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# Centralised Entrepreneur/ Principal Tax Structures

**Comparison of popular locations for the entrepreneur/principal**

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# Preface

The last five to ten years have seen significant changes in the business models which global groups from developed economies employ. In particular, the supply chains today for many, if not most, of these global groups look totally different from those which they operated in during the previous five to ten years. The change may be attributed to "globalisation", in general; however, particular factors which have contributed to this change include the reduction in the costs of travel and transportation, as well as advancements in communications and technology.

In general, global groups from developed economies now operate some form of "centralised entrepreneur/principal" supply chain model. In its simplest forms such model generally is comprised of:

- A "central entrepreneur/principal" company
- An "IP owner" company, which in many, but not all cases, is also the "central entrepreneur/ principal" company
- "Contract or toll manufacturer" companies and
- "Commissionaire or limited risk distributor" companies

Changing from a traditional "fully-fledged manufacturer" supply chain model to a "centralised entrepreneur/principal" one involves significant operational changes, and is generally driven by business needs. However, in our experience, taking tax considerations into account from the outset, in designing the new "centralised entrepreneur/ principal" model, yields significant permanent and sustained tax savings for the global group. Those groups which followed best practice insofar as tax is concerned, when designing and implementing new supply chain models, in addition to achieving the desired business efficiencies, also obtaining permanent and sustained reductions in their respective global effective tax rates.

A key decision, which often has the biggest impact on the reduction in the global effective tax rate, or tax savings achieved, is the location of the "central entrepreneur/principal" company, which as we note above, is in many cases, also the "IP owner" company. In a typical "centralised entrepreneur/ principal" supply chain model, most of the value in the supply chain shifts to the entrepreneur/ principal; in particular, if it is also the "IP owner". Accordingly, global groups look to locate this company in a low tax, or tax advantaged jurisdiction.

In this booklet, we layout the key tax considerations for comparing between jurisdictions as locations for the "central entrepreneur/principal" company. We then summarise, against the framework we layout, the key features of selected jurisdictions in which global groups generally consider locating their "central entrepreneur/ principal" company.

# Comparison of principal structures

### Tax rate applicable to the principal/entrepreneur

| | Switzerland | Luxembourg | Netherlands | Belgium | Ireland | Singapore | Hong Kong |
|---|---|---|---|---|---|---|---|
| **Effective tax rate ("ETR") available under incentive** | • Combination of federal tax holiday, cantonal tax holiday, principal ruling and "mixed company" ruling: 3.5% to 5.0%<br>• Combination of cantonal tax holiday, principal ruling and "mixed company" ruling: 5.0% to 8.0%<br>• Combination of principal ruling and "mixed company" ruling: 5.1% to 9.2%<br>• "Mixed company" ruling only: 8.50% to 11.0% | • 3.0 to 5.0% depending on the business model (normal corporate income tax rate: 28.80% for Luxembourg city)<br>• A lower ETR may be achievable with further restructuring (e.g., leverage with debt-pushdown) | • 5.0% to 8.0%, depending on the model chosen (e.g. central entrepreneur model/CV/BV structure; informal capital approach, notional royalty approach or excess profit exemption)<br>• All models are subject to support from transfer pricing ("TP") study (normal corporate income tax rate: 25.5%, will be 25% as from 2011)<br>• A lower ETR may be achievable with further structuring | 3.0% to 9.0% ETR with tax deductions granted for "excess" accounting profits based on TP study (normal corporate income tax rate: 33.99%). Final ETR will be depending on size of new investments in Belgium or combination with Patent Income Deduction regime. | • 12.5% is the statutory rate for trading activities.<br>• A low ETR of 1% to 3% can be achievable with further structuring (e.g. through use of onshore or offshore IP regime). A deduction is available for capital expenditure on IP against up to 80.0% of trading income (generated from IP). This regime provides scope to achieve an effective tax rate of 2.5% | 0.0% to 10.0% (standard corporate income tax rate: 17.0%). | 16.5% for the principal company in HK (standard corporate income tax rate in HK). No special incentives provided to a principal company. |
| **Form of the incentive** | Low tax rate granted by the authorities (at cantonal and federal level) resulting from different measures (as described in "What is required to qualify" on page 4). | **Advance Tax Analysis ("ATA"):**<br>"Excess profits" transferred to Entrepreneur Co. ("EntCo") due to transfer of risks and functions exempted from tax through different method (depending on business model):<br>• Participation Loan ("PPL")<br>• Fiscal goodwill<br>• Intra group leveraging<br>• Tax unity<br>• Foreign branch | **Advance Pricing Arrangement ("APA"):**<br>• "Excess profits" exempted from tax (amount supported by TP study), through central entrepreneur model/CV-BV structure, central entrepreneur model/informal capital approach or notional royalty approach. Other APA is also possible to effectively exempt excess profits<br>• Intellectual property ("IP") royalty structure: tax deduction for royalty paid to IP owner in low tax jurisdiction or non taxable entity in the Netherlands<br>or<br>• Combination of both | **Tax ruling:**<br>• "Excess profits" exempted from tax (amount supported by TP study); typically exemption of 50.0% to 70.0% of EBIT of Belgian principal<br>• Can be combined with Notional Interest Deduction ("NID"), Patent Income Deduction ("PID") and leverage<br>• Potential variations with leveraged Central Entrepreneur and foreign Intellectual Property Co. ("IPCo")/legal principal | • The statutory rate for trading activities is already low (i.e., 12.5%)<br>• It is not necessary to receive an Advance Revenue Ruling<br>• Large body of Revenue precedents and case law to help determine whatever activities constitute trading activities | Concessionary tax rate awarded under specific tax incentives granted by the authorities. | Under the general HK tax law, profits tax is charged only on profits arising in or derived from Hong Kong (excluding capital gains); income derived from a source outside Hong Kong (i.e., offshore sourced income) is generally not taxable. |

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