



## U.S. Inbound Corner

July 2014

### In this issue:

Managing the “Managed and Controlled” Provisions of the Stop Corporate Inversions Act of 2014 .....	1
Impact of BEPS Hybrid Mismatch Proposals on Cross-Border Financing Arrangements and UK Response .....	3
FATCA Effective as of July 1, 2014: What Non-US Multinationals Need to Do to Comply .....	4
New Reporting Requirements for Issuers of Securities (Including Debt) under Section 6045B .....	6
Factor Presence Nexus Considerations for Inbound Companies.....	7
Calendars to Watch.....	9

---

### Managing the “Managed and Controlled” Provisions of the Stop Corporate Inversions Act of 2014

On May 20, 2014, House Ways and Means Committee Ranking Member Sander Levin (D-Mich.) introduced the “Stop Corporate Inversions Act of 2014.” Similar legislation was introduced in the Senate by Senate Permanent Subcommittee on Investigations Chairman Carl Levin (D- Mich.). Both bills would make changes to the anti-inversion rules in Internal Revenue Code section 7874.

One of the goals of the proposed legislation is to stem the tide of corporate inversion transactions involving US multinationals, in which a larger US company acquires a smaller non-US company but the legal ownership is structured so that the US company becomes a subsidiary of its non-US target. These transactions may lead to a reduction in the combined group’s overall effective tax rate by introducing tax planning opportunities that were not previously available to the US acquirer. However, the bill would go much further than existing anti-inversion rules by potentially bringing within the scope of the rules non-US based multinationals that acquire a US company or business, regardless of how small the US target may be or whether the US target was purchased for cash. Considering the retroactive effective date of taxable years ending after May 8, 2014, this proposed legislation should be considered by any non-US based companies contemplating a US acquisition.

#### The Bills

Under current law, if a foreign corporation acquires “substantially all” of the properties of a US corporation (or a US partnership in certain cases), the anti-inversion rules apply only if former shareholders of the US corporation acquire 60% or more (by vote or value) of the foreign acquirer’s stock. If the former shareholders own at least 80% of the foreign acquirer, the foreign acquirer is treated as a domestic corporation for all US federal income tax purposes. If the former shareholders own at least 60% but less than 80% of the foreign acquirer, the foreign acquirer will be treated as a foreign corporation but section 7874 restricts the use of deductions and credits to shelter “inversion gain” (or tax thereon) and may impose minimum US taxable income thresholds upon the acquired domestic entity.

The introduced bills would tighten the anti-inversion rules of section 7874 in several ways. Both would introduce the concept of an “inverted domestic corporation.” The definition of an inverted domestic corporation would generally be based on a greater-than-50%, rather than present law’s 60% (or 80%), continuity of ownership test. Importantly, an inverted domestic corporation would also include a foreign corporation making an US acquisition *regardless* of whether the

50% continuity of ownership test is met if: (i) the management and control of the foreign corporation's expanded affiliated group (EAG) occurs primarily within the United States, and (ii) the EAG has "significant domestic business activities." An EAG would have significant domestic business activities if:

- At least 25% of the employees of the group are based in the United States,
- At least 25% of the employee compensation incurred by the group is incurred with respect to employees based in the United States,
- At least 25% of the assets of the group are located in the United States, or
- At least 25% of the income of the group is derived in the United States.

The determination of significant domestic business activities would be made under rules similar to those contained within Treas. Reg. §1.7874-3T applicable to the substantial business activities exception to section 7874. It is critical to note that the significant domestic business activities threshold would be crossed if any of the assets, employees or income tests surpasses the 25% threshold.

Regulations would provide that the management and control of an EAG would be treated as occurring primarily in the United States if substantially all of the executive officers and senior management of the EAG who exercise day-to-day responsibility for making decisions involving strategic, financial and operational policies of the EAG are based or primarily located in the US.

A foreign corporation would not be treated as an inverted domestic corporation if the EAG conducts substantial business activities in the jurisdiction in which the foreign parent company is created or organized.

### Implications for Inbound Companies

Because, under the proposed legislation, a non-US company could become an inverted domestic corporation without issuing any shares in an acquisition of a US company or business, inbound companies should be aware of these proposed rules. The prospects for the ultimate passage of this legislation with a retroactive effective date are highly uncertain. However, tax executives of non-US companies may consider analyzing the potential impact of the proposed legislation if enacted and consider alerting the C-suite or other stakeholders of the possibility of falling under the proposed rules if they are eventually enacted.

To determine whether a non-US based company would become an inverted domestic company following the acquisition of a US company or business, the following should be evaluated.

**Is the EAG "managed and controlled" primarily in the United States?** – This may be a straightforward analysis where the non-US enterprise has little or no executive decision-making in the United States. However, in many cases, there may be some meaningful executive decision-making in the United States. Presently, there is no clear guidance on who might constitute senior management for purposes of this test. Also, what constitutes "substantially all" of the management of the group is not defined. Finally, the proposed legislation does not define what it means to be "primarily" located in the United States. Given the lack of guidance on these issues, it may be difficult for some companies to arrive at a high level of certainty that the EAG is not "managed and controlled" in the United States.

**Are there substantial business activities in the jurisdiction in which the parent company is created or organized?** – The anti-inversion rules would not apply if the EAG of the foreign acquirer has substantial business activities in its jurisdiction. Many non-US companies might believe that they have substantial business activities in the parent company's home jurisdiction. However, the rules for the substantial business activities test under Treas. Reg. §1.7874-3T are quite restrictive. For business activities in the parent's jurisdiction to be considered substantial in relation to the overall EAG, 25% of the EAG's employees, employee compensation, gross assets and income must be located in the relevant foreign jurisdiction. The asset test takes into account only tangible personal property and real property. Excluding the value of intangible property, which for many inbound companies is owned in the parent company's jurisdiction, makes it more difficult to meet the 25% asset test. Group income means gross income of members of the EAG from transactions occurring in the ordinary course of business with unrelated customers. Importantly, group income is located in the parent company's jurisdiction *only* if it is derived from a transaction with a third party customer located in that jurisdiction. This sourcing rule may make it very difficult to meet the group income test because of the dispersed nature of the customer base of many companies.

**Are there significant domestic business activities?** – The significant domestic business activities test would be similar to the substantial business activities test except that it would focus on activities in the United States, and the four prongs would be disjunctive, not conjunctive, making it easier to satisfy the test (and thus potentially be treated as a US company). Because of the relative size of the United States, both geographically and in market size, it is conceivable that a non-US company with significant US operations would meet at least one of the four significant domestic business activities tests.

## Conclusion

If enacted, the recently proposed retroactive amendments to section 7874 could cause a foreign corporation to be treated as a US corporation if the management and control of the EAG which includes the entity occurs primarily within the United States and such EAG has significant domestic business activities. Although an exception may apply if the EAG conducts substantial business activities in the foreign parent company's jurisdiction, there would be no shareholder continuity test under this proposal. As such, even a full cash purchase of a domestic corporation or partnership (or the assets thereof) could trigger US corporate status for the foreign parent company as of the date of the acquisition. Given the possibility that this legislation could apply retroactively to acquisitions occurring after May 8, 2014, any non-US company contemplating an acquisition of a domestic entity or assets should consider the potential application of the above rules before undertaking the acquisition.

— Mike Steinsaltz (Philadelphia)  
Partner  
Deloitte Tax LLP  
msteinsaltz@deloitte.com

Richard Castanon (Washington, DC)  
Director  
Deloitte Tax LLP  
rcastanon@deloitte.com

---

## Impact of BEPS Hybrid Mismatch Proposals on Cross-Border Financing Arrangements and UK Response

### Introduction

In March 2014, the OECD Working Party responsible for considering the effect of hybrid mismatch arrangements as part of the Base Erosion and Profit Shifting (BEPS) initiative released two Draft Discussion Papers (the Discussion Drafts). These include proposals for changes to domestic laws which are intended to neutralize the effects of the hybrid arrangements.

**URL:** <http://www.oecd.org/tax/discussion-drafts-action-2-hybrid-mismatch-arrangements.htm>

The proposals are drafted in such a way that only one country is required to implement the recommendations into domestic law for them to be effective. Consequently, even if the US does not adopt these proposals, the benefits of US-UK hybrid structures would be countered if the UK were to implement them as currently drafted.

Deloitte recommends that affected companies review the potential impact of these proposals on their cross border financing arrangements and consider the exit or alternative options in the event that the proposals became law.

### The Proposals

The hybrid proposals target arrangements which involve hybrid entities or hybrid instruments, where the involvement of the hybrid entity or instrument gives rise to a tax mismatch. Broadly, this means arrangements involving a hybrid entity or instrument which give rise to a double deduction or a deduction with no corresponding taxable income.

Where this is the case, the Discussion Draft proposes a "Primary Response" and a "Defensive Rule." For example, where the tax mismatch is such that a deduction is available with no corresponding taxable income, and this arises due to a hybrid entity payment, the primary response is that the payer jurisdiction denies the deduction. Where this does not happen (e.g. because the territory in which the payer is resident has not adopted the proposals), the defensive rule would apply, which states that the payee jurisdiction would tax the income.

Therefore, where a US corporation lends to a foreign subsidiary that is disregarded in the US but respected as a company in its foreign territory (giving rise to the potential for a deduction with no corresponding taxable income), the primary response would be for the overseas territory to deny a deduction for the interest expense in the subsidiary. If the overseas

territory did not do so, the defensive rule would apply, so that if the US adopted the proposals then the US would tax the interest income.

The UK has existing arbitrage legislation. This includes a “main purpose” carve-out, which means currently the UK only applies this legislation where there is UK base erosion. The BEPS Working Party has intentionally omitted such a carve-out from its proposals; as such, these proposals could have far-reaching implications for typical UK/US cross-border financing arrangements, such as the “Tower” structure. (The “Tower” structure involves a hybrid entity, a UK company which has filed a check-the-box election to be disregarded from a US tax perspective but which is respected as a company in the UK. Currently, the UK arbitrage rules should not apply where there is no UK tax advantage, for instance where the deduction in the disregarded entity is matched by taxable interest income in another UK entity, resulting in no net UK impact from the arrangement.)

Assuming the final BEPS proposals are published as currently drafted, and the UK adopts them, the UK disregarded entity would deny a deduction for the interest expense – regardless of whether the US adopts the proposals.

Some respondents to the OECD Discussion Drafts have asked for the final recommendations to include transitional rules to allow pre-existing structures to be unwound (there is no mention of this in the Discussion Drafts).

## UK Government Response

Each year, the UK government sets out its annual Budget, which includes proposed tax policies and legislation, and releases various documents related to these proposals. This year, the UK government released a document as part of these Budget proposals entitled “tackling aggressive avoidance,” which made it clear that the UK government supports action against hybrids. Whether the UK will ultimately implement the OECD proposals is a government question but this seems likely if there is concerted action and coordinated resolve to tackle hybrids. This conclusion is backed up by the statements the UK government has already made in support of global action on BEPS.

## Timing

Final proposals are expected from the OECD in September 2014. These would then need to be brought into domestic legislation. The earliest likely UK legislation is a Finance Bill after the May 2015 general election.

— Chris Galbraith (London)  
Senior Manager  
Deloitte United Kingdom  
cgalbraith@deloitte.co.uk

---

## FATCA Effective as of July 1, 2014: What Non-US Multinationals Need to Do to Comply

The Foreign Account Tax Compliance Act (FATCA), enacted by the United States government in 2010, officially became effective July 1, 2014. The purpose of FATCA is to identify US persons located outside of the United States who are subject to US tax, but may not be paying tax on income earned outside the US. FATCA accomplishes this goal by requiring non-US entities to submit information regarding non-US bank accounts and shareholders of non-US corporate entities. The rules motivate non-US entities to report US persons’ financial account information and US shareholder ownership by imposing a 30% withholding tax on certain payments from US persons to non-US entities that do not comply with the rules and provide the required information. FATCA withholding potentially applies to US-source payments of certain fixed or determinable annual periodical (FDAP) income, such as interest, dividends, rents, salaries, wages, premiums, annuities, compensations, remunerations and emoluments; these payments are called “FATCA withholdable payments.”

FATCA is a targeted withholding regime – its ultimate goal is not to collect FATCA withholding, but to encourage non-US entities to disclose US depositors or substantial US ownership. Through that disclosure, the US expects to collect taxes owed by US persons who have non-US income that currently escapes US taxation.

Generally, FATCA withholding is collected when a non-US entity fails to comply with FATCA rules requiring them to disclose US depositors and investors. The law primarily affects entities that are traditionally thought of as financial institutions, such

as banks, brokerage firms, asset management companies, etc. However, the law was written broadly and creates compliance obligations for non-US entities in non-financial services industries. There are various ways in which non-financial multinational corporations (MNCs) must prepare for the implementation of FATCA.

## Non-US Entities

Multinational corporations (MNCs) may have foreign entities in their organizational structures, such as holding companies, treasury centers, or captive finance companies that may meet the definition of a foreign financial institution (FFIs). MNCs must analyze the business activities of their non-US entities and determine whether the entities are FFIs or non-financial foreign entities (NFFEs). Once the entities are classified, the MNC potentially has to register the FFIs with the US Internal Revenue Service (IRS) and submit required information under the FATCA rules.

Certain non-US pensions may be classified as FFIs under the FATCA regulations. However, Intergovernmental Agreements, discussed below, and the FATCA regulations provide broad exceptions to this standard rule. MNCs must analyze their non-US pensions to determine if they are FFIs that are required to register with the US government.

Intergovernmental Agreements (IGAs), which are agreements that are separate and distinct from tax treaties and allow for implementation of FATCA under local law, must be analyzed as well and may result in different classifications or reporting requirements for a specific entity or plan. In general, IGAs follow one of two model formats released by the US. However, each country that signs an IGA has the opportunity to negotiate the terms of the agreement. Further, the non-US jurisdiction will enact legislation implementing the IGAs in order to assist foreign entities with implementing FATCA. IGAs will add complexity for FFIs because the various IGAs are not uniform and will require FFIs to interpret the IGA in each of its respective jurisdictions to determine their proper reporting and withholding obligations.

All non-US entities will have to complete the documentation necessary to inform US Withholding Agents (USWA) as well as FFIs of their FATCA status.

## US Withholding Agents

US withholding agents (USWAs) that are part of an MNC's organizational structure must update their information reporting and withholding procedures to comply with the reporting and withholding requirements imposed under FATCA. USWAs that make FATCA-withholdable payments must ensure that they properly withhold against these payments and report the payments on Forms 1042/1042-S.

In order to accomplish this, USWAs must collect the appropriate documentation from any foreign recipient of income which may be subject to these rules. The IRS has issued several new forms in the Form W-8 series (Form W-8BEN (for individuals), Form W-8BEN-E (for entities), Form W-8ECI, Form W-8EXP and Form W-8IMY), as well as a new Form W-9, in preparation for FATCA. Under the FATCA regime it is imperative that these documents are collected *prior* to making payment. If the documentation is not collected and the payment is subject to 30% FATCA withholding, USWAs will be liable for the 30% withholding.

With FATCA now in effect, MNCs must confirm that they are in compliance with this new withholding regime. The first steps are to classify all non-US legal entities and pension plans as FFIs or NFFEs and for USWAs and FFIs to implement proper policies and procedures to withhold on FATCA-withholdable payments to entities that are not FATCA compliant and report these payments to the US government.

— Faye Tannenbaum (New York)  
Partner  
Deloitte Tax LLP  
ftannenbaum@deloitte.com

Tammra Credit (Atlanta)  
Manager  
Deloitte Tax LLP  
tcredit@deloitte.com

# **New Reporting Requirements for Issuers of Securities (Including Debt) under Section 6045B**

## **Summary**

Domestic and foreign corporations (including foreign multinationals) should be aware of expanded reporting requirements under section 6045B for transaction involving the corporation's stock or debt securities. Section 6045B requires a corporation to report the impact of an "organizational action" to a holder's cost basis in certain securities by filing Form 8937. The reporting is due within 15-45 days following the organizational action, and the failure to file may result in significant penalties as discussed in detail below. Understanding these reporting requirements is integral to a buyer if the target corporation historically failed to report organizational actions since significant liabilities associated with these penalties may be inherited.

## **Background**

Since January 1, 2011, a corporation has been required to file Form 8937, Report of Organizational Actions Affecting Basis of Securities, if it undertakes an "organizational action" that affects the tax basis of holders of the corporation's stock. There is no statutory or regulatory definition of an organizational action, but the legislative history and additional commentary from the IRS refer to stock splits, mergers and acquisitions as examples. In certain situations, a deemed tax fiction may constitute an organizational action even though a corporation may not take a corporate action in the legal sense.

Effective January 1, 2014, the reporting for organizational actions has been expanded to include certain debt instruments, option contracts and security futures contracts. Presently, reporting is required only for "common" (or simple) debt instruments. The final regulations provide an extensive list of characteristics and types of debt that are designated as "common" versus "complex" and we recommend the appropriate analysis be performed to understand the proper classification of debt for reporting purposes. Debt with more "complex" terms will be subject to reporting starting on January 1, 2016.

Accordingly, care should be taken to identify organizational action, whether legal or tax actions, by a corporation that may impact the tax basis of its debt instruments. T.D. 9616, issued with the final regulations, indicates that the initial issuance of a debt instrument is generally not an action that affects the basis of the debt instrument (a security), and as such generally would not be subject to reporting. However, the issuance of a debt instrument in a recapitalization (including a recapitalization from a significant modification or bankruptcy reorganization) can give rise to a reporting obligation on Form 8937. Given the lack of specific regulatory guidance, we recommend that the analysis be performed in the early stages of a potential transaction to identify potential reporting obligations.

## **Reporting**

Form 8937 is due by the earlier of (a) 45 days after the transaction or (b) January 15th of the year following the transaction. The corporation also must provide a statement to its holders summarizing the impact of the organizational action to the holder's basis of such security by January 15th of the year following the transaction. In lieu of filing with the IRS (and mailing statements to holders), a corporation may post the information on its public web site for 10 years, provided such posting is timely. The requirement to file Form 8937 applies to both domestic and foreign issuers of securities if the security is owned by US taxpayers, either directly or as a depository receipt.

Penalties apply if the corporation does not file Form 8937 or holder statements. The IRS could impose a \$100 penalty per return (with a maximum calendar-year penalty of \$1.5 million) and a separate \$100 penalty per shareholder statement (\$1.5 million maximum per year).

## **Conclusion**

Section 6045B should be considered as part of an investment or transaction involving stock or debt of a domestic or foreign corporation. Early identification of potential reporting obligations is critical as any required Form 8937 must be filed within 15-45 days of the event or underlying transaction. These new rules continue to evolve, so continual monitoring of developments is strongly encouraged. Inbound investors may not be aware of these relatively new information reporting

requirements and should consider these in connection with their inbound investments; whether as part of the investment itself or exposures for historic liabilities from the failure to report.

— Raffi Baroutjian (New York)  
Principal  
Deloitte Tax LLP  
rbaroutjian@deloitte.com

Michael Blinder (Washington, DC)  
Director  
Deloitte Tax LLP  
mblinder@deloitte.com

Jim Watson (Chicago)  
Partner  
Deloitte Tax LLP  
jamwatson@deloitte.com

---

## Factor Presence Nexus Considerations for Inbound Companies

A growing trend in state taxation is the adoption of bright-line statutory nexus thresholds in determining what it means to be doing business or otherwise have nexus in a state for income or gross receipts tax purposes.<sup>1</sup> In 2002 the Multistate Tax Commission (MTC) adopted a uniformity proposal regarding a bright-line statutory nexus for business activity taxes. Under the proposal, “substantial nexus” would be established if any of the following thresholds are exceeded during the tax period:

- \$50,000 of property in the state;
- \$50,000 of payroll in the state;
- \$500,000 of sales in the state; or
- 25% of the entity’s total property, payroll, or sales are in the state.

The model statute provides that the threshold property, payroll and sales amounts may be adjusted annually to reflect the cumulative percentage change in the consumer price index.

Some states that have adopted a factor presence nexus standard have included the threshold amounts proposed by the MTC (see the California Example discussed below), while others have implemented variations that utilize different threshold amounts, particularly with respect to sales activity within the state. For example, effective for taxable years beginning on or after January 1, 2015, the nexus standard for the New York franchise tax will be broadened so that corporations with sales of \$1 million or more to New York customers during the taxable year will be subject to tax.

With respect to foreign companies that lack a physical presence within a state that has adopted statutory nexus thresholds, an exposure for state nexus would generally arise from meeting the sales threshold.<sup>2</sup> The property threshold may also present state income tax nexus concerns. Foreign companies often store large quantities of inventory in the United States. Thanks to treaty protection, such storage may not create a “permanent establishment” or taxable presence for federal income tax purposes. However, treaty protection would not apply in a state that does not follow United States treaties or does not automatically conform to federal taxable income. Stored inventory that exceeds that state’s property threshold would thus trigger state nexus and potential exposure.

---

<sup>1</sup> Some form of bright-line, non-industry-specific statutory nexus threshold has been adopted in the following states: California (Cal. Rev. & Tax. Code § 23101(b)), Colorado (Colo. Code Regs. § 39-22-301.1(2)(b)), Connecticut (Conn. Gen. Stat. § 12-216a(a), Informational Publication 2010 (29.1)), Michigan (Mich. Comp. Laws § 206.621), New York (S6359-D/A8559-D, 2014-2015 Budget Act), Ohio (Ohio Rev. Code § 5751.01(l)), and Washington (Wash. Rev. Code § 82.04.067).

<sup>2</sup> Note that 15 US Code Section 381 (Public Law 86-272, PL 86-272) prohibits a state from taxing out-of-state corporations on income from business activity within the state if such activity is limited to “solicitation of orders” for the sale of tangible personal property and the orders are approved and filled from outside the state. Consideration should be given to ascertain whether PL 86-272 protection may potentially still exist even where a business has otherwise triggered nexus based on a sales threshold nexus standard. In addressing this issue, taxpayers should consider that PL 86-272 protection is compromised where the tangible personal property is shipped from outside the United States, thus characterizing the sale as not arising from an interstate transaction.

In addition to the nexus considerations, states are trending towards single sales factor apportionment and increasingly adopting market-based sourcing rules for the sale of services and intangibles. These changes in applicable sourcing and apportionment formula rules would generally cause a potential increase to the apportionment and tax liability of foreign companies.

### California Example

For tax years beginning on or after January 1, 2011, in addition to California's traditional definition of "doing business" as that of "actively engaging in any transaction for the purpose of financial or pecuniary gain or profit" in the state, a taxpayer is "doing business" in California, and thus subject to the state's franchise tax, if any of four factors are satisfied, including bright-line statutory nexus thresholds based on specified amounts of property, payroll, or sales in the state. With respect to sales, for tax years beginning on or after January 1, 2011, the threshold is whether the taxpayer's sales in California exceed the lesser of \$500,000 or 25% of the taxpayer's total sales. The sales threshold is indexed for subsequent tax years, so that for taxable years beginning on or after January 1, 2012, the threshold is \$509,500, while for taxable years beginning on or after January 1, 2013, the threshold is \$518,162.

Additional California tax law changes have also recently altered the apportionment formula and sourcing rules previously utilized by most taxpayers. For tax years beginning on or after January 1, 2013, all business income from an apportioning trade or business must generally be apportioned to California on the basis of a single sales factor with market-based sourcing required for revenue from sales of property other than tangible personal property.<sup>3</sup> The market-based sourcing rules also apply when determining whether the sales threshold is satisfied under California's bright-line statutory nexus rules.

During 2011 and 2012, single sales factor apportionment was elective; therefore, most taxpayers not making a single sales factor apportionment election could source sales of property other than tangible personal property under the costs of performance rules, which were more favorable to inbound taxpayers. The costs of performance rules sourced sales based on the location where the greater costs of the income-producing activity that generated the service or intangible revenue were performed. In contrast, market-based sourcing rules look to where the benefit of the services is received by the customer or generally where the customer uses the intangible property.

Due to these tax law developments, foreign companies with US inbound activities, including those with no physical presence in California, may be more likely to be subject to the California's franchise tax due to the bright-line, sales-based statutory nexus threshold and to be required to apportion income on the basis of a single sales factor. Also, although foreign companies that store inventory in California may, by application of a United States treaty, avoid imposition of federal income tax, such companies may be subject to California franchise tax where the property exceeds the state's property-based nexus threshold. California does not follow United States treaties.

### Considerations for Inbound Companies

As a result of these tax law changes, foreign companies may potentially be at higher risk of exposure to the franchise tax in California; similar considerations would exist in other states with bright-line statutory nexus thresholds. Foreign companies with US inbound activities may wish to consider the following hypothetical scenarios, each of which may require further analysis regarding whether a California franchise tax filing requirement and liability may exist:

- A foreign company generates licensing or royalty revenue from California use of intangible property such as patents, trademarks, licenses, royalties, internet games, etc. or from the sale of goods into the California market that incorporate such intangible property under a licensing arrangement with the product manufacturer (e.g., marketing intangible).
- Executives or employees of a foreign company travel to California to perform services for the benefit of the foreign company's US affiliates or customers.

---

<sup>3</sup> Cal. Rev. & Tax. Code §§25128.7, 25136. Note, however, that market sourcing has been mandatory for tax years beginning on or after January 1, 2011, for taxpayers making a single sales factor election. Note also that the single sales factor requirement does not apply to an apportioning trade or business that is primarily engaged in certain qualified business activities.



- Executives or employees of a foreign company perform services outside the US and charge their California affiliates or customers for such services.
- A foreign company sells tangible personal property into California to a US affiliate or to a third party.
- A foreign company generates interest income on loans to its California affiliates or customers.

— Jason Wyman (Chicago)  
Partner  
Deloitte Tax LLP  
jwyman@deloitte.com

Mark Cummings (Los Angeles)  
Director  
Deloitte Tax LLP  
macummings@deloitte.com

Charlie Fischer (St. Louis)  
Senior Manager  
Deloitte Tax LLP  
chafischer@deloitte.com

## Calendars to Watch

Each edition, be sure to mark your calendars for some of the more important events (recent and upcoming) as well as tax developments making in impact on businesses investing into the United States.

### Recent and Upcoming Activities

- |           |   |
|-----------|---|
| April 3   | Tax Executives Institute (TEI), Boston: Deloitte Presentation on Inbound Tax/Financing  |
| June 3    | Dbriefs webcast: Intercompany Expense Disallowance Via Add-back Statutes: A Constantly Changing Environment (view archive)<br><b>URL:</b> <a href="http://www.deloitte.com/view/en_US/us/Insights/Browse-by-Content-Type/dbriefs-webcasts/3065083a04b94410VgnVCM2000003356f70aRCRD.htm?id=us:em:na:usic:eng:tax:073014">http://www.deloitte.com/view/en_US/us/Insights/Browse-by-Content-Type/dbriefs-webcasts/3065083a04b94410VgnVCM2000003356f70aRCRD.htm?id=us:em:na:usic:eng:tax:073014</a> |
| June 11   | Dbriefs webcast: BEPS and Financial Services: Addressing Unintended Consequences of OECD Guidance (view archive)<br><b>URL:</b> <a href="http://www.deloitte.com/view/en_US/us/Insights/Browse-by-Content-Type/dbriefs-webcasts/334fc7a115b94410VgnVCM2000003356f70aRCRD.htm?id=us:em:na:usic:eng:tax:073014">http://www.deloitte.com/view/en_US/us/Insights/Browse-by-Content-Type/dbriefs-webcasts/334fc7a115b94410VgnVCM2000003356f70aRCRD.htm?id=us:em:na:usic:eng:tax:073014</a>           |
| June 26   | Dbriefs webcast: International Tax Issues in Cloud Computing (view archive)<br><b>URL:</b> <a href="http://www.deloitte.com/view/en_US/us/Insights/Browse-by-Content-Type/dbriefs-webcasts/5798db08e6b94410VgnVCM3000003456f70aRCRD.htm?id=us:em:na:usic:eng:tax:073014">http://www.deloitte.com/view/en_US/us/Insights/Browse-by-Content-Type/dbriefs-webcasts/5798db08e6b94410VgnVCM3000003456f70aRCRD.htm?id=us:em:na:usic:eng:tax:073014</a>  |
| July 29   | Dbriefs webcast: IRS Tax Examinations: A Focus on International Issues and Practical Preparations (view archive)<br><b>URL:</b> <a href="http://www.deloitte.com/view/en_US/us/Insights/Browse-by-Content-Type/dbriefs-webcasts/a24b12dacf496410VgnVCM2000003356f70aRCRD.htm?id=us:em:na:usic:eng:tax:073014">http://www.deloitte.com/view/en_US/us/Insights/Browse-by-Content-Type/dbriefs-webcasts/a24b12dacf496410VgnVCM2000003356f70aRCRD.htm?id=us:em:na:usic:eng:tax:073014</a>           |
| August 28 | Dbriefs webcast: Washington Update: International Tax Issues and Opportunities (register now)<br><b>URL:</b> <a href="http://www.deloitte.com/view/en_US/us/Insights/Browse-by-Content-Type/dbriefs-webcasts/fc9dbe0aaa496410VgnVCM3000003456f70aRCRD.htm?id=us:em:na:usic:eng:tax:073014">http://www.deloitte.com/view/en_US/us/Insights/Browse-by-Content-Type/dbriefs-webcasts/fc9dbe0aaa496410VgnVCM3000003456f70aRCRD.htm?id=us:em:na:usic:eng:tax:073014</a>                              |

### Recent and Upcoming Tax Developments

- |          |   |
|----------|---|
| March 14 | Release of discussion draft on Action 6 (Prevent Treaty Abuse) of the OECD BEPS Action Plan (read the Deloitte alert)<br><b>URL:</b> <a href="http://www.oecd.org/ctp/treaties/treaty-abuse-discussion-draft-march-2014.pdf">http://www.oecd.org/ctp/treaties/treaty-abuse-discussion-draft-march-2014.pdf</a><br><b>URL:</b> <a href="http://www2.deloitte.com/content/dam/Deloitte/global/Documents/Tax/dttl-tax-alert-unitedstates-210314.pdf?id=us:em:na:usic:eng:tax:073014">http://www2.deloitte.com/content/dam/Deloitte/global/Documents/Tax/dttl-tax-alert-unitedstates-210314.pdf?id=us:em:na:usic:eng:tax:073014</a>   |
| March 19 | Release of discussion drafts on Action 2 (Neutralise the effects of hybrid mismatch arrangements) of the BEPS Action Plan (read the Deloitte alert)<br><b>URL:</b> <a href="http://www.oecd.org/tax/discussion-drafts-action-2-hybrid-mismatch-arrangements.htm">http://www.oecd.org/tax/discussion-drafts-action-2-hybrid-mismatch-arrangements.htm</a><br><b>URL:</b> <a href="http://www2.deloitte.com/content/dam/Deloitte/global/Documents/Tax/dttl-tax-alert-unitedstates-040414.pdf?id=us:em:na:usic:eng:tax:073014">http://www2.deloitte.com/content/dam/Deloitte/global/Documents/Tax/dttl-tax-alert-unitedstates-040414.pdf?id=us:em:na:usic:eng:tax:073014</a> |

- March 24 Release of discussion draft on Action 1 (Tax Challenges of the Digital Economy) of the OECD BEPS Action Plan (read the Deloitte alert)  
**URL:** <http://www.oecd.org/ctp/tax-challenges-digital-economy-discussion-draft-march-2014.pdf>  
**URL:** <http://www2.deloitte.com/content/dam/Deloitte/global/Documents/Tax/dttl-tax-alert-unitedstates-260314.pdf?id=us:em:na:us:eng:tax:073014>
- April 1 Senate Foreign Relations Committee held a business meeting in which it approved five US treaty instruments (yet to be approved by full Senate): pending treaties with Hungary and Chile; pending protocols with Switzerland and Luxembourg; proposed protocol amending the Convention on Mutual Administrative Assistance in Tax Matters. A hearing on the five treaty instruments was held on February 26.  
**URL:** <http://www.foreign.senate.gov/hearings/treaties-02-26-2014>
- July 1 FATCA withholding on payments of FDAP income to non-participating FFIs, non-compliant NFFEs, and recalcitrant account holders began (complete FATCA calendar and links to other FATCA resources available online)  
**URL:** [http://www.deloitte.com/view/en\\_US/us/Services/tax/930c9948e681a210VgnVCM100000ba42f00aRCRD.htm?id=us:em:na:us:eng:tax:073014](http://www.deloitte.com/view/en_US/us/Services/tax/930c9948e681a210VgnVCM100000ba42f00aRCRD.htm?id=us:em:na:us:eng:tax:073014)
- July 16 Senate Foreign Relations Committee held a business meeting in which it approved two US treaty instruments (yet to be approved by full Senate): pending treaty with Poland; and pending protocol with Spain. A hearing on the two treaty instruments was held on June 19.  
**URL:** <http://www.foreign.senate.gov/hearings/treaties-06-19-14>
- July 22 US Senate Committee on Finance hearing "The US Tax Code: Love It, Leave It or Reform It!": a discussion of the current US system of international taxation.  
**URL:** <http://www.finance.senate.gov/hearings/hearing/?id=5a23092e-5056-a032-5264-b5147118d6be>

#### Have a question?

If you have needs specifically related to this newsletter's content, send us an email at [clientsandmarketsdeloittetax@deloitte.com](mailto:clientsandmarketsdeloittetax@deloitte.com) to have a Deloitte Tax professional contact you.

#### About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see [www.deloitte.com/about](http://www.deloitte.com/about) for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms. Please see [www.deloitte.com/about](http://www.deloitte.com/about) for a detailed description of the legal structure of Deloitte LLP and its subsidiaries. Certain services may not be available to attest clients under the rules and regulations of public accounting.

#### Disclaimer

This publication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or its and their affiliates are, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your finances or your business. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. None of Deloitte Touche Tohmatsu Limited, its member firms, or its and their respective affiliates shall be responsible for any loss whatsoever sustained by any person who relies on this publication.