Fiscal Incentives, Corporate Structure and Financial Aspects of Treasury Management Operations
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- Paper examines aspects of the international legal structure of MNCs
- The use of tax havens is examined using a database 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
  - Companies in ICC data base (February 2004) 167,000
  - Number of registered companies in Companies Registration Office (CRO) data base (2002) 154,000
  - Data Source: ICC [http://www.iccinformation.ie](http://www.iccinformation.ie)

- Table (2)
  - Use of Tax Havens by Total Population
    - Ultimate parent example companies
    - Parent Company example Companies
    - Bahamas 15 27
      - Bermuda 103 Tyco (Brangate) 82 Cisco, Pel-Flex, Gulf Oil
      - 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

<table>
<thead>
<tr>
<th>Ultimate parent</th>
<th>Parent Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bahamas</td>
<td>(0)</td>
</tr>
<tr>
<td>Bermuda</td>
<td>6 (5)</td>
</tr>
<tr>
<td>British Virgin Islands</td>
<td>3 (1)</td>
</tr>
<tr>
<td>Cayman Islands</td>
<td>4 (2)</td>
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</tbody>
</table>

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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

<table>
<thead>
<tr>
<th></th>
<th>0%</th>
<th>1-5%</th>
<th>6-29%</th>
<th>30-59%</th>
<th>&gt;60%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit/Revenues</td>
<td>17</td>
<td>3</td>
<td>7</td>
<td>17</td>
<td>57</td>
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<tr>
<td>Intra-group/Gross assets</td>
<td>13</td>
<td>3</td>
<td>10</td>
<td>13</td>
<td>58</td>
</tr>
<tr>
<td>Number of employees&lt;sup&gt;1&lt;/sup&gt;</td>
<td>0</td>
<td>1-5</td>
<td>6-29</td>
<td>30-59</td>
<td>&gt;60</td>
</tr>
<tr>
<td></td>
<td>63</td>
<td>13</td>
<td>17</td>
<td>3</td>
<td>0</td>
</tr>
</tbody>
</table>

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- Table (8)
- Summary Features of All Firms with Treasury Type Operations (40 firms)
  - % in category

<table>
<thead>
<tr>
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<th>6-29%</th>
<th>30-59%</th>
<th>&gt;60%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit/Revenues</td>
<td>16</td>
<td>3</td>
<td>16</td>
<td>18</td>
<td>47</td>
</tr>
<tr>
<td>Intra-group/Gross assets</td>
<td>12</td>
<td>3</td>
<td>10</td>
<td>15</td>
<td>60</td>
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<tr>
<td>Number of employees&lt;sup&gt;1&lt;/sup&gt;</td>
<td>0</td>
<td>1-5</td>
<td>6-29</td>
<td>30-59</td>
<td>&gt;60</td>
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<td></td>
<td>59</td>
<td>13</td>
<td>23</td>
<td>3</td>
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</table>
• 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