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International tax survival in a global supply chain

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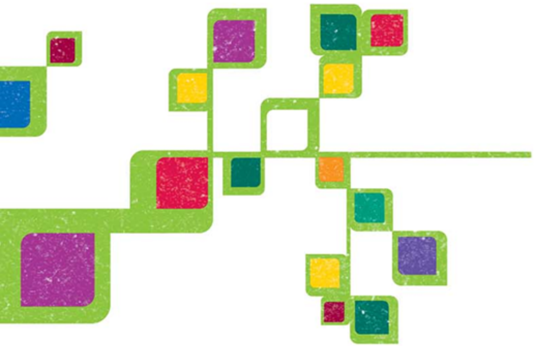


The supply chain is the cornerstone of business profitability

The profitability of a business is directly impacted by how its supply chain makes and delivers goods and services, as well as by how that supply chain is structured to minimise trade and tax expenses.

Economic, regulatory and technical developments drive change for businesses. As a business moves through its own life cycle, the supply chain will also evolve, for example, as procurement, manufacturing and distribution strategies change.

The pace of change in the international tax environment is accelerating, as governments and tax administrations get to grips with Base Erosion Profit Shifting (BEPS). These developments will require businesses to react on a strategic and organisational level.

Such changes invariably have an impact on international tax, corporate tax, transfer pricing, GST/VAT and customs obligations. As the business reacts to changes in the external environment, it needs to revisit the design and operation of the supply chain at a transaction level.

Global complexities demand agile tax structures throughout the supply chain

Aside from the economic and technical factors that drive change, the tax environment is evolving fast.

- New and proposed local transfer pricing compliance requirements, e.g. Singapore, China
- Global footprint and international supply chain requires multiple GST/VAT registrations
- Penalty regimes focused on behaviour, systems and controls, e.g. UK, Australia
- New & proposed GST/VAT regimes, e.g. Malaysia, China, India, Saudi Arabia, Kuwait, Oman, The United Arab Emirates, Qatar and Bahrain
- Increased co-operation and information sharing between tax authorities
- Greater public transparency of the tax obligations of global businesses
- Proposed reduction of headline corporate income tax rates, e.g. Malaysia, Vietnam
- Increased administrative requirements, e.g. e-filing of returns, sales lists
- Standard audit file requirements, e.g. France, Malaysia
- Use of data interrogation by tax administrations
- Aggressive audits by tax authorities hungry for revenue
- Changes to the thin capitalisation rules, e.g. China, India
- Regulatory pressures to demonstrate controls
- Impact of changes under BEPS, e.g. Country by Country Reporting

The supply-chain life cycle

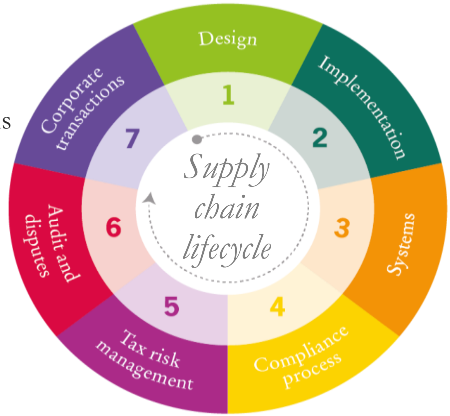
Supply chains go through a natural lifecycle initiated by new products, changes in market conditions, and corporate transactions.

1. Design
The supply chain should be designed to optimise revenue and minimise or control production and distribution costs.

2. Implementation
Successful implementation of the structure is critical to ensure substance and robustness.

3. Systems
Systems must be capable of recording and processing transactions in the correct jurisdiction.

4. Compliance processes
Filings and payments should be made on a timely basis in the relevant jurisdiction.



5. Tax risk management
The business must have processes and controls to mitigate risk and deal with any compliance failures identified including disclosure. Automation tax determination and special compliance protocols should be considered.

6. Audit and disputes
The business must be able to defend the tax structure and transactional arrangements from official challenge.

7. Corporate transactions
These bring into focus issues of separation or integration, which may require redesign of the supply chain.

1. Design

Not all business models are broken but, in today's ever changing and increasingly hostile tax environment, it is vital to take stock of the existing supply chain arrangements and re-evaluate their efficiency and robustness in that context.

This will involve evaluating not only the operational flows, but also the legal and funding structure. Saving taxes through operational realignment is only part of the story. Getting the enhanced profits back home efficiently is also a critical part of the planning process.

How Grant Thornton can help:

- Evaluation of tax risks and opportunities inherent in the existing supply chain model.
- Automation of tax code determination.
- Helping formulate an optimised model for each component in the chain (e.g. entrepreneur, stripped distributor, contract/toll manufacturing, shared services etc.).
- Valuation and location of Intellectual Property and R&D activities.
- Market entry and reorganisation cost analysis (set up costs, exit and transaction taxes, etc.).
- Performing a persuasive cost-benefit analysis to secure management buy-in.
- Formulation of an appropriate legal and funding structure to maximise efficiency of profit repatriation.
- Structuring of other profit repatriation arrangements (e.g. management fees, royalties, funding).
- Identification and evaluation of tax incentives.
- Structuring complex supply chains to ensure that the business does not have to register for GST/VAT in multiple jurisdictions.

2. Implementation

Even the best of plans are worthless without efficient implementation, and this is when attention to detail and disciplined project management is critical. This will involve drafting and executing all the necessary documentation, ensuring direct and indirect tax compliance requirements are identified, and all necessary tax compliance procedures and registrations are put in place.

How Grant Thornton can help:

- Functional analysis and benchmarking to enable formulation and documentation of an enhanced transfer pricing policy.
- Evaluating the benefits of, and assisting with, unilateral or bilateral Advance Pricing Agreements.
- Review of legal documentation (service level, royalty, distribution, funding, partnership and JV agreements, board minutes etc.) to ensure consistency with model strategy.
- Assistance with remuneration planning and providing global mobility support for key migrating staff.
- Project management of in-country reorganisations and integration.
- Implementation of tax engines to ensure:
  - correct tax code determination;
  - tax data integrity and updating; and
  - automated production of GST/VAT returns.

3. Systems

The setting up of simple, automated and integrated systems to handle the supply chain direct and indirect tax obligations is the next step in the process. The aim is to ensure the cost efficient management of tax risk and compliance processes.

How Grant Thornton can help:

- Assisting with setting up systems to handle the data mapping process required for direct and indirect tax compliance, Country by Country reporting etc.
- Assisting with transaction mapping and automation of tax code determination.
- Identifying and assisting with formulating systems to ensure timely reporting for tax.
- Advice on the structure of payment handling services to optimise the availability of GST/VAT exemptions.

4. Compliance processes

Sound compliance management addresses the risks implicit in the systems, processes and procedures adopted by a taxpayer to prepare and submit tax returns, and in responding to any enquiries or challenges raised in the process of reaching an agreed position with the tax authorities in each jurisdiction in which the group operates.

How Grant Thornton can help:

- Preparation or review and filing of corporate, partnership or trust income tax returns.
- Ensuring that the business is registered for GST/VAT in every jurisdiction where it needs to be.
- Advice on GST/VAT reporting obligations.
- Direct and indirect tax health checks.
- Preparation or review and filing of GST/VAT returns.
- Validation of compliance systems and processes.
- Transfer pricing documentation & Country by Country Reporting preparation and filing obligations.

5. Tax risk management

Tax is no longer a back office function, and ensuring those responsible for tax have in place appropriate systems of control over tax and reputational risk should be high on any board agenda.

Tax risk management is about identifying tax risks and where they arise, and making judgement calls as to how they should be handled and what resources should be applied in dealing with them.

Tax risks can take a number of forms (transactional, operational, compliance, reputational), but they include the risk of missing opportunities, as well as simply avoiding hazards.

Risks around GST/VAT and customs duties are sometimes the most problematic as often they are not handled, or understood, centrally. Similarly, transfer pricing arrangements can have unexpected outcomes when implemented and that may raise a company's risk profile.

How Grant Thornton can help:

- Tax function effectiveness analysis. This provides a heat map of the strengths and weaknesses of the tax function and its awareness of and ability to deal with transactional, operational and compliance risks inherent in the supply chain.
- Provision of tax training.
- Provision of regular country specific tax updates.
- Review of the risk control environment and assisting with the formulation of a tax risk policy.
- Performing spot checks, sampling and health checks to ensure proper implementation of the tax and operations strategy.
- Tax risk management best practices checklist.
- Implementation of tax engines to ensure:
  - correct tax code determination;
  - tax data integrity and updating; and
  - automated production of GST/VAT returns.

6. Audit and disputes

Part of the foregoing process of evaluation and strategic planning around the supply chain model is aimed at minimising tax risks through the implementation of a robust and defensible tax strategy and transfer pricing policy. Unfortunately, in today's increasingly hostile environment, tax authorities are becoming more difficult and combative in their audit of taxpayers' returns, and inevitably disputes will arise.

How Grant Thornton can help:

- Provision of transfer pricing controversy support.
- Assistance in handling Mutual Agreement Procedures cross-border.
- Reviewing tax filings and supporting documentation and agreements to anticipate and minimise the risks of challenge.

7. Corporate transactions

Companies undergo corporate transactions for a number of reasons, including to:

- Maximise synergies and economies of scale;
- Streamline the management of business lines; and
- Improve the efficiency of the supply chain.

As a result, a business's supply chain structure may need to be reviewed after such a transaction has occurred.

How Grant Thornton can help:

- Evaluate the supply chain structure pre and post transaction.
- Identify potential supply chain efficiencies as a result of the transactions.
- Assist in the supply chain structure design phase (stage 1 of the lifecycle).

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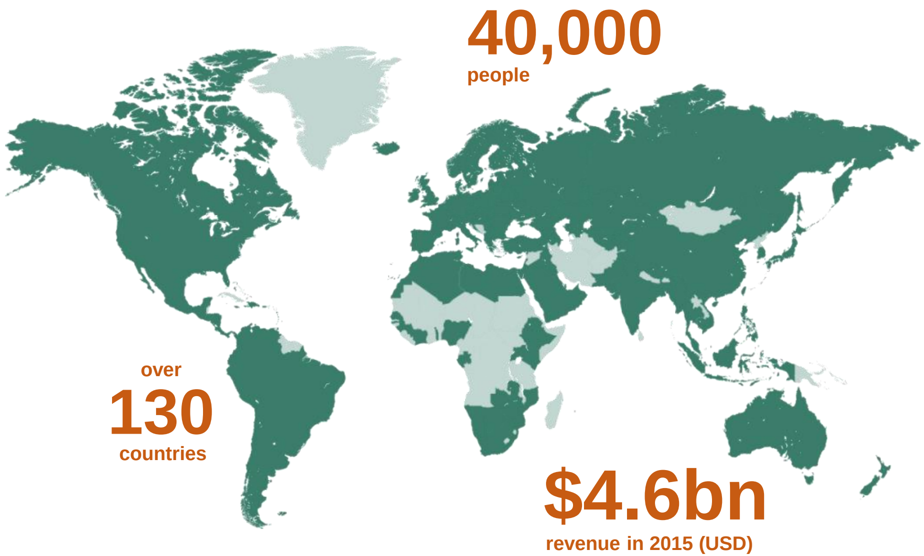
With more than 40,000 people in over 130 countries, we are a truly global organisation. However big your organisation or however international the challenges you face, we have the resources to match.

We have member firms in over 130 countries worldwide. Between them, they audit more than 2,500 listed companies and work with some of the world's largest organisations.

We are ranked one of the top six firms in 88 markets around the world and we're well established in all major business centers and emerging markets.

We have tax specialists across the globe, in EMEA, Asia Pacific and the Americas.



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