



LEADING TREASURY
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Welcome to this ACT webinar

**The impact of tax and regulatory reforms
on the treasury function**

7 July 2015 | 12.30-13.15 BST

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Introduction

James Lockyer

Development Director

ACT







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Agenda

Introduction

James Lockyer

Development Director, **ACT**

Presentation

Peter Mason, Group Tax Director, **IMI**

Divya Ramaswamy, Senior Solutions Consultant,
Thomson Reuters

Panel discussion and Q&A



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Presentation

Peter Mason, Group Tax Director, IMI

**Divya Ramaswamy, Senior Solutions
Consultant, Thomson Reuters**

Programme overview

- The changing landscape
- BEPS Focus
- Practical framework
- What this means for Corporate Treasurers
- Case study

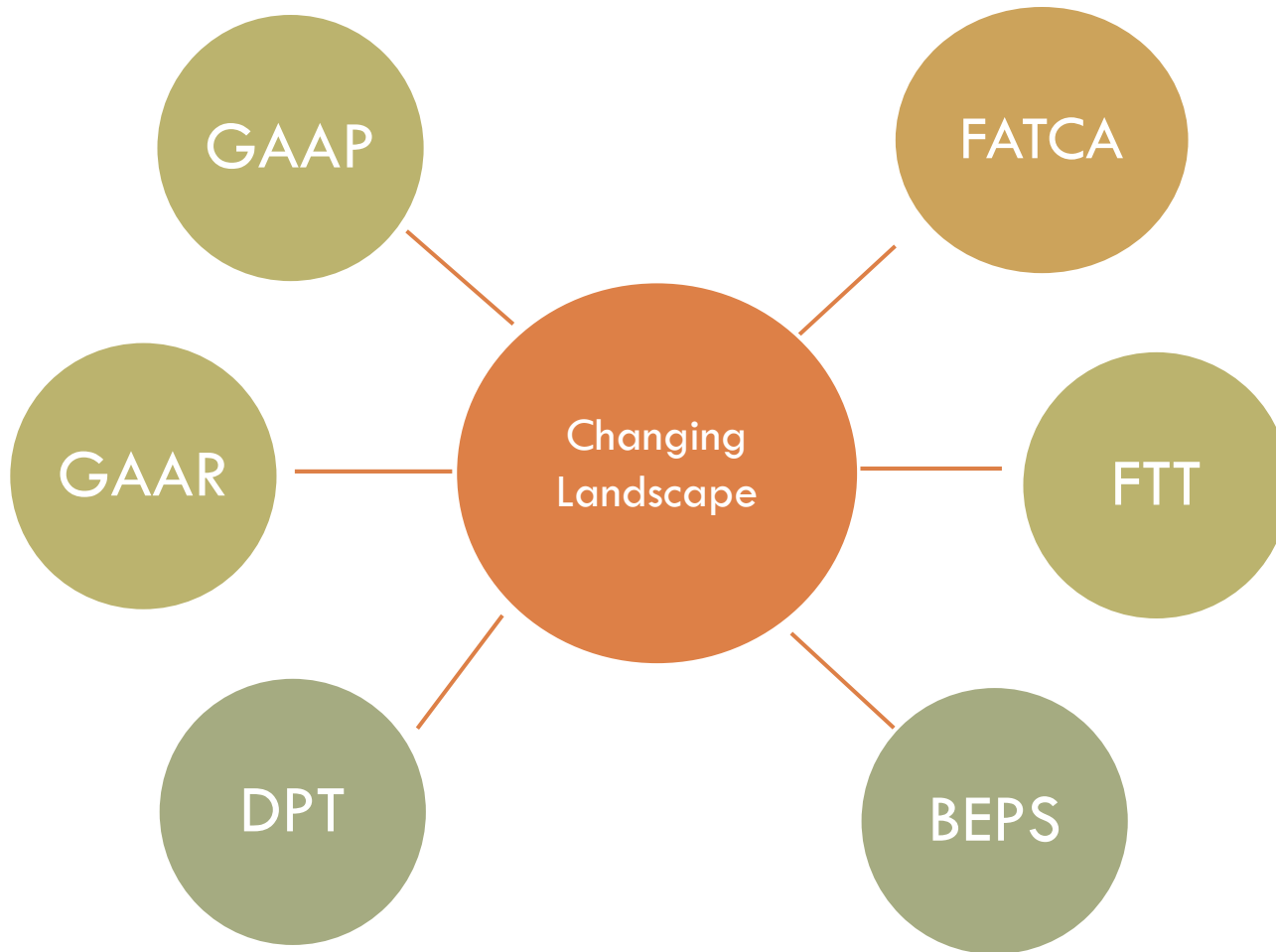
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The changing landscape

Have we got news for you!



Changing Tax rulebook



The “Tax Shield” on debt has been under attack

- ❑ Debt/Equity classification – repo’s, long maturities
- ❑ Business, or unallowable, Purpose
- ❑ Thin cap, book or market value basis
- ❑ Paid v accrued basis for deductibility
- ❑ Streaming of earnings
- ❑ Earnings stripping
- ❑ World-wide debt cap
- ❑ Intercompany: arm’s length principle
- ❑ Withholding taxes
- ❑ Upstream loans
- ❑ US Check-The-Box entity classification
- ❑ Controlled Foreign Company rules (CFCs)
- ❑ Notional Interest deductions on equity
- ❑ Special terms – profit participation, repo
- ❑ FX: one-sided, mark-to-market or on cash realisation
- ❑ and now.....BEPS is the final straw!





BEPS Focus



BEPS Action plan

Action	Deadline	Action	Deadline
1 – Address the tax challenges of the digital economy	Sept 14	9 – Assure that transfer pricing outcomes are in line with value creation: risks and capital	Sept 15
2 – Neutralise the effects of hybrid mismatch arrangements	Sept 14	10 – Assure that transfer pricing outcomes are in line with value creation: other high-risk transactions	Sept 15
3 – Strengthen CFC rules	Sept 15	11 – Establish methodologies to collect and analyse data on BEPS and the actions to address it	Sept 15
4 – Limit base erosion via interest deductions and other financial payments	Sept 15 / Dec 15	12 – Require taxpayers to disclose their Aggressive tax planning arrangements	Sept 15
5 – Counter harmful tax practices more effectively, taking into account transparency and substance	Sept 14 / Sept 15 / Dec 15	13 – Re-examine transfer pricing documentation	Sept 14
6 – Prevent treaty abuse	Sept 14	14 – Make dispute resolution mechanisms more effective	Sept 15
7 – Prevent the artificial avoidance of PE status	Sept 15	15 – Develop a multilateral instrument	Sept 14 / Dec 15
8 – Assure that transfer pricing outcomes are in line with value creation: intangibles	Sept 14/Sept 15		

Actions for Treasury

Action 2 – Hybrid mismatch arrangement

- Enactment of linking rules to match the tax treatment in two countries

Additional reporting

Action 4 – Interest deductions

- Group wide or fixed ratio interest limitation rules

Additional analysis

Action 13+ - Transfer pricing

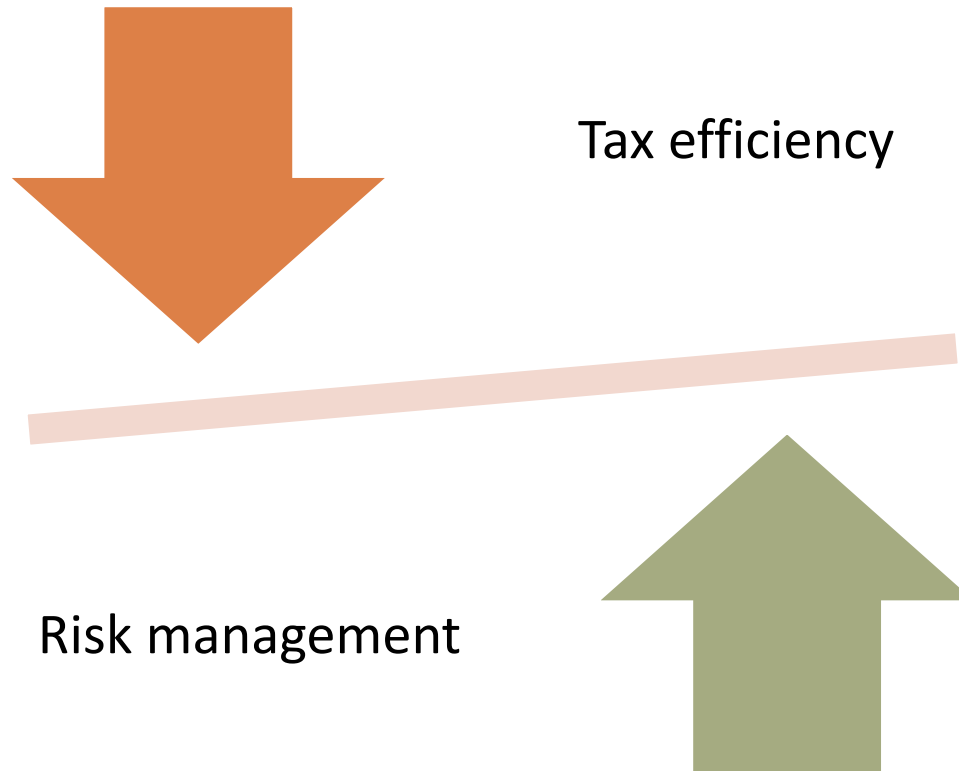
- Focus on substance
- Prescriptive documentation requirements

Greater scrutiny



What this means for Corporate Treasurers

Policy impact

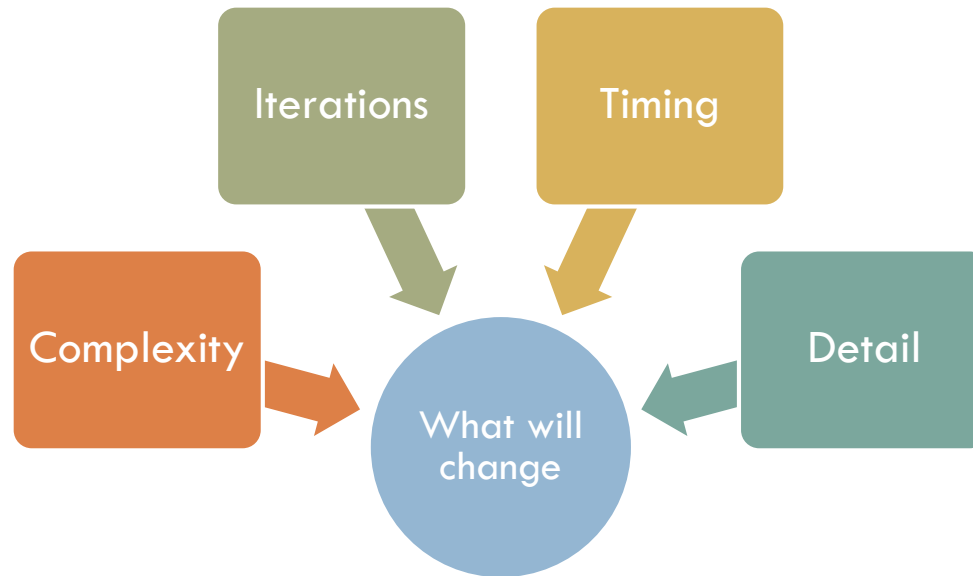




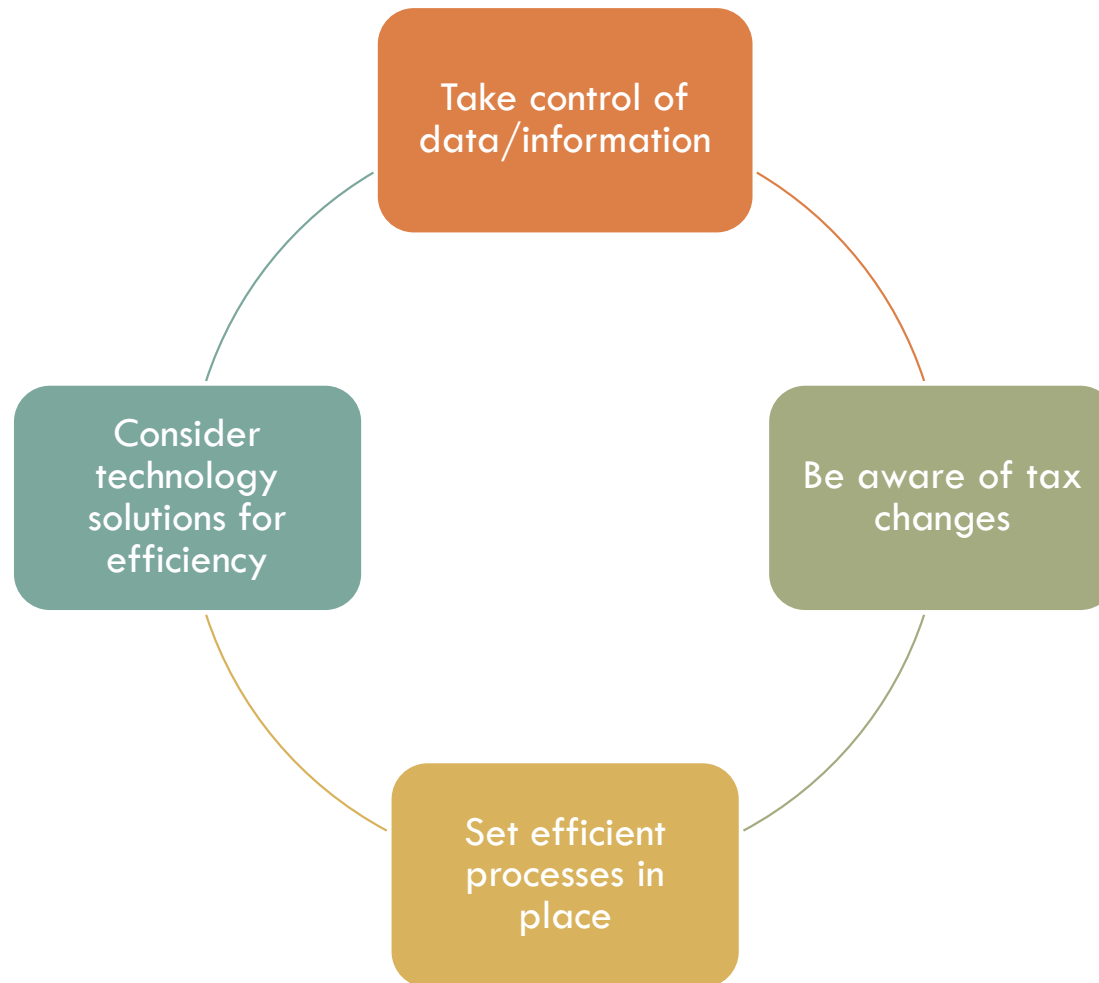
Practical Framework



Practical impact



Framework





Case study



Case Study

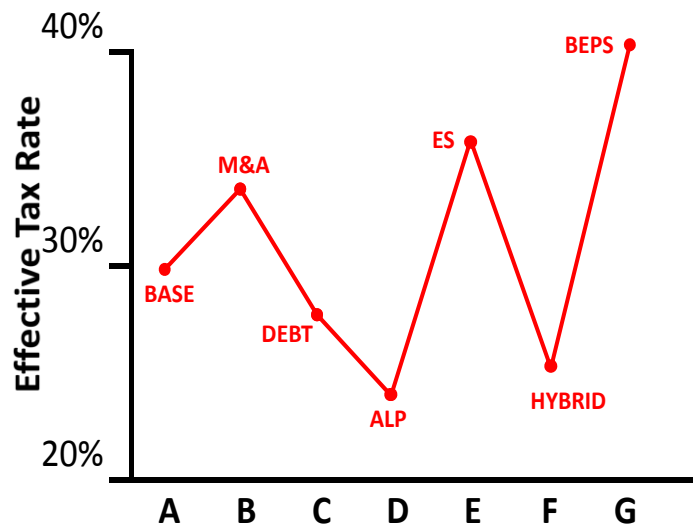
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BEPS begins....

	<u>Company A</u> <u>in</u> <u>Country A</u>	<u>Company B</u> <u>in</u> <u>Country B</u>	<u>Total</u>
EBIT	100	100	200
Interest	20	(10)	(50)
PBT/TI	120	90	150
Tax Rate	20%	40%	40%
Tax	24	36	60

The impact on Corporate Treasurers

Case Study: Tax Summary



- Need to be able to justify the acceptability of interest deductibility for tax on many footings at company level
- Now are “Times of Change” with potential unwinding of financing structures likely
- What does this mean for M&A and project valuation? How to calculate WACC?
- Uncertainties reduce willingness for intercompany debt, but remains a key tool in global cash pooling!
- FX and cash flow practicalities
- Distributable profits implications
- Treasury/Tax documentation is critical



Takeaways



Takeaways

- ✓ Tax and Treasury functions need to work together closely to react to tax changes
- ✓ Changes to tax legislation will result in more financial uncertainty that treasury needs to manage
- ✓ Put in place a pragmatic and practical process to manage these risks
- ✓ Consider use of technology

Thank You

Peter Mason

Group Tax Director

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The panel

Chair

James Lockyer

Development Director, **ACT**

Speakers

Peter Mason

Group Tax Director, **IMI**

Divya Ramaswamy

Senior Solutions Consultant, **Thomson Reuters**



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Chair's closing remarks

James Lockyer

Development Director

ACT





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FORTHCOMING EVENTS



ACT webinar: case studies on FX risk management

16 July 2015 | 12.30-13.15 BST

ACT Asia Conference

02 September 2015 | Hong Kong

ACT Working Capital Conference

15 September 2015 | London

ACT Corporate Funding Conference

28 October 2015 | London

ACT Annual Dinner

11 November 2015 | London


ACT Middle East Annual Conference

23-24 November 2015 | Dubai



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