

Organizational and Tax Issues in Managing Global Treasury

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Demands of Managing a Global Treasury

**✍ Managing Treasury on a global basis
requires a tax driven focus in order to set
up the most effective structure for
managing liquidity and risk
worldwide.....**



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Objectives for Today

Today we will cover selected treasury issues and the related tax implications with a specific focus on:

- **Structure**
- **Liquidity & Risk Management**

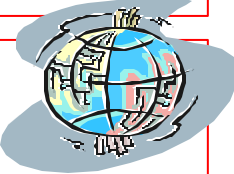


STRUCTURE



Structure

- Operational Framework
 - Present situation => requirements
- Setting Up – key tax considerations
 - How, options & issues
- Centralized vs. Decentralized Treasury
 - Definitions, locations & activities
- Reporting – Tax & Treasury Issues



Operational Framework

- Numerous overseas operations
 - Sales offices
 - Manufacturing facilities
 - Warehousing & distribution centers
 - Joint ventures
- Requirements
 - Further centralize liquidity & risk management
 - Address reporting & information needs



Operational Framework



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Setting Up - Tax Considerations & Options

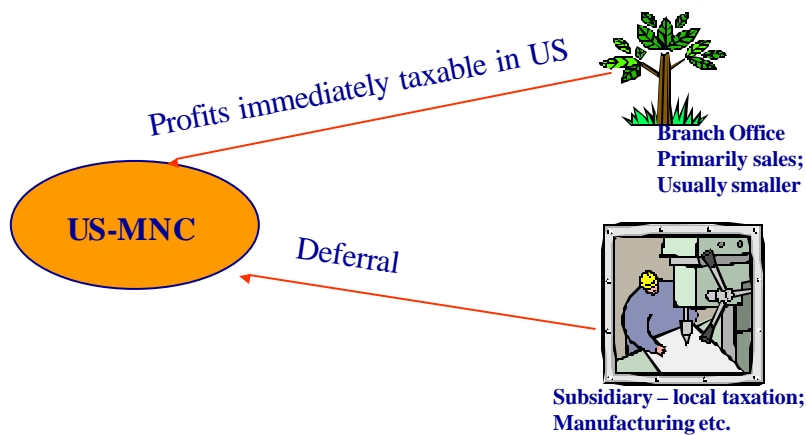
Tax structure is key before treasury planning can take place....



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Branch vs. Subsidiary?



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Holding Companies/Joint Ventures

- Holding Companies
 - Tax consolidation
 - Domestic vs. cross border
 - Banking efficiencies
- Joint Ventures
 - Corporate vs. non Corporate
 - Control issues => Treasury
 - Credit exposure

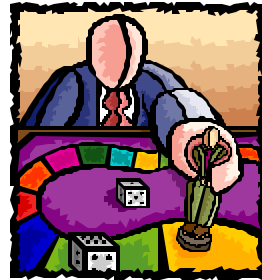


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Local Tax Jurisdictions

- Capitalization requirements
- Entity selection
- Corporate tax regime
- Treaties in place
- Repatriation
- Withholding tax issues



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Centralized vs. Decentralized Treasury

- Definitions
 - What does “centralized” really mean?
- Location(s)
 - US only
 - Regional Treasuries
- Activities
 - Tax consequences



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Definitions (1)

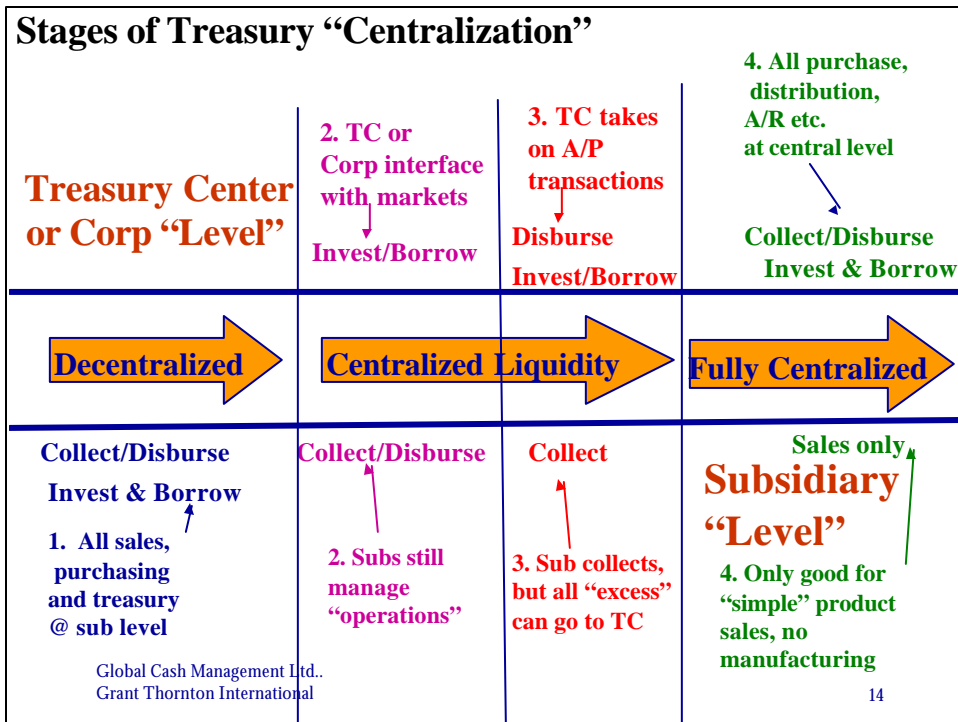
A Centralized Treasury *should* have: ←

- Oversight responsibility for all global banking
- Interface and coordination with corporate tax
- Centrally developed guidelines and procedures for local borrowing & investments
- FX policy in place

Definitions (2)

A Centralized Treasury *may* have: ←

- Centralized liquidity and risk management
- Regional Treasury operations
- Decentralized day-to-day cash management
 - Local collections & disbursements
 - Dotted line reporting only



Locations - US-based Treasury Only

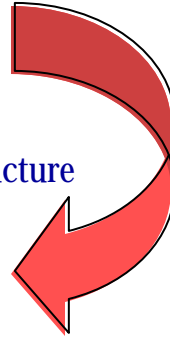
- Organization/reporting
 - Regional responsibilities
 - Infrastructure in place
 - Reporting “lines” clearly defined
- “Treasury Center”
 - Offsetting FX gains/losses
 - Tax implications

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Locations – Regional Treasuries

- Existing overseas operation(s)
 - Major manufacturing location
 - Management/marketing center
 - Warehouse/distribution point
 - Finance Company or specific tax structure
- **Tax jurisdiction/implications**
 - Charging structure - restrictions
 - Substance – capitalization



Activities

- Oversight/consulting
- Intercompany netting
- Liquidity management
 - Financing
 - Investing
- FX trading
- Tax implications
 - Management fees?
 - Transfer pricing



Reporting – Treasury Issues

- Treasury Issues
 - Direct vs. dotted line
 - Rare to have direct reporting from foreign subsidiaries to Treasury
 - “Political” considerations
 - Information requirements
 - Frequency
 - Level of detail

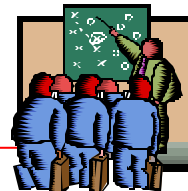


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Reporting – Tax Issues

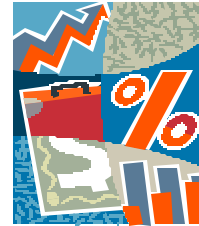
- Deferral vs. Consolidation
- Functional currency
- The reporting package – central vs. decentralized access points
- US GAAP vs. US tax GAAP vs. Foreign GAAP
- Check the box options
- Subpart F – anti-deferral issues
- US earnings and profits issues



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Liquidity & Risk Management



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Liquidity & Risk Management

- Financing
- Investing
- Intercompany Cash Flows
- Specialized Treasury Vehicles and Arrangements
- FX Risk Management

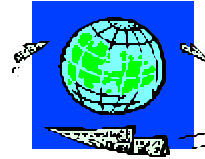


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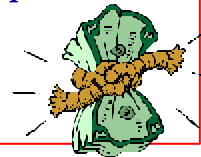
Financing (1)

- Funding foreign operations
 - Debt vs. Equity financing
 - Thin capitalization issues
 - Is interest deferred or lost under thin capitalization restriction?
 - Is interest on cash or accrual on related party debt?
 - Withholding tax issues



Financing (2)

- Access to credit markets and costs
- Use of overdraft lines
 - Impact on centralized debt facilities and loan covenants
- Offset between surplus and deficit positions
 - Notional “pooling” vs. ZBAs
 - Tax implications



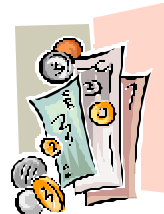
Financing (3)

- Interest on related party debt
- Parental guarantees
 - Arm's Length Requirement
 - 956 issue (deemed dividends)
 - 90 day grace period



Investing

- Mechanics
 - Banking arrangements/costs
- Locations
 - Withholding tax/Reserve requirements
- Currencies and FX management
- Interest
 - Subpart F
 - High tax kickout



Intercompany Flows (1)

- Intercompany sales & payables
 - Terms – 90 day rule
 - Opportunities for liquidity & risk management
 - Opportunities for bilateral offset or multilateral netting?
- Transfer pricing - strategies
 - Pricing in relation to -
 - Goods or services
 - Leases or licenses
 - Debt?



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Intercompany Flows (2)

- Dividends
 - Rate averaging between high/low rate countries
 - To the US
 - To intermediate foreign holding companies
 - Deductions of dividends vs. interest
 - Dividend imputation systems
 - Split rate systems and the dividend issue
 - Withholding tax
 - Subpart F implications



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Intercompany Flows (3)

- Foreign Tax Credits
 - Withholding taxes and the direct foreign tax credit
 - Indirect foreign tax credit
 - The global foreign tax credit limitation baskets
 - Required expense allocations and apportionments
 - Excess foreign tax credit positions

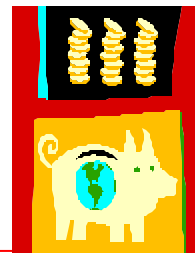


Intercompany Flows (4)

- Subpart F
 - Implications of intermediate dividend receiving holding companies
 - Subpart F high tax kickout exception for dividends
 - Subpart F same country exception for dividends
 - 956A in intercompany pooling/centralized offshore investing

Specialized Vehicles

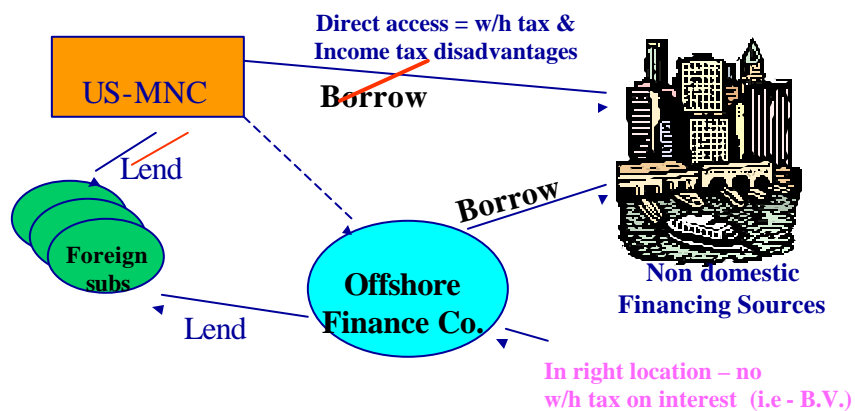
- Financing companies
 - Use of B.Vs
- Offshore Trading companies
- Offshore Treasury Center
 - Coordination centers
 - IFSC – “Dublin Docks”
- Licensing companies
- “Commissionaire” arrangement



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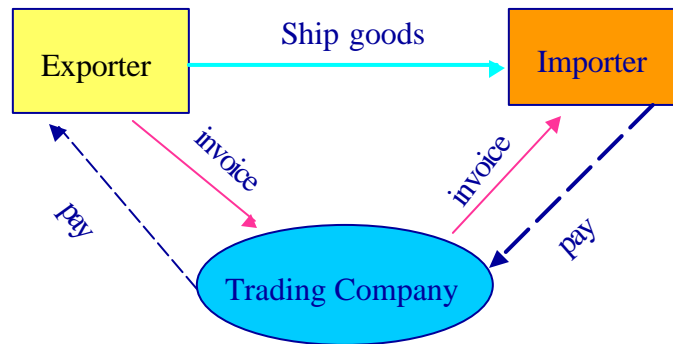
Offshore Finance Companies



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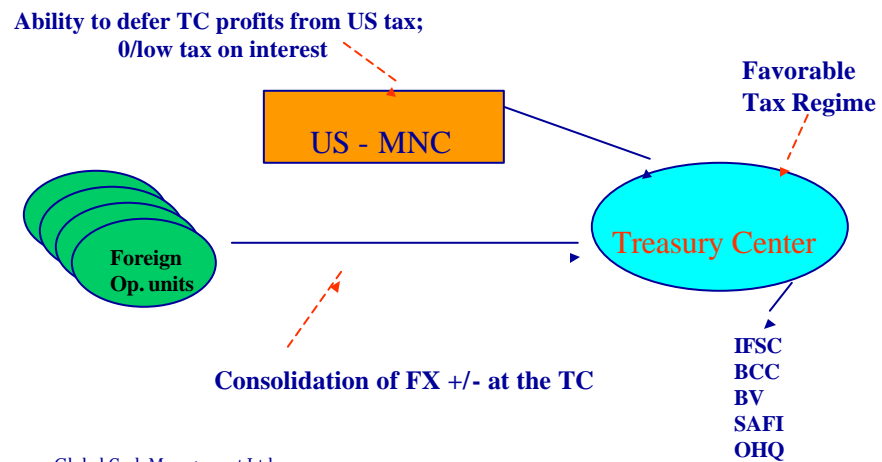
Offshore Trading Company



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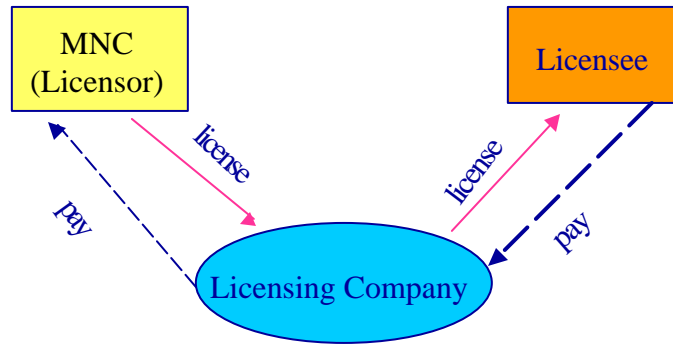
Offshore Treasury Center



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Licensing Companies

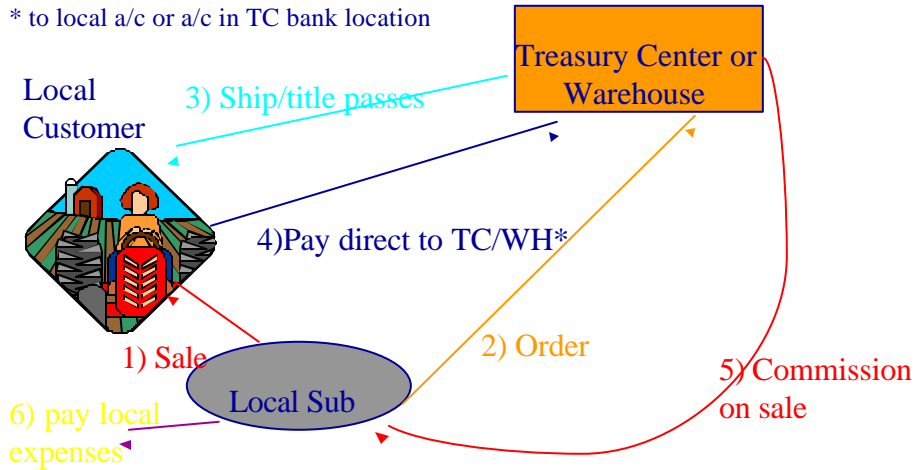


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Commissionaire Arrangements

* to local a/c or a/c in TC bank location

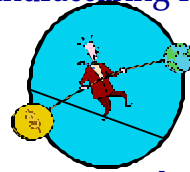


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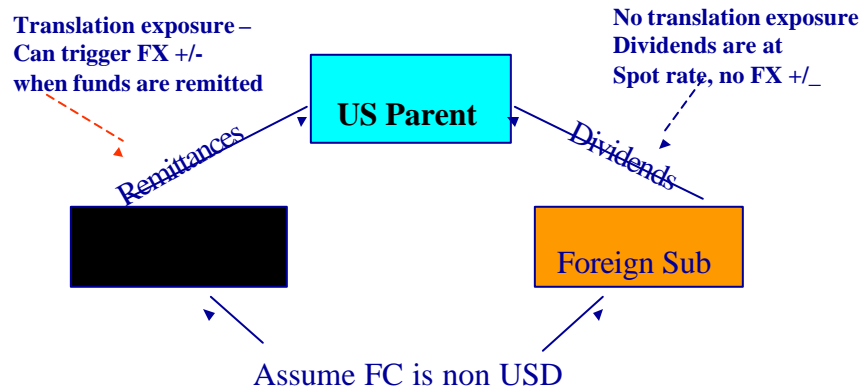
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FX Risk Management

- Determine functional currency (FC) of foreign business units
 - Type of business activity (i.e. manufacturing for export)
 - Country – high inflationary environment ?
 - FC changes and changes in accounting method



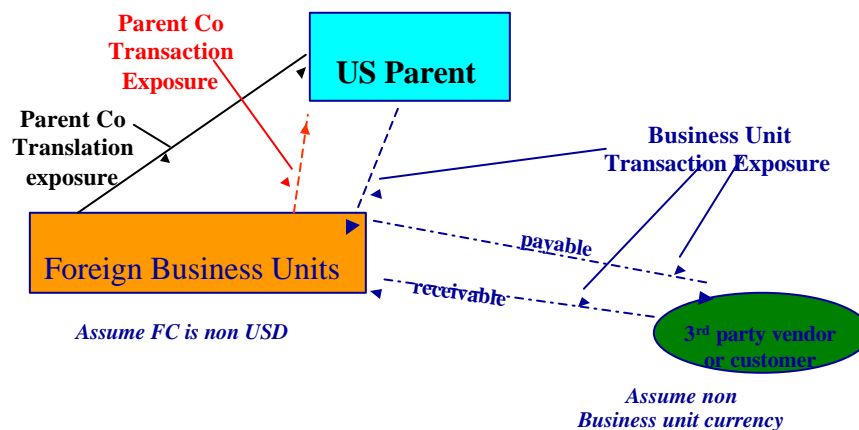
FX Risk Management – Tax View



FX Risk Management – Tax View

- FX gains & losses
 - Mark to market - US vs. Foreign jurisdiction
 - Passive vs. Active - the underlying transaction
 - Qualified foreign hedging exception (subpart F issues)
 - Qualified foreign hedging exception with US corporations
 - Foreign subsidiaries & the active business needs exception
 - Foreign tax credit limitations
 - The P&L method vs. DASTM (net worth) method

FX Risk Management – Treasury View



FX Risk Management – Treasury View

- Protect profit/shareholder value
- Natural offsets
- Policy & Procedures
 - Accountability
- Hedging
 - Objectives/philosophy
- Centralizing risk
 - Mechanics
 - Offset of FX +/-



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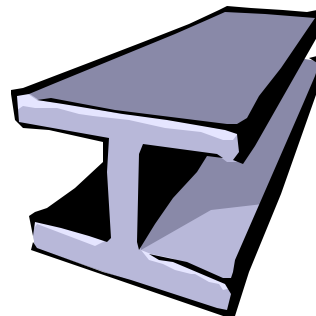
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Summary

Treasury



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Tax

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Summary

- Tax planning impacts how Treasury will
 - Manage cash flows
 - Structure financing & credit facilities
 - Interface with foreign operations
- Ongoing coordination with tax ensures
 - Logical set up of specialized vehicles
 - Tax effective solutions for liquidity management challenges

