

LEGAL ENTITY RATIONALIZATION & SIMPLIFICATION



CAIUS
Tax Management Solutions

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Companies acquire other entities to expand their product portfolio and expand into geographies. Thus M&A creates complex multiple legal entities structure, facing operational challenges and increasing tax and regulatory expenses. Companies seeking to cut costs and create a more efficient organizational structure are taking a closer look at the potential benefits and risks of legal entity rationalization (LER).

A successful LER initiative requires a well-organized and detailed plan and collaboration with operational leaders, and with legal, human relations, IT, finance, and tax teams

- *Legal:*
 - Vendor, supplier, and key customer contract implications
 - Current or potential litigation
 - Facility lease assignments or transfers
- *Tax*
 - Indirect tax implications (VAT, GST, sales/use, and property)
 - Direct tax implications (income, franchise, deferred tax, apportionment, and effective tax rate)
 - Real estate transfer tax
- *Operations*
 - Fleet registration, permit, and insurance policy transfers
 - Customer and vendor contracts
 - Registrations to conduct business
- *IT*
 - Changes to ERP to reflect new legal entity structure
 - Historic data retention requirements for impacted entities
 - Changes to invoices, EDI, and other customer-facing docs
- *Finance*
 - A/P, A/R, and invoicing process
 - Customer and vendor account implications
 - Management and financial reporting changes
- *HR*
 - Payroll migration and third-party support
 - Employee transfer and successor employer implications
 - Employee benefits and reporting
- *Sales and marketing*
 - Website rebranding
 - Customer contract notifications and approvals
 - Updates to branded packaging, signage, etc.
- *Treasury*
 - Updates to bank accounts and cash sweeps process
 - Know Your Client process updates
 - Updates to loan and security agreements and i/c process

There is a clear correlation between the number of legal entities and finance process cost

On average, the difference in finance function cost between enterprises that have 5 and enterprises that have 10 legal entities per billion in revenue is as follows:

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- Performance management: \$398K per \$1B in revenue
- Transaction processing: \$394K per \$1B in revenue
- General accounting: \$319K per \$1B in revenue
- Tax and treasury: \$236K per \$1B in revenue
- Control and risk management: \$148K per \$1B in revenue

This can be a substantial undertaking

- CFO sponsorship is necessary
- CEO endorsement may be warranted
- Board communications may be required

Objectives:

- Reduce pre-tax recurring costs and regulatory burdens by simplifying the legal entity structure
- Costs associated with separate entity audited Statutory Financial Statements is a quickly captured savings point
- Streamline intercompany transactions (e.g., transfer pricing and transaction costs)
- Create opportunities to reduce costs through process improvement, standardization, and harmonization
- Develop policies and procedures to maintain a lean structure
- Create efficient tax profile
- Impact on corporate tax rate and cash tax positions
- Consistent tax policy across products and services
- Create a legal entity structure which is flexible and facilitates the integration of acquired businesses and more closely aligns with the future state business operating structure
- Have “one face” to the customer
- Improve legal, financial statement and tax data integrity risk management
- Streamline, standardize, and harmonize critical business processes to avoid waste of internal existing debt covenants

First, whiteboard a legal entity structure that aligns with business in a tax efficient manner, ignoring existing structure.

Then develop a roadmap from existing structure to “straw man”, making any required adjustments.

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Caius Tax Management Solutions focuses on delivering tax management services to small, mid-size and large multinationals, public, and Fortune 500 companies. Core services include M&A, tax controversy management, tax accounting, transfer pricing, compliance services, tax automation projects, indirect tax, and tax structuring.

For over 20 years Caius has worked within companies to provide the necessary know-how, and management skills to effectively manage any aspect of the tax function under whatever situation.



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