BRING IT ON HOME – HOLDING COMPANIES & REPATRIATION STRATEGIES
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James Stanley (USA), Romain Tiffon (Luxembourg), Marc Sanders (Netherlands), Albert Collado (Spain), Stephanie Eichenberger (Switzerland)

The US Tax Cuts Act as well as changes around the globe have introduced significant changes to the taxation of foreign subsidiaries and repatriation of foreign earnings. This panel uses case study examples to focus specifically on holding company structuring and repatriation strategies for both US and foreign MNEs with foreign operations.
OVERVIEW OF VARIOUS JURISDICTIONS & RELEVANT TAX CONSIDERATIONS
New reduced US corporate income tax rate for US multinational groups – **21%**

New modified territorial tax system (elements of a world wide tax system remain)

New participation exemption on distributions from CFCs to US corporate parent – **100%** DRD for foreign dividends

New modified interest expense limitation – deduction for net interest of **30%** of ‘Adjusted Taxable Income’ (roughly EBITDA) for tax years 2018 through 2021

- More restrictive limitation of **30%** of ‘Adjusted Taxable Income’ (roughly EBIT) for tax years starting in 2022
Expansive new category of CFC earnings (GILTI) taxed at a reduced effective rate

Generally no entity substance requirements, but transactions must have ‘economic substance’

Foreign derived intangible income (FDII) – US companies that earn income from selling or licensing property to foreign users, or from providing services to foreign persons, are provided with a 37.5% deduction, leading to an ETR on such income of 13.125%.
THE NETHERLANDS (1/2)

- Full participation exemption, no holding period
- Domestic exemption from dividend withholding tax
- Reduction of withholding tax to NL HoldCo through treaties or EU directives
- No capital tax or stamp duty
- No royalty or interest withholding tax
- APA/ATR practise
THE NETHERLANDS (2/2)

- Current vision Dutch government:
  - Attractive investment climate for ‘real investments’
  - Protect reputation and not be seen as a ‘tax haven’.
- EU ATAD directives and blacklist will become important
- Current and proposed dividend withholding tax rules

2018 – 2020

- Impact of multilateral instrument
- Substance requirements.
SWITZERLAND (1/2)

- Participation exemption on qualifying dividends and capital gains
  - **Dividends** – at least 10% capital quota or CHF 1m FMV of holding
  - **Capital gains** – at least 10% capital quota and one-year holding period

- Holding company taxation (regime to be abolished by 12/31/19 or 12/31/20) with ETR of 7.83% on interest and other income

- Low ordinary tax rate depending on location (ETR of 12%)
SWITZERLAND (2/2)

- Tax credit for foreign withholding tax on dividends, interest and royalties
- Exemption of foreign PEs and foreign real estate
- Wide treaty network (>100 income tax treaties)
- No withholding tax on interest (thin capitalization rules) or royalties
- Withholding tax on dividends **35%** (relief based on tax treaty)
- Voluntary registration as VAT payer with input tax deduction on administration cost.
ETVE regime (‘Entidad de Tenencia de Valores Extranjeros’) created in 1996 and broadly used by MNEs (100 out of the top 500 MNEs)

ETVE regime main features:
- Participation exemption on dividends and capital gains for qualifying holdings:
  - At least 5% holding or € 20 Mio acquisition value of the participation
  - One year holding period
- No withholding tax on distribution of profits of non-Spanish subsidiaries to nonresident shareholders (not tax-resident in a black-listed country)
- Foreign subsidiaries subject to and not exempt from a CIT of identical or analogous nature of Spanish CIT (1)

(1) Minimum nominal tax of 10% (deemed to be accomplished if resident in a DTT country)
ETVE formal (registered securities, corporate purpose, communication to tax authorities…) and substance requirements (administrative doctrine)

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<th>INCOME</th>
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<td></td>
<td>Dividends</td>
<td>Interest</td>
<td>Shares</td>
<td>Receivables</td>
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<td><strong>General principle</strong></td>
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<tr>
<td><strong>Exemptions</strong></td>
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<td>Full exemption</td>
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<td></td>
<td>Full exemption</td>
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<td><strong>GAAR</strong></td>
<td>Yes (specific)</td>
<td>Yes (general)</td>
<td>Yes (general)</td>
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## LuxembourG Taxation of Cash Repatriation

<table>
<thead>
<tr>
<th></th>
<th>Dividends</th>
<th>Interest</th>
<th>Liquidation Proceeds</th>
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<tr>
<td><strong>Principle</strong></td>
<td>15% Withholding tax</td>
<td>No withholding tax</td>
<td>No withholding tax</td>
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<tr>
<td><strong>Exemptions</strong></td>
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<td>N/A</td>
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<tr>
<td><strong>GAAR</strong></td>
<td>Yes (specific)</td>
<td>Yes (general)</td>
<td>N/A</td>
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<tr>
<td><strong>Points of attention</strong></td>
<td>None</td>
<td>Withholding tax if (i) not arm’s length, (ii) debt-to-equity ratio not met or (iii) certain profit participating bonds</td>
<td>Partial liquidation proceeds debate</td>
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</table>
UNITED STATES
US HOLDCO STRUCTURE – EXAMPLE 1

- US consolidated group with CFCs electing to be transparent for US purposes – all income taxed at **21%** in US
- All IP located in US
- Increased interest expense limitation in the US by checking open CFCs – taking their EBITDA into account in the US
- Foreign taxes paid in foreign jurisdictions should result in FTCs available for use in the US, subject to applicable limitations
- If the foreign group is acquired in a deal, 338(g) election (deemed asset purchase) made with full step up in tax basis of assets – D&A in US providing tax shield
- No GILTI or subpart F income
- Remittance of cash to the US results in no US tax; DTTs among foreign entities should provide for efficient movement of cash to US
- Income derived from selling or licensing of property, or providing services from the US to foreign persons taxed at **13.125%**.
US HOLDCO STRUCTURE – EXAMPLE 2

- US consolidated group with CFCs checked open into the Cayman – Cayman acting as principal
- RoW and perhaps North American IP residing in Cayman
- Netherlands, Germany, and UK compensated on cost plus arrangement
- Interest expense limitation in US driven off of US consolidated group Adjusted Taxable Income (but including GILTI)
- CFC taxes creditable against subpart F or GILTI
- If acquisition of the foreign group under Cayman, 338(g) election (deemed asset purchase) made with full step up in tax basis of assets – D&A to reduce E&P of foreign entities; step-up reduces GILTI
- GILTI on foreign earnings net of 10% return on tangible assets – 10.5%
- Participation exemption on distribution of foreign earnings back to US
- Subpart F exposure needs to be managed.
DUTCH HOLDCO STRUCTURE

- China
- US
- Luxembourg
- Bahamas

- NL
- Spain
- Namibia

Swiss PE
SWITZERLAND HOLDCO STRUCTURE

Key:
- Red: Interest
- Blue: Dividends
- Yellow: Capital gain

Holding Switzerland

CIT 7.83%/12%

Participation exemption

Exemption from Swiss taxation

Subsidiary US
Subsidiary Bermudas
Subsidiary Spain

Tax credit on withholding tax
SWITZERLAND – DISTRIBUTION BY HOLDING

**Key:**  
- **Interest**  
- **Dividends**  
- **Capital gain**

- **Holding US**  
  - No withholding tax

- **Holding Switzerland**  
  - No taxation in Switzerland (except real estate companies)

- **Top Holding US**  
  - Withholding tax relief from 35% to 0%

- **Intermediary Holding Netherlands**  
  - Withholding tax relief from 35% to 0%

- **Holding Switzerland**  
  - Withholding tax relief depending on fund investors (LOB)

- **Holding US**

- **Fund Offshore**  
  - Withholding tax relief depending on fund investors (LOB)
SPANISH HOLDCO STRUCTURE
(ETVE – SAMPLE CASE)
STRUCTURING INVESTMENTS THROUGH A SPANISH HOLDING STRUCTURE (ETVE – SAMPLE CASE – CRITICAL ISSUES)

- Tax treatment of profit distributions to different types of shareholders – the non-residence test
- Type of activity performed in connection with Foreign Subs. and substance requirements of the ETVE
- Financing acquisitions of Foreign Subs. via external debt. Impact of interest expense in ETVE structures:
  - Attribution of the debt to specific/general assets
  - Anti-abuse provisions related to the use of debt to acquire participations to related parties (targeted)
  - General limitations on the deduction of interest expense (30% EBITDA)
STRUCTURING INVESTMENTS THROUGH A SPANISH HOLDING STRUCTURE
(ETVE – SAMPLE CASE – CRITICAL ISSUES)

Distribution of profits from foreign/Spanish source:

**The use of double ETVE structures**

**Special rule – first distributed profit comes from exempt income from foreign participations**

Some practical considerations about the use of ETVE:

**ETVE vs. General regime vs. Holding regime basque country**

**ETVE regime vs. PS directive**

**ETVE and Spanish listed companies**
LUXEMBOURG HOLDING AND FINANCING IN PRACTICE

Offshore fund

DTT partner qualifying company

EU qualifying shareholder 1

EU qualifying shareholder 2

Luxembourg fully taxable holding company

Bermuda company

EU qualifying company 1

EU qualifying company 2

DTT partner qualifying company

Dividends: 15% on WHT
Interest: 0% on WHT

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Interest: 0% on WHT

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Interest: 0% on WHT

Dividends: 15% on WHT
Interest: 0% on WHT

Dividends: Exempt
Capital gains: Exempt
Interest: Fully taxable

Dividends: 50% Exempt
Capital gains: Fully taxable
Interest: Fully taxable

Dividends: Exempt
Capital gains: Exempt
Interest: Fully taxable

Dividends: Fully taxable
Capital gains: Fully taxable
Interest: Fully taxable

Dividends: >10% or >€1.2m

Dividends: >10% or >€1.2m

Dividends: >10% or >€1.2m

Dividends: <10% and <€1.2m

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Interest: 0% on WHT

Dividends: 15% on WHT
Interest: 0% on WHT
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