European Restructuring Case Study
Global Manufacturing Company

Situation

- The profitable operating companies in Europe are paying $ 20 M in local corporate income tax annually, thus driving up the global effective tax rate.
- Loss-making companies in Europe are suffering expiration of significant tax loss carry-forwards without utilization.
- Current top-tier holding company for Europe is tax inefficient
  5% dividend withholding tax to USA
  Capital gains tax on sale of shares of portfolio companies.

Actions Taken: Strategic Tax Plan: European Restructuring in Operationally Transparent Manner

Rebalance Global Related Party Debt: $ 500 M

- Leverage up the profitable operating companies pursuant to documented business purpose, while remaining within the thin capitalization limits.
- Leverage down loss companies using related party capital transactions that shift loan proceeds to them necessary to pay down existing debt of $ 500 M.

Techniques included:

- Formation of tax-efficient European holding companies.
- Reorganizations under EU Directives and tax treaties.
- Tax-efficient use of hybrid entities to avoid adverse US tax consequences.
- Creation of local fiscal unity to offset profits of operating companies.
- Cross border capital transactions, to wit: stock sales, capital infusions, capital reductions, recapitalization, spin-off, de-merger and dividends to finance the increased leverage.
- Transfer pricing.

Results:

- Global annual cash tax savings in profitable companies: $ 15-20 M
- Improve thin cap position of loss companies.
- Accelerate utilization of tax loss carry-forwards prior to expiration.
- Tax-efficient top tier Dutch holding company structure
- Zero % dividend withholding tax to USA
  No capital gains tax on sale of shares of portfolio companies.