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’
Fiscal Incentives, Corporate Structure and Financial Aspects of Treasury Management Operations

• 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
Fiscal Incentives, Corporate Structure and Financial Aspects of Treasury Management Operations

• 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

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• Table (2)
  • Use of Tax Havens by Total Population
    • Ultimate parent example companies Parent Company example Companies
      • Bahamas 15 27 Cisco, Pfillex, Gulf Oil
      • Bermuda 103 Tyco (Brangate) 82 Alumina
      • British Virgin Islands 115 128
      • Cayman Islands 26 465 Alcatel, De Beers,
      • Jefferson Smurfit
Fiscal Incentives, Corporate Structure and Financial Aspects of Treasury Management Operations

- Table (3)
- Number of financial firms with Parent or Ultimate parent located in a ‘Tax Haven’
  
<table>
<thead>
<tr>
<th>Ultimate parent</th>
<th>Parent Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bahamas</td>
<td>(0) 2 (0)</td>
</tr>
<tr>
<td>Bermuda</td>
<td>6 (5) 10 (5)</td>
</tr>
<tr>
<td>British Virgin Islands</td>
<td>3 (1) 2 (2)</td>
</tr>
<tr>
<td>Cayman Islands</td>
<td>4 (2) 5 (3)</td>
</tr>
</tbody>
</table>

Fiscal Incentives, Corporate Structure and Financial Aspects of Treasury Management Operations

- 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
Fiscal Incentives, Corporate Structure and Financial Aspects of Treasury Management Operations

- **Table (6)**
  - **Summary Features of Firms with Treasury Type Operations IFSC Location (31 firms)**
    - % in category
      - |   | 0% | 1-5% | 6-29% | 30-59% | >60% |
      - | Profit/Revenues | 17 | 3 | 7 | 17 | 57 |
      - | Intra-group/Gross assets | 13 | 3 | 10 | 13 | 58 |
      - | Number of employees¹ | 0 | 1-5 | 6-29 | 30-59 | >60 |
      - | 63 | 13 | 17 | 3 | 0 |

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- **Table (8)**
  - **Summary Features of All Firms with Treasury Type Operations (40 firms)**
    - % in category
      - |   | 0% | 1-5% | 6-29% | 30-59% | >60% |
      - | Profit/Revenues | 16 | 3 | 16 | 18 | 47 |
      - | Intra-group/Gross assets | 12 | 3 | 10 | 15 | 60 |
      - | Number of employees¹ | 0 | 1-5 | 6-29 | 30-59 | >60 |
      - | 59 | 13 | 23 | 3 | 0 |
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- 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