

Fiscal Incentives, Corporate Structure and Financial Aspects of Treasury Management Operations

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Management Operations

- Paper examines aspects of the international legal structure of MNCs
- The use of tax havens is examined using a data base of all Irish registered companies
- Paper argues fiscal incentives have a considerable effect on the legal structure of MNCs and also on their financial behaviour for example the use of 'profit switching transfer pricing'

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- Some Data
- Total stock of foreign investment in Ireland in 2001 €842 billion 8 times the size of GDP
- €842 billion is made up of 602 billion in the Irish Financial Services Centre and foreign direct investment €98.3 billion
- In 2002 the largest source of foreign direct investment into Ireland came from the Netherlands (€10.7 billion) followed by the US (€7.8 billion)
- Paper helps 'explain' these numbers

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- How companies react to tax rates is complex
- General agreement that tax incentives are of little value except in 'special situations'
- However we argue that organisational form and firm financial behaviour is responsive to incentives

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- - Table (1)
 - The Total Population of Registered Companies
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- Companies in ICC data base (February 2004) 167,000
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- Number of registered companies in Companies Registration Office (CRO) data base (2002) 154,000
- Data Source: ICC <http://www.iccinformation.ie>

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- Table (2)
 - Use of Tax Havens by Total Population¹
 - | Ultimate parent | example companies | Parent Company | example Companies |
|------------------------|-------------------|----------------|--------------------------------------|
| Bahamas | 15 | 27 | |
| Bermuda | 103 | 82 | Cisco, Fulflex, GulfOil |
| British Virgin Islands | 115 | 128 | Alumina |
| Cayman Islands | 26 | 465 | Alcatel, De Beers, Jefferson Smurfit |

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- Table (3)

- Number of financial firms with Parent or Ultimate parent located in a 'Tax Haven'¹

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	Ultimate parent	Parent Company
• Bahamas	(0)	2 (0)
• Bermuda	6 (5)	10 (5)
• British Virgin Islands	3 (1)	2 (2)
• Cayman Islands	4 (2)	5 (3)

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- 3324 external companies –companies incorporated abroad but operating as a branch
- 136 external companies are incorporated in the Netherlands examples Dell, IBM, Intel, Microsoft, Wang, Marriot Hotels may explain why most FdI is from the Netherlands
- Complex legal and tax structures require expertise. Over half firms with ultimate parent in tax haven are audited by one of the big four; 9 out of 10 financial firms

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• Table (6)

• Summary Features of Firms with Treasury Type Operations IFSC Location (31 firms)

• % in category

	0%	1-5%	6-29%	30-59%	>60%
• Profit/Revenues	17	3	7	17	57
• Intra-group/Gross assets	13	3	10	13	58
• Number of employees ¹	0	1-5	6-29	30-59	>60
•	63	13	17	3	0

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• Table (8)

• Summary Features of All Firms with Treasury Type Operations (40 firms)

• % in category

	0%	1-5%	6-29%	30-59%	>60%
• Profit/Revenues	16	3	16	18	47
• Intra-group/Gross assets	12	3	10	15	60
• Number of employees ¹	0	1-5	6-29	30-59	>60
•	59	13	23	3	0

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- Conclusions
- Paper has shown extensive use of 'tax haven' as part of corporate organisational structure
- Paper shows typical 'tax haven' type features of treasury type operations located in Ireland
- Low or zero employees, high ratios of profits to sales, high ratio of intra-group assets or liabilities to total assets, and large gross assets.
- Loss of source country tax revenue means IFSC type activities are under threat