Treasury Tax Services

The need to more efficiently and cost-effectively fund operations, manage liquidity, and hedge risks across large, multinational organizations has never been greater. This need comes at a time when enhanced banking and financial oversight mandates that even many ordinary funding and hedging transactions be closely examined within organizations.

As treasury departments across all industries have responded to today's market conditions by investing in treasury management systems and supporting technology, and to continued growth and transformation, the tax landscape—which has included major U.S. tax reform legislation—has shifted dramatically, revealing new challenges and opportunities.

Whether supporting a global treasury transformation, responding to evolving tax regulations and increased scrutiny by tax administrations across the globe, or just managing the numerous and complex tax implications associated with day-to-day treasury transactions, KPMG LLP's (KPMG) multidisciplinary Treasury Tax Services team can help your tax function add significant value when navigating these complex matters.

How KPMG can help

KPMG has a team of professionals that have extensive experience providing Treasury Tax Services. These services can help you in achieving the following potential results:

ETR benefits. We provide tax planning advice to help identify effective tax rate benefits from tax-efficient structures, whether highly localized, regional, or global, taking into account the numerous and complex operational and financial accounting considerations associated with a treasury restructuring initiative.

Customized transactional tax planning. Even if you are not contemplating a full-scale restructuring of your treasury function, our experience indicates that many companies are not realizing the full range of tax savings/efficiencies that may be available within their current model. A current-state assessment tailored to your company's present needs can allow us to identify potential areas of improvement.

Communication and integration. We can help you develop and implement processes and procedures to enhance the communication and transparency between your organization's treasury department and the tax, accounting, regulatory, and risk management departments.

Mitigation of tax friction and risk. In some cases, the nature of changes to your organization's treasury function or ordinary course transactions will be entirely or primarily dictated by the organization's operational goals, needs, and constraints. Our experience allows us to work with you to identify approaches to mitigate associated incremental tax cost and tax risk. We will work with you to assess the relevant tax and transfer pricing considerations and put in place the supporting policies and documentation that will be required by various tax authorities.

Why now?

- Major recent tax legislation, commonly referred to as the Tax Cuts and Jobs Act (TCJA), represents a sea change in the way the United States taxes cross-border transactions.
  - While the corporate tax rate has decreased significantly, transactions previously benefiting from deferred taxation may now be subject to current U.S. tax, including in-country lending. Deductible outflows from the United States to related parties may also be subject to an additional layer of tax.
  - U.S. taxpayers are subject to a one-time tax on foreign earnings and profits, which may require foreign cash to be repatriated back to the United States to pay the liability while future repatriated earnings and profits may benefit from a tax-free participation regime. Earnings and profits from nondollar subsidiaries that are subject to the one-time tax may incur additional taxes with respect to exchange rate movement related to such earnings.
  - TCJA also imposes stricter rules limiting the deductibility of interest expense and use of hybrid instruments. In addition to the legislative changes, on the regulatory front, a number of final and proposed regulations have been promulgated that impact how to manage foreign currency transactions in a tax-efficient manner. The IRS has also released new and expanded forms that require increased transparency and reporting of currency transactions.
- Currency volatility has created new challenges and opportunities for the treasury function with an overall increased focus on analysis, execution, and oversight around short- and long-term liquidity planning and foreign currency exchange risk management, along with rate arbitrage scenarios, placing the treasury department front and center within the overall corporate organization.
- An uptick in adoption of state-of-the-art treasury software and cash management systems is spurring transformation and modernization, along with an increasingly competitive market for sourcing and retaining treasury talent to align with leading industry practices.
- Fundamental changes to the derivatives markets, caused by the Dodd-Frank Wall Street Reform and Consumer Protection Act and similar reform efforts abroad, are driving changes to the types and terms of commonly used derivative products and the regulatory and tax treatment of such products.
- Substantial changes to the rules relating to the tax accounting, withholding, and sourcing for various payments on derivative instruments have occurred.
- Numerous IRS practice units (International Practice Service Transaction Units) have been published focusing entirely on U.S. tax issues central to ordinary-course treasury activities and transactions.
- The Organisation for Economic Co-operation and Development's (OECD) Base Erosion and Profit Shifting (BEPS) actions that touch on issues central to the activities of the modern treasury function (e.g., redefinition of permanent establishment concept, new transfer pricing guidelines, country-by-country reporting, and hybrid financial instruments) have been or will be finalized in the near term and are anticipated to result in local jurisdictions adopting reform packages. Tax authorities are focused on key people functions, where and how value is created, and proper remuneration of that value.
  - As part of the BEPS Actions 8–10, *Aligning Transfer Pricing Outcomes with Value Creation*, the OECD released on July 3, 2018, *Public Discussion Draft on Financial Transactions*. In this discussion draft, the OECD provides detailed guidance in a "grey area" that will have a significant impact on the practices of many local tax authorities. While a nonconsensus document, the discussion draft focused on transfer pricing considerations on intercompany loans, guarantees, cash pooling, hedging, and captive insurance.

A tailored, cross-disciplinary, and global approach

KPMG's professionals regularly assist clients with the domestic and international tax implications of treasury operations. These clients represent a broad cross-section of industries, including manufacturing and distribution, retail, entertainment, oil and gas, power and energy, software and technology, biotech and pharmaceutical, financial services (e.g., banks, asset managers, insurance companies, and specialty finance companies), and hospitality.

Our Treasury Tax Services team includes senior leaders from KPMG's Washington National Tax and Transfer Pricing practices and individuals who have held significant positions with the IRS or U.S. Treasury Department and within the tax or treasury departments of companies with sophisticated global treasury operations.

KPMG's team uses an approach tailored to your specific needs to quickly and efficiently deliver tangible results by leveraging a network of resources and knowledge, including teaming with:

— KPMG's Advisory professionals, with decades of experience in establishing, growing, and transforming treasury functions, to share leading practices, review vendor and service provider product offerings (e.g., treasury management software systems, cash management and pooling arrangements, etc.), benchmark current-state operating models, and assist with treasury transformation, including design, establishment, and operation of treasury centers providing financing, cash management, and risk management services to affiliates.

— Tax and Advisory professionals in KPMG International member firms with vast experience regarding the taxation of cross-border finance, risk management, and intercompany services arrangements, applicable indirect taxes (e.g., VAT, excise, capital, stamp, etc.), treaty qualification, negotiation of advance pricing agreements, and tax rulings with local tax authorities as well as operational and other nontax considerations specific to their jurisdictions.

— Your organization's internal/external legal counsel to help implement effective tax planning.

Success stories

— **Global funding/treasury centers.** We have assisted many global companies seeking to restructure historically decentralized external funding models. Our cross-functional approach often involves KPMG's Advisory professionals and Tax professionals, including those who focus on withholding, indirect/VAT, and other relevant nonincome taxes as well as transfer pricing, working with clients' treasury, accounting, legal, and tax functions. In many cases, these efforts resulted in the establishment of new global/regional treasury centers.

— **Cash management planning.** Leveraging professionals from KPMG International's global network of member firms, we have assisted clients with establishing cash management systems ranging from off-the-shelf physical and notional cash-pooling arrangements to bespoke internal cash management approaches that permit clients to manage cash effectively across global operations, reduce external funding costs, and manage foreign currency exposures.

— **Hedging programs.** Working with the numerous client stakeholders directly and indirectly affected by corporate hedging programs (e.g., treasury, risk management, accounting, tax, and legal), we have helped clients design, establish, and operate numerous hedging programs. These programs ranged from managing a single risk within a region to global, dynamic, aggregate hedging models that leverage internal netting and affiliate risk-shifting transactions. Our advice has helped clients achieve their goals of reducing external hedging costs, counterparty exposure, and tax risk (i.e., mitigating or eliminating unfavorable tax consequences regarding character, timing, sourcing, etc.) while balancing simplification preferences (i.e., reduction in book-tax disparities).

— **Post-M&A integration.** We have assisted many clients with integrating the funding, hedging, and risk management transactions of acquired entities. These efforts have involved facilitating discussions between the tax, accounting, and treasury teams of both organizations and identifying day-one elections, planning opportunities, and economies of scale, as well as developing efficient integration plans for day two.

Contact us

For more information on KPMG's Treasury Tax Services, contact your KPMG adviser or one of the following professionals from KPMG in the United States or a KPMG International member firm:

Kathleen Dale
KPMG in the United States
T: 202 533 4167
E: kdale@kpmg.com

Orla Gavin
KPMG in Ireland
T: +353 1 4101202
E: orla.gavin@kpmg.ie

Melissa Geiger
KPMG in the United Kingdom
T: +44 20 30784027
E: melissa.geiger@kpmg.co.uk

Jorgen Graner
KPMG in Sweden
T: +46 8 7239790
E: jorgen.graner@kpmg.se

Eugenio Graziani
KPMG in Italy
T: +39 (0) 45 8114111
E: egraziani@kpmg.it

Yaron Katz
KPMG in the United States
T: 408 878 7441
E: yaronkatz@kpmg.com

Gordon Lawson
KPMG in Singapore
T: +65 621 32864
E: glawson1@kpmg.com.sg

Anders Liland
KPMG in Norway
T: +47 40 639188
E: anders.liland@kpmg.no

Burcin Nee
KPMG in the United States
T: 415 963 7073
E: bnee@kpmg.com

Curtis Ng
KPMG in China (Hong Kong)
T: +852 2 1438709
E: curtis.ng@kpmg.com

Aroen Rambhadjan
KPMG in the Netherlands
T: 212 954 1859
E: aroenrambhadjan@kpmg.com

Ole Schmidt
KPMG in Denmark
T: +45 5374 7011
E: ole.schmidt@kpmg.com

Patrick Seroin
KPMG Avocats in France
T: +33 1 55684802
E: patrickseroin1@kpmgavocats.fr

Louis Thomas
KPMG in Luxembourg
T: +352 225 1515527
E: louis.thomas@kpmg.lu

Eric Warson
KPMG in Belgium
T: +32 2 7083772
E: ericwarson@kpmg.com

Justin Weiss
KPMG in the United States
T: 949 885 5848
E: justinweiss@kpmg.com

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