

CASE STUDY

Company X is a leading bed frame manufacturer in Country X. The bed frame designs are unique and Company X has been receiving rave reviews in leading furniture magazines on both the quality and design of its bed frames (products). Company X is considering expanding its operations to Country Y this year. Company X has the following options in mind:

- ▶ Option 1 - Establish a subsidiary in Country Y who will manufacture the products under a license agreement with Company X
- ▶ Option 2 - Set up a factory in Country Y and sell the products through its existing sales team in Country X
- ▶ Option 3 - Export the products to Country Y and sell the products through a sales team in Country Y. The products will be stored in a warehouse in Country Y.

REQUIREMENT:

Company X has heard of your expertise in tax matters and would like to invite you to a meeting with its Board of Directors (BOD) i.e. the panel to whom you will be presenting. You are required to make a presentation to the BOD on the tax implications arising from the above options and provide a recommendation. You may come up with your own alternative suggestion/recommendation and highlight any relevant commercial issues.

Note that Country Y is a new market with high growth potential but the legal and tax systems are still developing.

N.B You may assume that Country X has a double tax treaty with Country Y and that the Double Tax Agreement (DTA) is identical to the OECD Model.

As Company X intends to grow its business globally, the BOD is also interested in general tax strategies to reduce the overall tax burden and would like you to also present your comments/insights into such strategies.

The BOD has heard that many multinationals are reorganizing their financing operations by exploiting differences in tax treatment between two or more countries, wherein one country would achieve a tax deduction for the interest expense as borrower without any corresponding taxation on the interest income for

the lender. The BOD has also heard that many multinationals are reorganizing their operations by taking advantage of different DTAs.

Finally, the BOD is also looking to automate or streamline its tax compliance and reporting processes and would like you to provide a recommendation to them.