

## Changing international business processes – think about tax in time

Businesses continuously change their business processes. Think of procurement, R&D, manufacturing, supply of services, group services departments, sales and finance. The reason for change can be achieving cost savings but also improving the speed of responses to market developments or improving the quality of products and services, or improving control over business processes. Increased use of the Internet implies a need to change the ways of doing business but also creates new opportunities. Often, significant improvements can be achieved through centralization of functions. Sometimes a company may feel compelled to acquire a major client, competitor or supplier and then the new business must be integrated into the existing one.

Is it possible to implement a much needed change of business processes while at the same time benefiting from opportunities in the tax area and making sure that the group remains compliant with all tax rules?

### A three step process to create tax wise favorable new business processes

#### 1. Fact finding

Who performs which activities and who makes which decisions? Where do, as per the contracts that are in force, the business risks such as stock risk and credit risk reside and who controls those risks? What goods flows and invoicing flows exist between which companies? Who decides which prices the company pays on its sourcing markets, or charges for its products or services, respectively? A fact finding exercise into these and other aspects of the existing situation and the intended future set-up is necessary for the preparation of an effective change plan.

#### 2. Develop a plan

This phase is about aligning the business objectives and the tax considerations while at the same time developing savings opportunities. On the basis of the results of the fact finding exercise, the desirable business process changes and the tax and transfer pricing rules applying in the countries involved, a step plan is created. Such plan lists the changes that need to be made for business and tax reasons to the activities patterns of group companies and to the roles of the group's managers, specialist staff and other employees. The order in which the steps are to be made is also listed. One example of a step plan is the situation where step by step the sales activities of a group are centralized in one location, having, e.g., the effect that the key decision makers with sales responsibility are to move to such central location. When drafting the plan it will be established whether intangible group assets such as specialist technical knowhow or goodwill, or other assets, have to be moved from the current owner within the group to another group entity. In case such asset transfer is desirable, the question must be addressed whether the transferor company owes 'exit tax' to the Revenue authorities of its home country.

### 3. Implementing the plan

The envisaged savings and other benefits that are described in the plan can only be effectively enjoyed after careful execution of each of the steps listed in the plan. It takes time to effect organizational changes and managers and other personnel may resist change. Implementation includes, e.g., that communication and reporting patterns will change. IT-systems will need to be adapted to the new requirements. Maybe some new (taxpaying) companies will have to be created, or some existing companies will have to obtain taxpayer registration in new countries. As the actual taxation in the countries concerned of the companies involved in the process depends on the actual fact patterns, it is important to monitor that the post implementation facts are in accordance with the plan.

#### **Meijburg & Co**

Meijburg & Co shall be happy to assist you when your company is contemplating business process changes. We can help in the earliest stages of developing plans until the final stage of monitoring whether the change has been effected in accordance with the original plan. In these projects, Meijburg & Co can, if desired, work on a turnkey basis and in a multidisciplinary way. We have specialist knowledge in all Dutch tax areas and can involve foreign KPMG tax and transfer pricing experts and coordinate and supervise their work on a change project. If you wish, we can involve KPMG consultants who can help designing new organizational structures, adjusting IT systems or render other services needed for business process changes.

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