Global Expansion Strategies

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Outline of topics

> *International tax concepts*
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> *Google case study*
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> *Corporate Growth Strategies*
>
> *Planning Ideas*

International Tax Concepts

International Tax Concepts

Concept	Meaning
Permanent Establishment	Commonly used to define when a company has enough presence to require it to file income tax returns
Transfer Pricing	Required by law. The pricing of goods, services and intangibles that are transferred between related parties (more than 50% common ownership)
Indirect Tax	Duties, and VAT that is included in the price of a product or service. VAT is generally "recoverable", meaning it can be charged through or refunded
DTA	Double Tax Agreement: serves to reduce or eliminate source taxation
Character of Income	The character of income often determines its taxation for withholding tax or other tax at source: ➢Sale of goods ➢Capital gain ➢Service ➢Rent or royalty

Rules of the road

Goal	Plan
Control Tax Footprint **Avoid too many legal entities, but design structure to allow for global growth**	Services tend to create tax presence. Payroll tends to create the need to form a taxable entity. Working from a central hub and using technology to monitor adaptive trials controls footprint
Contract directly with third parties and reduce the use of intercompany invoices whenever possible	Intercompany transactions attract transaction taxes. - Reduce touch-points - Reduce the need to document intercompany transactions
Structure transactions with to reduce friction costs	- Royalties generally attract withholding taxes. - Service Fees can create other tax costs

Factors to consider

Factor	Observations
Legal system	➢ Flexibility ➢ Exchange control ➢ Contract law ➢ Corporate governance ➢ Business model and path to market ➢ Business rules that favor international business
Costs	➢ Operational : location costs ➢ non-Operational: Tax and Money
Customer perception	➢ Cayman Islands and BVI can look bad
Stability	➢ Operational ➢ Infrastructure ➢ Tax rulings ➢ Tax system ➢ Political
Accessibility	➢ Aeropolis

Current environment

The facts	Impact
Governments are broke	➢ They will shake every Euro out of the tree ➢ May create some protectionism ➢ More aggressive enforcement ➢ Base broadening ➢ Transfer pricing ➢ More indirect taxes
Unemployment is high	➢ Lets make a deal !!
More transparency in business	➢ Do not count on winning the audit lottery ➢ Be prepared to explain Transfer Pricing ➢ Accounting for income taxes requires more visibility
More need for operational efficiency	➢ Systems and processes now favor global hubs and centers of excellence ➢ Structures can benefit from role specialization
Transfer pricing is viewed as a revenue raiser	➢ Think proactively about transfer pricing

Current trends

Sept 19, 2012 - Senator Carl Levin (D-Mich), *Senate Permanent Subcommittee on Investigations*

"This isn't just a wonky tax debate," ...."The tax moves employed by the two companies are especially relevant ..... as lawmakers engage in a heated debate over ways to close the budget deficit, and a possible overhaul of the tax code....."

"We cannot close our budget gap without more revenue,"..... "The modern cause of this decline in corporate revenue is a plunge in corporate tax revenue."....

"The high tech industry is probably the number one user of these offshore entities," ..... "The tax practices and gimmicks range from egregious to dubious validity."

Google Case Study

Bloomberg ... reports ... “about an elaborate tax scheme saving Google $3.1 billion. The company uses subsidiaries in Ireland, the Netherlands and Bermuda and, as a result, benefits from a stunningly low overseas tax rate of 2.4 percent. Considering the U.S. has a $1.4 trillion budget shortfall, havens like these threaten to tarnish Google's *responsible corporate citizen* image.”

Google Case Study

Customers pay Regional offices and Ireland directly

> Managing US Subpart F with check the box and look-thru treatment

Ireland pays royalties to Netherlands of 90% of profits

> Ireland taxation covered by advance ruling.

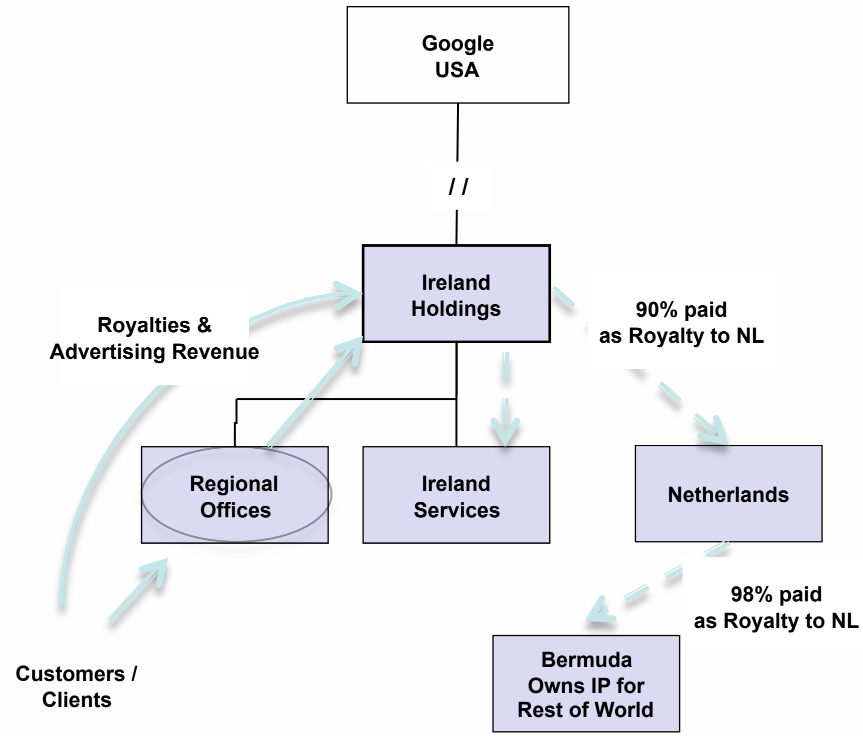
> Ireland Service company is paid Cost-Plus.

> Alternative structure would use a Non-Resident Ireland company.

Netherlands on-pays 98%

> Back to Back royalty

Bermuda non taxable



Based on Bloomberg article by Jesse Drucker – Oct 21, 2010

Tax Rate on Structure

Entity	Income	Portion paid on	Portion taxable	Tax rate	ETR
Regional	100%	98%	2%	35%	. 7 %
Ireland	98%	88% (90% on-pay)	10%	12.5%	1.2 %
Netherlands	88%	86% (98% on-pay)	2%	25%	. 5 %
Bermuda	86%	0	86%	Nil	Nil
					2.40 %

Microsoft Case

Customers pay Regional offices and Ireland directly

> This includes the USA. The USA also pays some marketing royalties to Puerto Rico

Ireland pays royalties to Netherlands of 90% of profits

> Ireland taxation covered by advance ruling.

> Ireland Service company is paid Cost-Plus.

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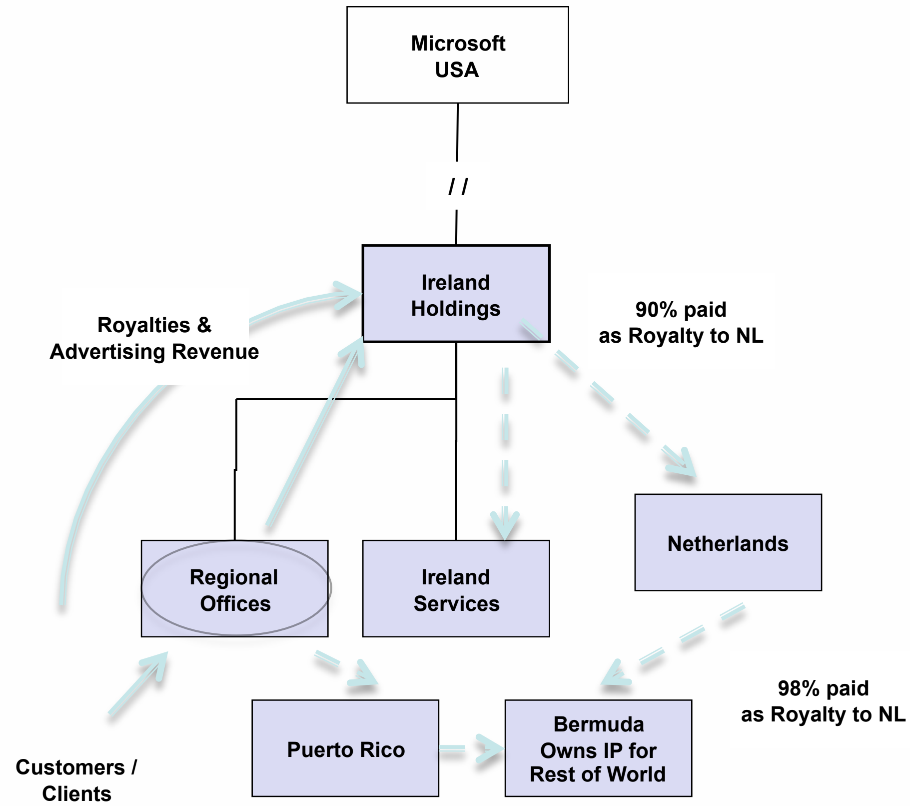

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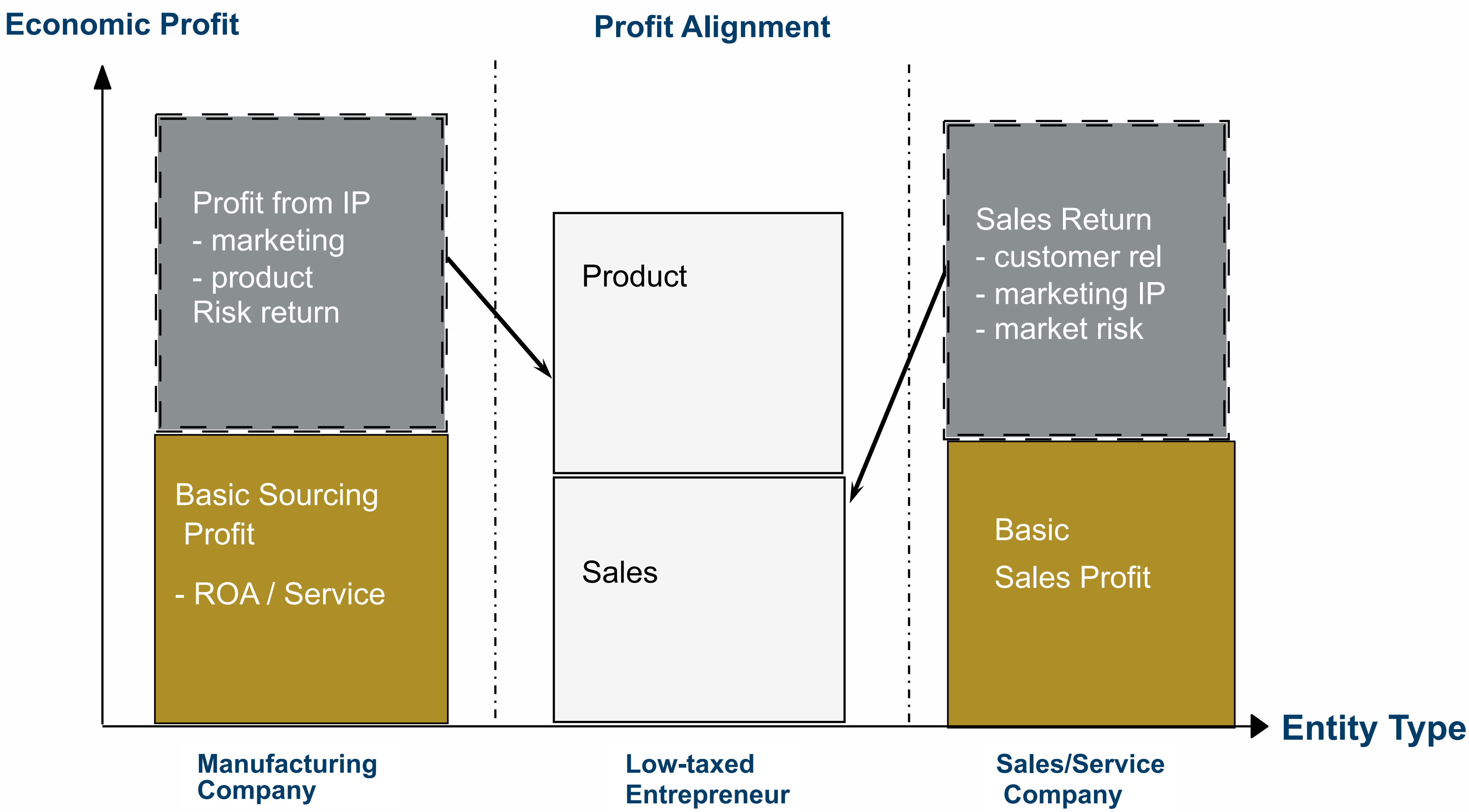
The Drivers

Driver	Why important
1. High margin sales 2. High up front costs 3. Low manufacturing capital costs 4. Portable 5. Proactive treasury management	1. The greater profit margins, the low the effective tax rate 2. Low capital cost allows greatest possible entrepreneurial profit 3. Proactive treasury is looking at the total after tax cost of capital

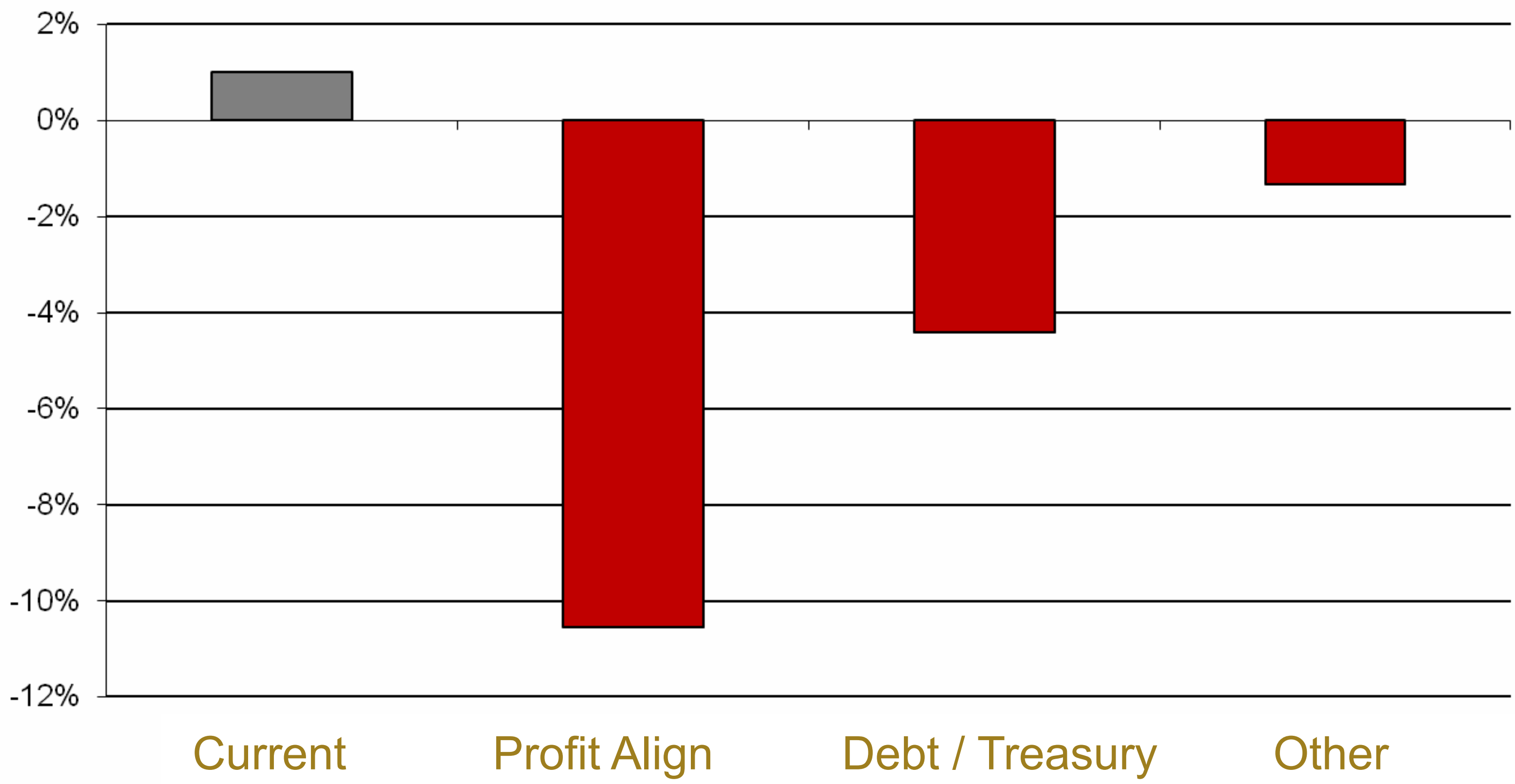
Operational Aligned Planning



Comparison of structures

Entity	Operations 35%	Trading Profit 5%	IP Profit 5%	Total Taxes	ETR
No Planning	100% 35	-	-	100% 35	35%
Trading Profit and Risk	80% 28	20% 1	-	100% 29	29%
Trading and IP Alignment	60% 21	20% 1%	20% 1%	100% 22	22%

Foreign Taxes Element of Effective Tax Rate
Effective Tax Rate Benchmarking



Corporate Growth Strategies

Supply Chain Structuring	• Operational and Financial
	• Strategic risk management
	• Implementing the concept – *Operational Alignment*
	• Financial systems
	• Tax planning
	  - *Strategic Transfer Pricing*
	  - *Subpart F management*
	• Tax compliance
	- *VAT, Duties and Transfer Pricing*

Intangible Property Management	• Leveraging brand across new markets • Deployment of know-how in services and goods
Treasury Management	• Foreign exchange risks • Exchange control • Redeployment of capital • Repatriation to parent
Human Capital	• ***Global Pilot*** • Getting the right people in the right place • Human resource compliance in hiring and firing • Payroll services • Tax return services • Expatriate taxation

Overriding - Goals

Flexibility

> - *Treasury management*
> - *Contract structuring*
> - *Business model and path to market*

Simplicity

> - *Less entities*
> - *Control tax footprint*

Scalability

> - *Managing IP to leverage into new markets*
> - *Ability to redeploy capital*

Efficiency

> - *Operational*
> - *Structural*
> - *Treasury*
> - *Tax*
> - *Legal – business rules that favor international business*

Compliant

> - *Legally*
> - *Tax and transfer pricing*

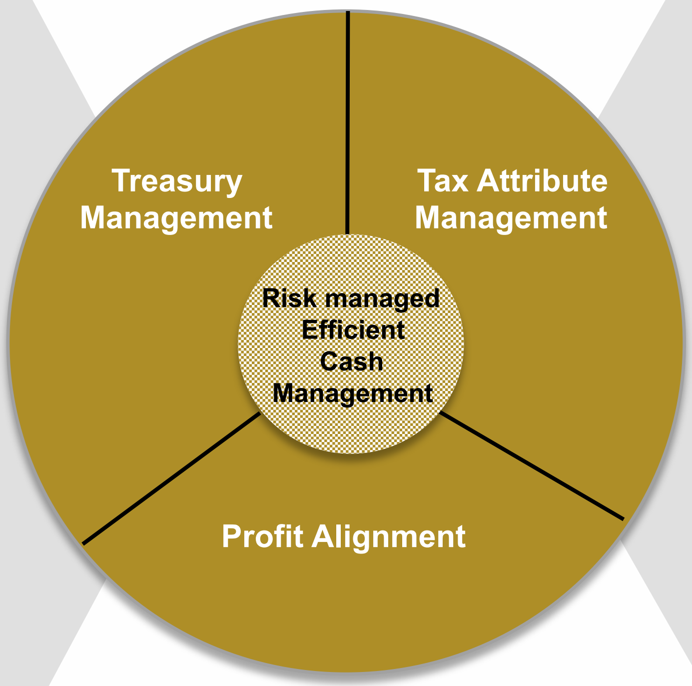
Overview – Integrated Treasury and Operational Structure

Goals | Drivers | **Value**

Goals

- Simplify structure
- Simplify transfer pricing model
- Reduce FX risk management
- Improve visibility over transfer pricing
- Reduce uncertain tax positions
- Manage cash tax liabilities
- Flexible and tax-efficient framework for redeployment of foreign cash and future acquisitions
- Tax efficient repatriation
- Optimize foreign tax credit position
- Maintain APB 23 assertion on earnings where APB 23 is currently asserted (a US GAAP concept)

Drivers



Value

- Reduced Cash Taxes and Sustainable Effective Tax Rate
- Tax Efficient Repatriation
- Tax Efficient Financing of Foreign Operations
- Manage Deferral Positions and Maximize Benefits of APB 23
- Maximize Benefits of Foreign Losses
- Foreign Tax Credit Utilization
- Tax Efficient Use of Intellectual Property
- Tax Efficient Cash Management and Redeployment
- Satisfy US and Foreign Tax Requirements

Integrated Treasury

Service Offering	Responsibility	Specifics
Treasury Management	1. Broker all Group Financing 2. Manage all treasury risks 3. Asset Transfer 4. Manage Group Risks	1. Company negotiates and manages all movement of working and structural capital 2. Cash Pooling 3. All management reporting and information management 4. Manage to predetermined leverage and capital goals, pooling excess liquidity for efficient redeployment

Cash Pooling

Service Offering	Business Function	Specifics
Cash Pooling	1. Use Intercompany Bank 2. Sweep cash 3. Can use outside bank to manage sweep 4. FX management 5. Real time accounting for cash and foreign exchange	1. Set up in Luxembourg 2. Larger companies use Swiss or Swiss Dubai structures 3. Can outsource functions

The Good and the Bad

Benefits	Challenges
Simplifies movement of capital	Getting into this high efficiency structure is usually a major transformation event. Requires: - High level buy-in - Usually an operations or strategic realignment to market
Creates debt in high tax locations that enables movement of funds	Centralization of key back office functions can create matrix reporting, which can be difficult to manage in the long term
Harvest foreign tax credits now - Can harvest high tax before low tax	This requires a clear plan and flawless execution
Improves visibility on working capital, and transfer pricing and provides better treasury controls on management of foreign exchange	Foreign tax credits can be managed to create high and low tax pools
Improves after-tax cash flow by improving the management of IP and by making the movement of product and services more efficient.	Consider structures to improve supply chain management

Factors to Consider

Factor	Observations
Legal system	• Must be in the EU to get license to import • Exchange control • Contract law • Corporate governance • Business model and path to market • Business rules that favor international business
Costs	• Operational: location costs • Non-Operational: tax and money
Customer perception	• Cayman Islands and BVI can look bad • Dubai for the Middle East • EU for imports into Europe
Stability	• Operational • Infrastructure • Tax rulings • Tax system • Political
Accessibility	• Access to good 3PLs and other service providers - Operational support - Back office

Planning Illustrations

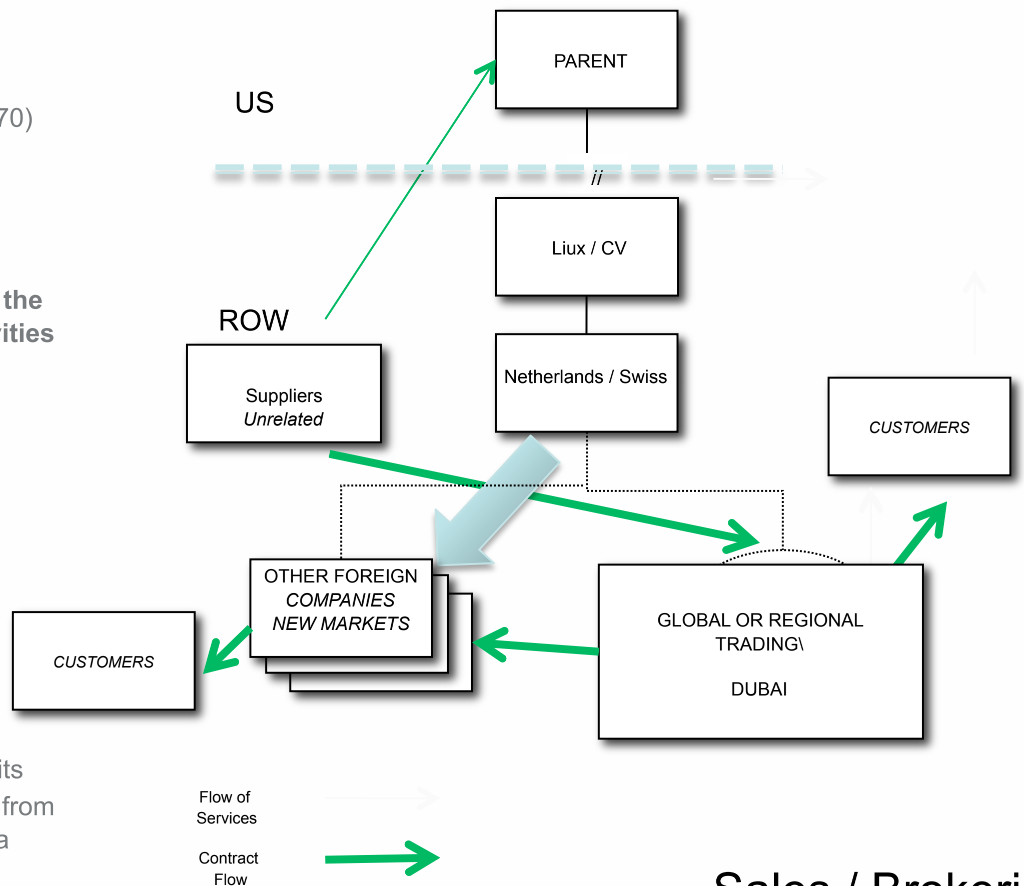
Netherlands or Swiss/Dubai Principal

ZERO TAX: Corporate and Individual

- Stable
- Works with US non-Corporate structures
- Excellent for ME, India and Russia
- Can benefit from Dutch / Swiss double tax treaties (over 70)
- Netherlands is a member of EU
- Excellent platform for EU holding company and financing structure to non-EU based borrowers
- Can get rulings to reduce taxation on relocated staff
- **Dividends to the Netherlands / Switzerland qualify for the participation exemption as long as there are real activities in Dubai**
- -- Personnel
- -- doing something: logistics, sales, risk management, inventory management, regional management.
- Can combine with Luxembourg and get a Zero Rate (like notional branch illustration)
  - Not easy to staff – must bring in expats
  - Far from SE Asia and South America

Considerations

- Requires substance in Dubai
  - 1 Full Time Equivalent (FTE) at least
  - Consider time centric / travel access for on site visits
- If US is a S Corp or LLC (transparent) the withholding tax from the Netherlands to the US would likely be 15%. Swiss is a similar net effect, but requires withholding and refund.
- --- CONSIDER USING HOLDING CO OR CV ABOVE STRUCTURE IF US REPATRIATION IS IMPORTANT.
- Rulings recommended



Sales / Brokering

Tax Rate on Structure

Entity	Income	Portion paid on	Portion taxable	tax rate	ETR
Supplier	100%	98%	2%	35%	. 65 %
Dubai Global	98%		98%	Nil	Nil %
Netherlands	98%		0%	25%	Nil
					.65 %

Singapore Principal

Location and stable

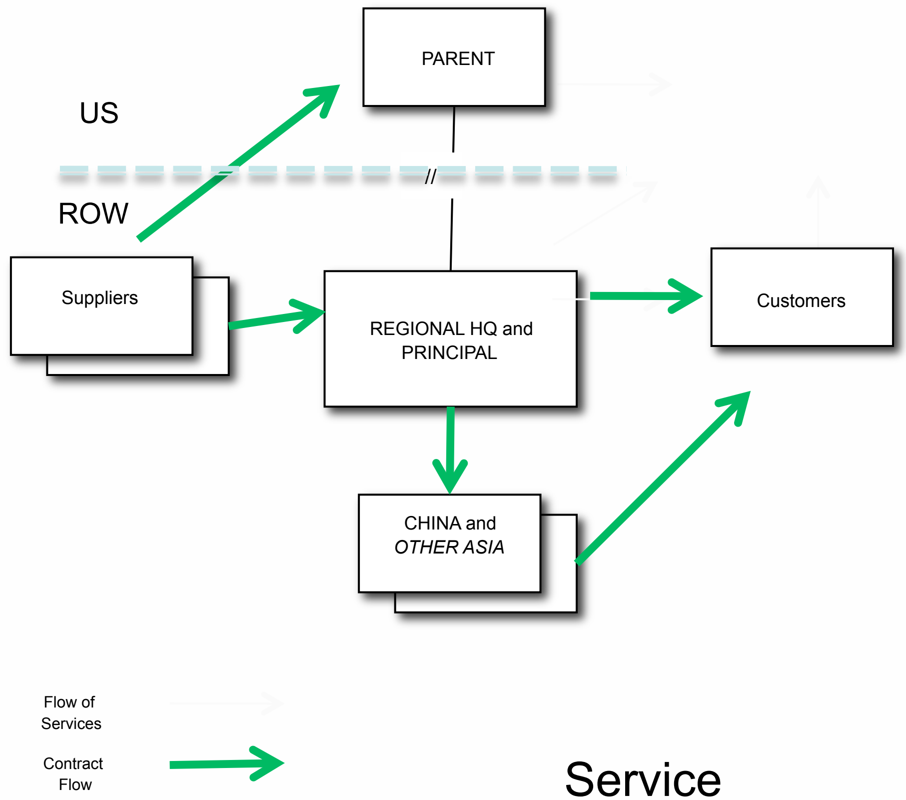
- Excellent for SE Asia, China, India and Russia
- Can benefit from Singapore double tax treaties (over 70)
- Can get rulings to reduce taxation on relocated staff
- Dividends paid by Singapore principal remain exempt from withholding under Singapore local law (no treaty required)
- Generally not hard to staff
  - Not as tax advantaged as Lux / Dubai

Corporate tax rate is 17% in Singapore

- Can negotiate tax holiday for IP company
- Ruling is based on job creation and IP ownership
  - Certainty
  - Requires physical presence in Singapore and headcount in Singapore
  - SEDB will be advocate for company
- Can benefit from Singapore double tax treaties
- Singapore is an excellent HQ location for SE Asia, including Malaysia, Indonesia, Vietnam and Australia
- Avoids use of a tax haven jurisdiction
- Can get rulings to reduce taxation on relocated staff
- No withholding tax on Dividends

Considerations

- Requires substance in Singapore to get any tax advantaged ruling
- 10 to 25 local employees (10-15 FTE)



Service
Sales / Brokering

Tax Rate on Structure

Entity	Income	Portion paid on	Portion taxable	tax rate	ETR
Supplier	100%	98%	2%	35%	. 65 %
Singapore	98%		98%	15%	14.7 %
					15.35 %

Dutch Finance Structure with a CV
– Debt Pushdowns /Royalty Strip

Structure:

> Works well for **Franchise / Service** related business models

> Parent (limited partner) and LLC (general partner) establish a NL limited partnership (CV).

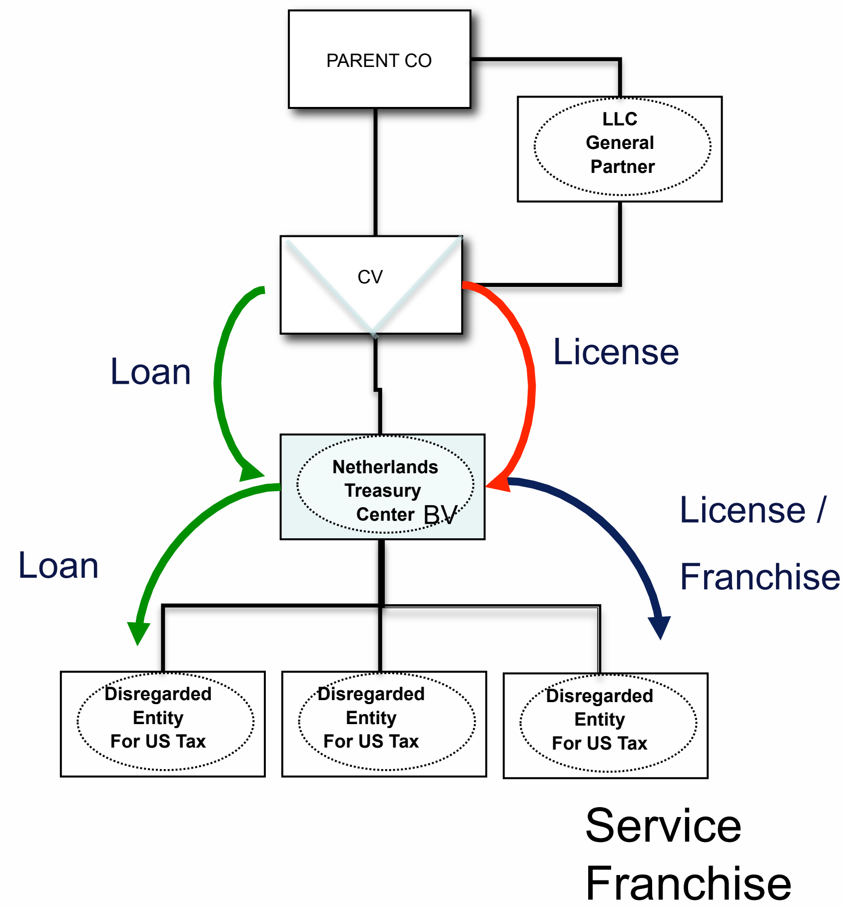
> Parent equity funds CV and elects to treat CV as a foreign corporation. CV is flow-through for NL tax (reverse hybrid).

> CV holds the shares in a NL holding (BV or Coöp) and funds NL Holding with a loan

> NL Holding holds foreign subsidiaries and funds foreign subsidiaries with loans

> Works best with **Debt Pushdowns** and **Licensing of IP (Software or Product IP).**

> Under Dutch law there is no withholding tax on interest on loans from CV and from Royalty Income.



Tax Rate on Structure

Entity	Income	Portion paid on	Portion taxable	tax rate	ETR
Local Office	100%	90%	10%	35%	3.5 %
Dutch Ops Co – BV	90%	90%	9%	25%	2.4 %
Dutch IP Co – CV	98%		0%	25%	Nil
					5.9 %

Double Lux

FOR US and Korean companies to manage tax credits on dividends

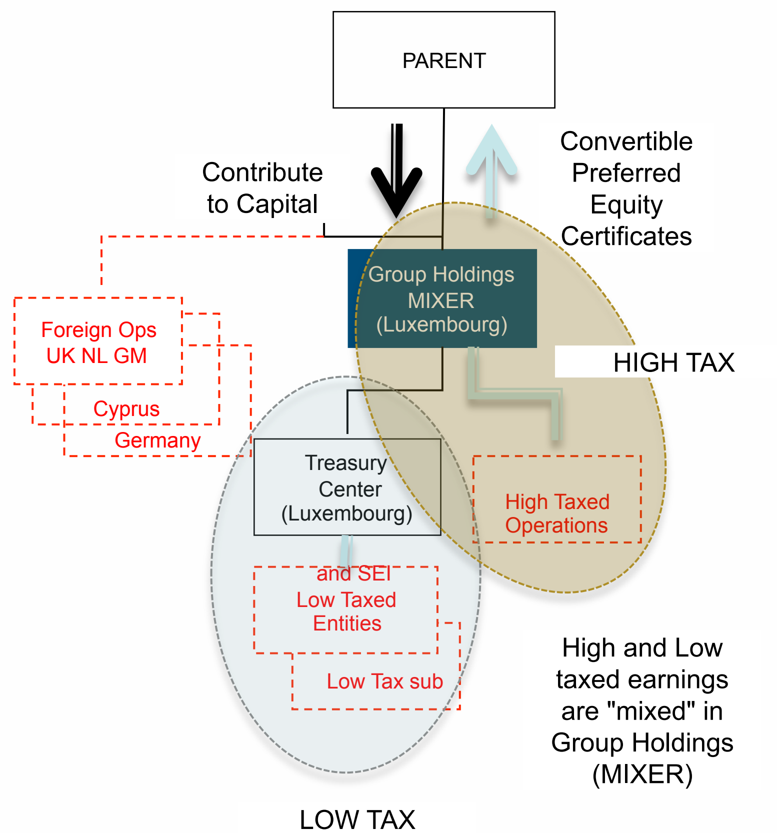
A. Allows for management of tax credits into Parent.
> Can blend high and low taxed earnings and manage effective tax rate on dividends to Parent, thereby reducing the risk of having excess limitation (more tax to pay) or excess credits (non-monetized attributes).
> Dividend, with deemed paid credits

B. Manages timing of dividends

C. Allows for management of global working capital
> Cash flows into Treasury Center to be managed for global supply chain and operations
> Structure can be very efficient for tax
I. Rate arbitrage
II. Deduct at 30% and income at 3%
a. Convertible Preferred Equity Certificates (CPECs) 85% debt

D. Especially useful for managing exchange risk
> Cash pooling
> Notional cash pooling

E. Provides platform for cross chain consolidation of entities into each country.
F. Provides platform for debt pushdowns
G. Harvest High Tax E&P where possible
H. Leave low tax in pools



Redeploying cash

Tax Rate on Structure

Entity	Income	Portion Paid On	Portion Taxable	Tax Rate	ETR
Local Ops Co	100%	98%	2%	35%	. 65 %
Lux Treasury	98%	85% from CPEC	13%	29%	3.77 %
					4.42 %

Other Options

Country	Observations
Hong Kong	+ Can achieve low tax rate: 8.25% + Friendly business environment + Excellent launch-point for China - Not as good as Singapore for other SE Asia
Switzerland	+ Can achieve very low tax rates if company puts in large head-count – 75 to 100 people + Good location for coordinating EMEA - Expensive, even by comparison to HK and Singapore - Was Hot, but after UBS it is getting cooler

Questions?

This presentation is for discussion purposes only.

Thank you!

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