance* readers. Although written specifically for healthcare professionals, the book addresses principles that apply to any industry and for leaders in any profession.

Straight A Leadership categorizes the majority of problems facing organizations into three A's: alignment, action, and accountability. Leaders should first align human and nonhuman capital with a unified goal of the organization. Then they need to take action to ensure the goal gets accomplished. Finally, leaders are responsible to hold their team accountable for their actions to finish goals.

To earn those three A's, you must lead consistently. This is such an integral part of the book that there could have easily been a fourth A for "Application." It's in the application of leadership section that Studer presents a list of "Eight Roadblocks that Keep Us from Moving Best Practices." One roadblock is leaders' fear of losing their edge if their own best leadership practices are shared, while another is the concept that success can often be attributed to the leader rather than the practice, therefore missing or underestimating the importance of leadership as a practice.

The three A's are followed by nine external environmental communication tools that help leaders close the gap between integrating leadership principles throughout the entire organization and providing a mechanism for feedback to leadership styles, when needed. One of my favorite external environmental communication tools has to do with senior leadership visibility and the importance of leaders being "strategically" visible. Being strategically visible doesn't only mean you are physically seen. In this context, it means you're prepared to meet people by understanding their concerns and what's important to them before they can see you as a leader.

To illustrate what he means by being strategically visible, Studer takes a lesson from military history by recommending leaders develop scouting reports so that they have important information at the ready. Studer writes: "A good scouting report can help senior leaders recognize the right people in a particular department. It can also help you acknowledge which systems have been fixed and what tools and equipment have been purchased—as well as which ones still need attention." This is good advice for leaders of any rank, but many leaders fail to put together the information.

Straight A Leadership is both eminently readable and written by an author thoroughly immersed in practical leadership. It provides a practical leadership guide for any leader or prospective leader. The book ends with the following thought: "Making sure all people in the organization understand the challenges faced, that they have the skills to be successful…and that they're held accountable…is values-driven leadership…to have purpose, to do worthwhile work, and to make a difference. Never underestimate the difference you have made and will continue to make." Good advice for any of us, and an especially fitting way to end this worthwhile book.

—John Brausch, president of
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