Financial and Tax Strategies Internationally

International taxation deals with the rules applicable to cross-border transactions in various tax jurisdictions. Planning international tax structure combines these transactions into the most efficient. Planning strategies optimize income after tax and the capital flows of the transaction as it moves from the host to the national jurisdiction. The main objective of international tax planning is to minimize or defer global taxes legally to achieve the objectives business objectives as well as other objectives because of such transactions.

Strategies are generally taken based on factors such as the business viability, resource availability, market access and potential for market. Other persuasive factors include political and economic stability, government grants and incentives, geographic location, infrastructure of business, availability of a skilled and low-cost labor force, currency strong, etc.

The analysis of a financial situation or strategy to ensure that all factors work together to enable you to pay the least amount of taxes possible is known as tax planning. A tax-efficient plan is one that reduces the amount of money you spend on taxes. To reduce the group's tax burden, international businesses employ several tax planning techniques, some of which are briefly discussed below:

Strategies Commonly used in Planning International Tax

Offshore holding companies

In the context of a group of international companies, the parent company may choose to establish an offshore holding company to own of subsidiaries abroad. The holding company may be in any of several jurisdictions, such as: The Netherlands, Switzerland, Luxembourg, or Denmark, which grant special tax privileges to holding companies. An offshore holding company can provide some or all the following tax benefits:

- Reduced tax withholding.

- Tax-deferred dividends.

- Foreign Tax Combination.

- Capital gains tax deferral.

Holding companies with offshore licenses and patents

Royalties paid under license for patents and other rights intangibles can be effectively protected from taxation using a company with offshore license.

For example, the owner of a patent may create a partnership with offshore license and assign the patent to the offshore company, with the intention that the offshore company grant the license on the rights of the patent to a foreign subsidiary. By getting royalties paid to the company that is licensed in a tax haven, profits can be diverted from the foreign subsidiary to the offshore company that owns the patent that pays little or no tax on royalties received. the rent of other intangible rights, such as trademarks, intellectual property, know-how and franchise rights, may be accrued without incurring in withholding tax or income tax, if a company is established in a tax haven to sublicense to other companies in various countries.

Offshore financial companies

A multinational group can use an offshore financial company to channel loans to a foreign subsidiary. Directing interests towards the offshore financial company, the profits can indeed be diverted from the foreign subsidiary to the offshore company, which pays little or no tax on interest received.

Tax advantages arise from the ability to provide financing to companies of a group, through debt, and not equity. So, well:

- interest costs are claimed as a deductible expense of tax against profits subject to high taxes in the country host, and

- income from interest is received with a withholding of low or no tax and accumulates in a jurisdiction free of tax or low tax.

Offshore trading companies

Exploiting price differences is a very useful money-saving technique tax. A common example of this technique is an export company located in a high tax jurisdiction that sells its products at a relatively low profit margin, to a subsidiary operating in a fiscal paradise. The subsidiary then resells the products at a higher price, thereby trapping tax-free earnings in the tax haven.

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Group Administration Office or Coordination Center

Several countries offer special tax concessions for offices of group management. An administration office is generally based in a country other than that of the parent company or operating company. The mail roll is to coordinate the international or regional activities of part or all the group companies and provide them with centralized support services. The examples of centralized support services include:

- Administrative services, such as planning, coordination, supervision, budgetary control, financial or accounting services, and computerized services.

- Assistance and services in the field of production, purchase, distribution, and marketing.

- Services such as recruitment and training.

Manufacturing in a tax haven

Tax havens can be used as actual manufacturing centers. If local conditions are favorable for a certain manufacturing operation, you can establish a plant in a tax shelter to manufacture and sell or rent their products to the parent company without tax liability. The temporary exemption of taxes, capital concessions and loan facilities on conditions dealerships in countries that otherwise have high taxes may also be attractive.

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