

Tax challenges for multinational enterprises

Connecting Business & Tax: Compliance Risk Mitigation and
Dispute Management

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Agenda

- Tax function in multinational enterprises: Roles, activities and stakeholders
- Tax and Business: Building tax models on changing business environments
- Main tax risks and effective tax risk management
- Case example: What to expect when facing a major tax dispute

“Tax is everywhere”

Main Focus Areas and Processes of a Tax Function

Tax planning and reporting

- Structural tax planning
- Tax reporting
- Forecasting
- Finance & treasury tax planning

Tax risk management

- Tax risk reviews and monitoring
- Decision making and mitigation planning
- Risk reporting

Transfer pricing

- TP policy and decision making
- TP setting and monitoring
- Documentation
- TP audit defense

Business & Regional tax support

- Planning and reviewing country taxes
- Tax support to countries, markets and businesses
- Tax risk monitoring
- Tax audit and litigation management
- Support global tax processes

Indirect tax planning

- Planning, policies and risk management of indirect taxes
- Support to business and other functions
- Indirect tax cash flow monitoring

Tax strategy implementation

- Project and stakeholder management for tax in planning projects
- Tax support in business projects / group transformation projects

M&A tax

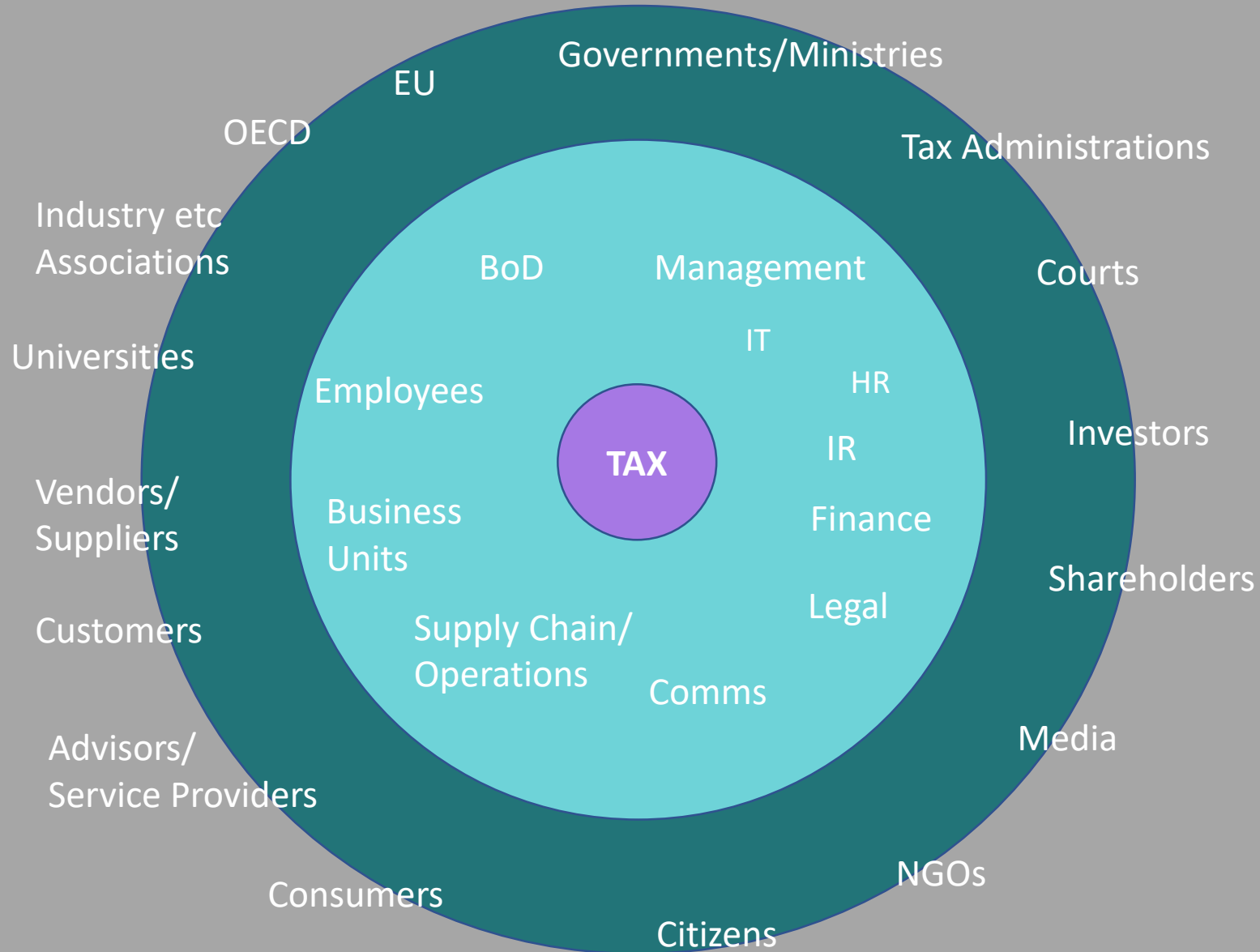
- Planning and support in external M&A and internal structurings
- TSA modeling and implementation
- Post deal support

Group functions

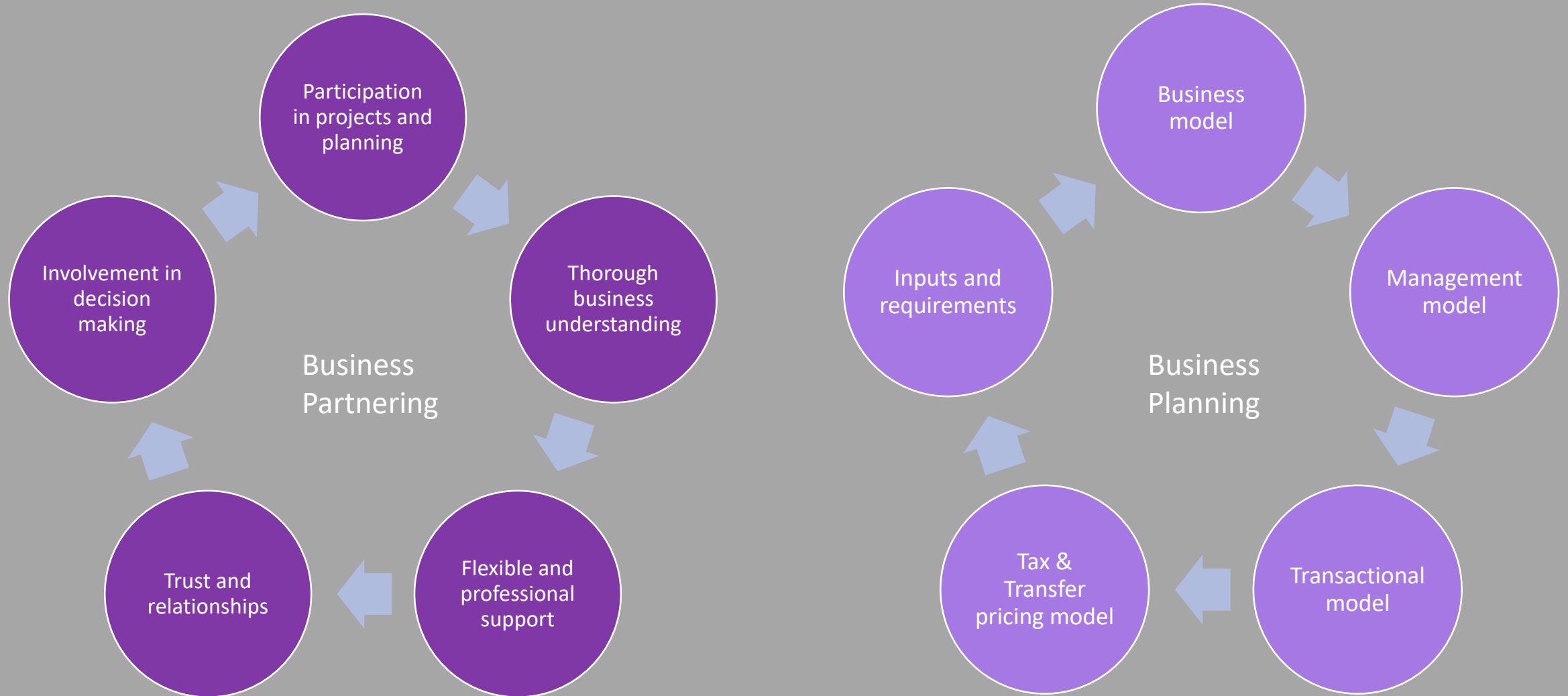
- Tax strategies and policies
- Group level tax issues
- Resource planning
- External stakeholder management
- Service vendor management

Solid business partnering

Tax Function Stakeholders



Tax and Business: Planning Feasible yet Sustainable Models



Top tax risks of a multinational group

Compliance burden:

Increased reporting requirements
Increased investment to non-value-adding tasks
Inconsistent reporting requirements in different countries

Double taxation:

Aggressive tax authorities
Inefficient dispute resolution (takes time, fails to remedy double taxation)

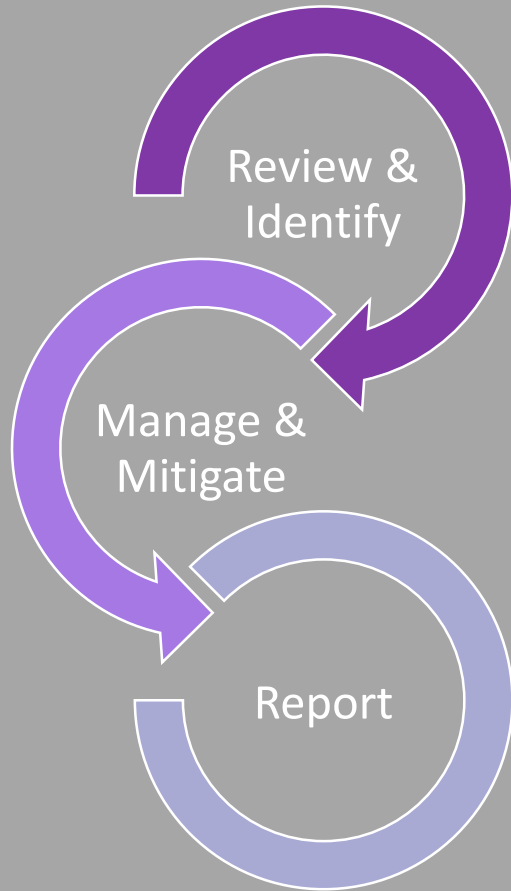
Reputational risk:

Incompetent analyses and incorrect assumptions in social media

Uncertainty:

Inconsistent legislation changes
Aggressive tax disputes

Tax Risk Management Process



Tax planning & Guidance

Business & Operational Insight

Clear roles & responsibilities

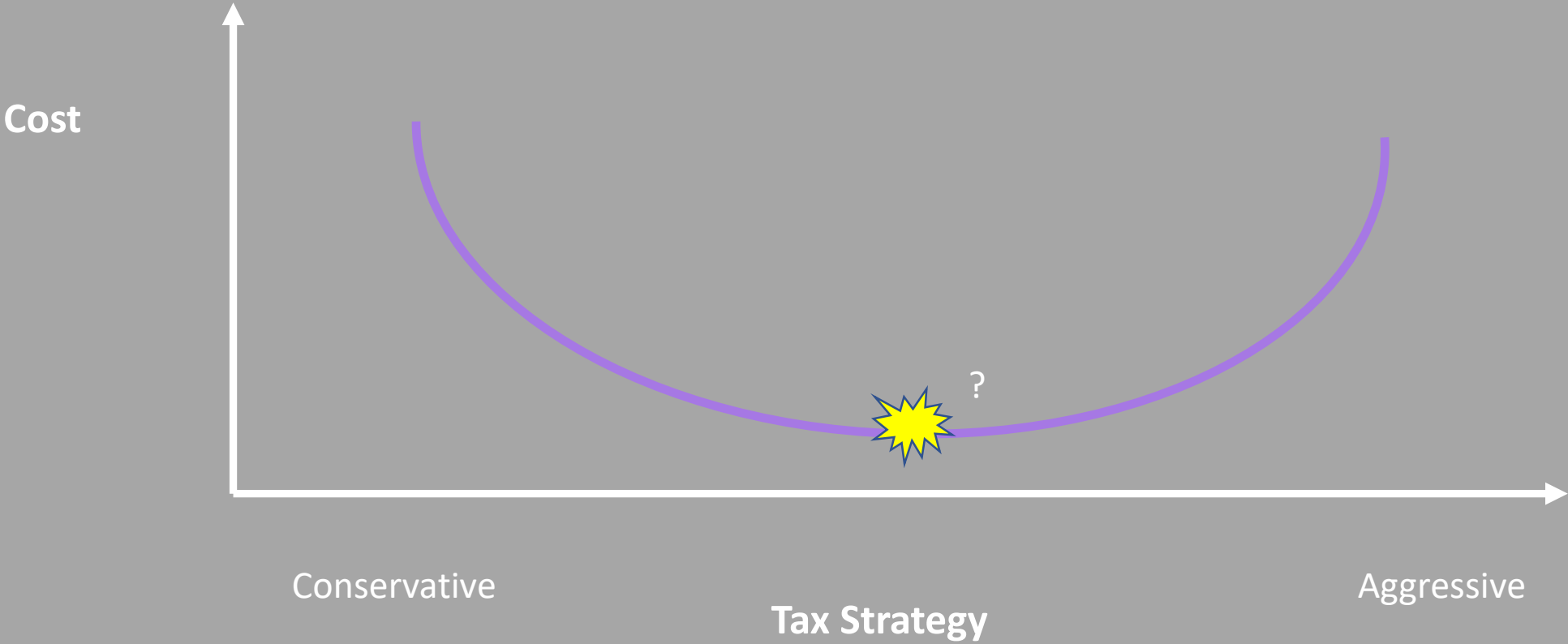
Adequate Controls

Documentation

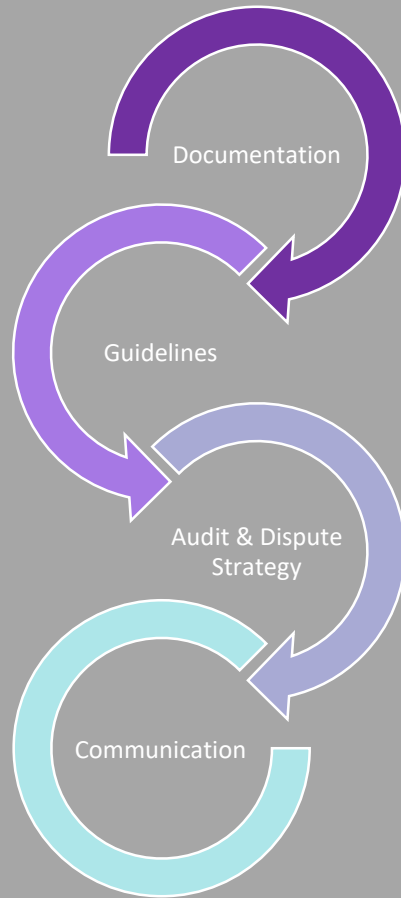
Monitor & Improve

**Business intimacy is
key in tax risk
management**

Tax Risk Positioning



Tax Audit and Dispute Management



Documentation preparation – Ensure correct facts

Clear guidance to teams – Roles and responsibilities

Agree on strategy incl. process options and use of external advisors

Close follow-up of process

Communication internally and externally

Risk accounting

Fictitious Case Example: Tax Audit in Finco Absurdistan CJSC

- Finco Absurdistan CJSC (FAC) is an Absurdistanian subsidiary of a Finnish multinational group, Finco Oyj (turnover 4 BEUR)
 - Absurdistan is a middle sized country in Eurasia, with a tax treaty with Finland
- FAC develops, manufactures and sells gadgets based on Absurdistan originated IP
- FAC has not been integrated to the rest of Finco Group's business model due to the management's long stemming plan to sell the business
- FAC has not been profit-making in the last years, its equity is negative and is financed by the group. It's turnover is 50 MEUR a year
- FAC is regarded as an entrepreneur for transfer pricing purposes, selling to external customers and group entities
- FAC owns its IP which 10 years ago was top notch in its field and was a national pride to the Absurdistanian government
- Absurdistanian treasury coffer is alarmingly emptying up and the Finance ministry has asked Tax administration to help out
- At 4 am one morning, the Finco tax director's phone rings: there has been a raid in the offices of FAC and tax auditors demand a 100 MEUR additional tax payment due to transfer pricing adjustments...

Case Continues

- The Absurdistanian tax office has sent FAC an initial tax audit report, based on which:
 - Because foreign owned group companies are not allowed to make losses in Absurdistan, the company is recharacterized as a limited risk distributor, contract manufacturer and contract R&D service provider
 - Tax office has performed benchmark studies and due to the fact the technology of FAC is regarded as very high value and is famous in Absurdistan, upper quartile of the arm's length range has been applied (ROS 15% on sales, cost plus 30% for R&D and cost plus 40% for contract manufacturing)
 - In addition, the tax office regards that due to carrying marketing costs locally which have contributed to a loss, auditors require a marketing intangible buy-out to be taxed in Absurdistan
 - Tax auditors found a news article in the Internet saying that Finco Group has opened new R&D centers in Poland and China for its main technologies. As at the same time, the volume in the Absurdistanian R&D center has decreased, the tax office regards the R&D activity having been transferred to these countries, and requires a buy-out payment
 - As the group has obviously intendedly avoided Absurdistanian taxation, it is accused of tax fraud, with 200% penalty on additional tax and potential criminal actions against Directors of FAC
- However, later a member of the tax audit team calls local CFO mentioning that if FAC makes a 500 kEUR payment to the state and 10k apiece to the audit team members, the case would go away...

Case Example – Taking case forward

- How would you comment the tax audit findings?
- What is your reaction to the call?
- What claims to make in the response letter to the audit report?
- What are the next steps in the dispute process and what points to take into account?