

# Production capacity management in the automotive industry\*

## A taxing issue





# Table of Contents

- Introduction . . . . . 2
- Trends in PCM . . . . . 3
- PCM – Key tax and cash flow considerations . . . . . 4
  - PCM tax and cash flow considerations for old or closing facilities . . . . . 4
  - PCM tax and cash-flow considerations for new facilities . . . . . 7
- Managing PCM developments in practice . . . . . 8
- Benefits of alignment in a PCM restructuring . . . . . 9
- Conclusions . . . . . 11
- Contacts . . . . . 12

# Introduction

*Our previous article, “Transfer pricing in the automotive industry,” presented an overview of production capacity management (PCM) and transfer pricing economics. This article expands on the tax implications of PCM. It also presents examples and guidelines for companies that seek to increase the tax and cash-flow efficiencies of their PCM activities*

Low-cost manufacturing strategies have become a hot topic for most companies in recent years. Both large and small multinationals have tried to squeeze costs out of their supply chains through **production capacity management (PCM)** – a combination of capacity expansion in lower-cost countries and a reduction of overcapacity in older, higher-cost facilities. However, one frequently overlooked opportunity for cost savings lies in the proper alignment of taxable income and cash flow on a global basis. More often, though, tax and cash-flow strategies to resolve global effective tax-rate and treasury issues prove to be afterthoughts to other problems that appear once a new facility is up and running.

Companies undergoing PCM restructurings possess an ideal opportunity to optimise their global supply chains from both cash and tax-management perspectives. A properly aligned restructuring can result in significant savings for a multinational through managing the costs of closing facilities to improving the overall return on new ones. In addition, a well-thought-out restructuring can reduce tax compliance costs and tax audit risks.

In a PCM situation, when a multinational opens a new facility, the company establishes new plant metrics and intercompany pricing to manage taxable income in the new plant in conjunction with market needs. The company should methodically review global taxable income levels and cash needs before establishing intercompany arrangements and pricing. Furthermore, the company reviews ownership structures of intangible property used at older facilities, especially for transferred product lines. By taking these proactive steps in the planning process during a PCM situation, the company puts itself in position to maximise the return on its new investment from both tax and cash-flow perspectives.

Consider the case of one major automotive original equipment manufacturer (OEM) that established a new contract manufacturing facility in a low-cost country. While the company had an intercompany pricing policy based on companywide standard costs, the new facility’s low labor costs and high capacity utilisation contributed to extraordinarily large profits being earned in the new facility. However, the profits were not aligned with the activities, assets and risks of the new operations. Further, the OEM had difficulty repatriating these profits for use elsewhere in the company.

While the manufacturer was pleased with the new facility’s success from an operational point of view, the resulting tax and cash-flow concerns were a significant drawback in realizing the full value of the new investment. The plant was paying substantial taxes on income generated from sales to other subsidiaries when the company had incurred substantial tax losses in closing older facilities. The OEM had to finance to pay for shut-down costs, while the tax group scrambled to repatriate cash through complex financing structures.

*There is a better way.*

# Trends in PCM

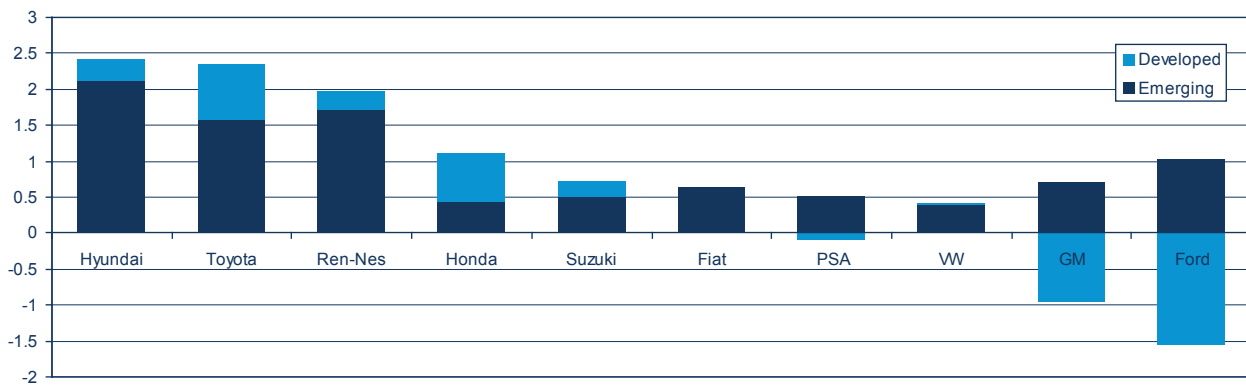
While most, if not all, multinationals have made some changes to their supply chains, the automotive industry is perhaps the most notable sector currently undergoing significant restructuring. While other sectors face similar issues, troubles in the automotive industry illustrate these tax and operational issues most dramatically. In North America, GM, Ford and now Chrysler have pushed into lower-cost countries. Concurrently, these automotive OEMs have driven their Tier-1 and Tier-2 suppliers to wring costs out of the manufacturing process. For some commodity and labor-intensive products, customers want the “China price” from their suppliers, regardless of where production actually occurs. For other key components, OEMs require regular, aggressive reductions in prices on an annual basis. Though their approaches may be different, transplant OEMs have followed suit with similar pricing demands.

In European markets, both OEMs and major suppliers have pushed into Eastern Europe to take advantage of more competitive labor costs and the close proximity to Western European markets. While both North American and European OEMs and suppliers continue to maintain key R&D, engineering and marketing expertise, as well as some final assembly operations, many noncore assets have been sold or closed. Weak demand for domestic OEM vehicles also contributed to overcapacity as consumers switched to imported vehicles.

The chart below shows how leading automakers have adjusted their capacities and are planning to do so over the next several years.

## Global light vehicle capacity growth

2005-2013 by alliance group by market type (millions of units)



(source: PwC Automotive Institute)

Mature European and North American manufacturers are by no means the only companies moving into new markets. Asian automakers and suppliers are also expanding into emerging markets and, in many cases, are closing facilities in Japan or elsewhere while they open new ones in lower-cost areas.

Expansion into developing markets is far more complex than simply building a new plant and selling to local and overseas customers. From tax and economic perspectives, a multinational could be transferring an entire trade or business to the new facility. At a high level, the new facility is receiving product and process technology and supplier relationships from the transferring plant or other IP owners in the group and, perhaps, even property, plant and equipment from sites that are closing. In addition, new facilities that will also sell the manufactured products to customers benefit from the customer relationships generated over time by other entities in the group. **Without these valuable transferred intangibles, a new manufacturing plant cannot be a viable operation.** On the other hand, multinationals incur substantial cash and tax exit costs when closing manufacturing facilities while investing substantial sums in the new plants.

All too often, without strategies to align profits with PCM initiatives, restructuring companies immediately start generating substantial taxable income. For companies without tax holidays, new plants owe substantial tax payments to the new governments. However, even companies with tax holidays will have difficulties changing their taxable incomes once the tax holidays expire. In either event, these companies struggle to borrow the cash needed to fund both the new investments and the shut-down costs from a restructuring, as profit repatriation can be a difficult process. Tax departments may then be charged with developing or paying for complicated strategies to reallocate funds.

In addition, from a tax perspective, if the location savings do not flow back to the transferring entities, revenue agents often question whether companies are transferring intangibles without compensation, which can be an unnecessary complication to a company undergoing change. A comprehensive approach to PCM can minimise some of the headaches involved in managing a restructuring and enable cash-starved companies to exercise greater control over where cash and profits are earned within the company.

## PCM – Key tax and cash flow considerations

The first steps for a company considering PCM, from tax and cash-management perspectives, are mapping out the current locations of IP ownership, profits and cash generated as well as income taxes incurred globally. The next sections describe the tax and cash-flow implications for older or closing facilities as well as new ones.

### PCM tax and cash flow considerations for old or closing facilities

Clearly, older or closing facilities will incur additional costs such as severance payments that the company must be able to fund. Major PCM restructurings can leave multinationals with large tax losses in these entities. However, from a consolidated group perspective, if no further action is taken, the location savings would exceed the relocation and closing costs, and the resultant costs and benefits in different entities would create a mismatch. To address these problems, restructuring companies should consider the following key tax and cash-management issues for closing plants:

- **Capital gains** – Will the closing facility receive taxable capital gains from the sale of fully-depreciated property, plant and equipment?
- **Sale of property, plant and equipment** – How much cash will be generated that can be used to pay for other shut-down costs?
- **Business property rates and charges** – Can the liability to such charges involving still-owned but (fully or partly) shut-down property be mitigated because some or all of the plant is unused?
- **Severance pay structuring** – Will costs be incurred all at once or can deductible restructuring costs be spread over an extended period?
- **Utilising tax-loss carrybacks to generate refunds** – For companies that were previously tax-paying, a company may be able to carry back tax losses incurred in the current year to apply for a refund of taxes already paid.
- **Compensation** – Should the facility be compensated by an affiliate (such as the new plant or the group's head office) for costs incurred essentially outside its control?
- **Headquarters function** – PCM decisions are frequently made by (regional) headquarters. In situations where the HQ is treated as the entrepreneur and is, thus, entitled to the residual profit, tax authorities may argue that closure costs should be compensated by the HQ.

- **Intangible transfers** – What intangibles, if any, have been transferred to other companies within the group? And what is an appropriate price/payment for these intangibles? For example, are customer lists being transferred to the new entity? How much profit will these intangibles generate over the long term? (For instance, in the US, such a transfer might trigger a section 367(d) charge, as discussed in the box below.)
- **Exit charges** – If the location savings do not flow back to the transferring entity, tax authorities may argue that the intercompany pricing is not at arm's length. Germany, for example, recently issued draft legislation addressing exit charges. (See box below.)
- **Services provided to other facilities** – Will personnel from the closing plant provide services – engineering or management – to any new facilities? If so, the older facility should be paid for those provided services plus an element of profit.

The last three items – intangible transfers, exit charges and intercompany services – are frequently the overlooked issues that can help in managing the tax and funding costs of a restructuring. As in the example of a restructuring OEM, the new facility may be purchasing, or licensing all of the intellectual property used in the manufacturing process. The new plant likely has access to customer and supplier relationships as well as engineering expertise from other business units within the group. Pushing forward without considering these cash flow issues forced the OEM to borrow additional cash to fund closure costs. Repatriation of profits from the new facility was hampered by withholding tax considerations.

#### **What is a 367(d) intangible?**

Broadly speaking, Section 367(d) of the US Internal Revenue Code prevents multinationals from contributing valuable intangibles such as manufacturing technology, trademarks or design to capitalise a related company without incurring a toll charge. In other words, a contribution of an intangible to a related company is treated as a sale at market value and a taxable event. The IRS has developed a comprehensive list of intangibles subject to 367(d). Most countries with developed tax systems have similar regulations to prevent multinationals from transferring valuable intangibles, or entire business lines, to low-tax jurisdictions.

#### **German exit tax regulations**

In case there is a cross-border transfer of functions, an at-arm's-length compensation needs to be determined. The broad definition of functions includes (in)tangibles, risks and profit opportunities. Regulations proposed in Germany extend the at-arm's-length principle with a hypothetical prudent business manager test to determine the adequate value and apply a DCF method to quantify the exit charge. If the location savings flow back to the transferring entity, there will be no exit charges.

From a tax perspective, revenue agencies in the country with the closing facility frequently raise the challenge that intangibles have, or even an entire business has, been transferred without compensation. Tax authorities are well aware of companies closing manufacturing plants, and the transfer of intangibles is an obvious first question. For the automotive OEM, the new facility paid little for the product and manufacturing process intangibles licensed, and the older facility was left with large stranded tax losses. This automotive OEM was at risk for a large tax adjustment simply on the intangible issue.

In essence, older facilities should be compensated by new OEM facilities for the use of intangibles transferred (if a review suggests that such a transfer occurred) and services provided. While the older facility may have incurred losses due to market conditions or labor costs, its know-how and product technologies may still be very valuable. This compensation can make a huge difference in a multinational's overall borrowing costs and global effective tax rate.

### Case study

An automotive OEM established a regional management headquarters in Switzerland for the Western Europe region. The regional headquarters has strategic responsibility for the manufacturing (including PCM), R&D and sales activities in Western Europe. While procurement initiatives and improved management of vehicle end customer sales pricing aimed to preserve profit margins, profit before taxes continued to trend downward. Regional HQ then decided to move a segment of its German manufacturing and R&D activities to Eastern Europe as part of the cost-reduction program. Rather than relocating production for existing models, the company invested in new production facilities for the next-generation model in Eastern Europe. After the new models were launched and production of the existing model was terminated, one of the German manufacturing sites was closed. As a consequence of this PCM decision, location savings are expected to secure profitable margin levels for the Western Europe region. Financial projections show that closure and relocation costs will be recovered after two years and a positive contribution to earnings per share is expected from the third year. The tax department was tasked with capitalising on the restructuring in a tax-efficient fashion. Based on the operational model where major strategic decisions and risks were the responsibility of the Swiss headquarters, the tax department concluded that the new manufacturing facility would function as a cost-plus contract manufacturer for the Swiss HQ selling vehicles to the dealers. Customers (local dealers in the region) are informed that, in the future, they will receive products (and invoices) from other legal entities in the group. While beneficial from an EPS perspective, the tax department needed to clearly document the business rationale behind this PCM decision.

OECD TP guidelines relevant to this case include:

1.36 – Tax authorities should, other than in exceptional cases, accept the actual transactions.

- The taxpayer must be able to demonstrate the economic and financial rationale for the decision to stop investing in Germany.

1.37 – Exceptional actual transactions can be disregarded when economic substance differs from the form or the arrangements differ from those applied by independent parties in a commercially rational manner.

- As the location savings will flow to the Swiss headquarters rather than Germany, the tax department must be able to demonstrate that strategic decision and risk-taking functions are exercised in Switzerland by people with the requisite skills.

1.38 – Adjustment to reflect conditions in an at-arm's-length manner.

In what circumstances is an enterprise likely to have disposed of something of value as a result of a business restructuring for which the arm's-length principle requires compensation?

- The tax department will also need to demonstrate that the locations responsible for the new car model design are adequately compensated as service providers for the Swiss regional HQ. If the German manufacturer, for example, provides production know-how to the new facility, compensation will need to be paid.
- In the context of the proposed German exit charge regulations, German tax authorities will challenge whether the German manufacturer is deemed to transfer profit capacity and, consequently, is owed a compensation payment.

## PCM tax and cash-flow considerations for new facilities

For new facilities, a company should first review the new plant's role and overall intercompany transactions within the supply chain. This appraisal consists of a thorough assessment of each entity's role, assets, risks and responsibilities relative to others within the multinational group. This approach provides clarity to decision makers within the company from a global tax and cash management perspective. A new company with limited expertise in manufacturing should receive a commensurate level of profit for its functions, assets and risks. While not meant to be a comprehensive laundry list of issues to consider, for companies in the process of PCM, some best tax and transfer pricing practices for new facilities include:

- **Benchmark profitability and prepare transfer pricing documentation** – Transfer pricing documentation is a requirement in many countries, and documentation assists in clarifying each company's roles and responsibilities. Benchmarking provides a range of results that would be acceptable from a tax perspective.
- **Prepare intercompany contracts** – Tax revenue agents are much more likely to respect a company's restructuring that includes a change in both form (including contracts or other documentation) and substance.
- **Monitor profitability on a quarterly basis** – Monitoring profitability on a regular basis avoids "true-up" payments at year-end. The intercompany agreements need to cover an adjustment process.
- **Consider the tax and legal structuring for a new facility** – Multinationals also need to be aware of the international tax considerations for a new subsidiary, including:
  - **Legal form** of operation, such as local company, branch or joint venture;
  - **Tax rate** applicable in the country, including the impact of any holidays;
  - **Grants** available and their local tax treatments;
  - **Restrictions** imposed by particular favorable tax regimes on items such as destination of product sales;
  - **Income tax treaty considerations** – In the event that the new subsidiary's country does not have an income tax treaty with other company locations, a multinational should form an intermediate holding company to capitalise on treaty benefits. Income tax treaties often offer a reduced rate of withholding taxes on royalties and dividend remittances;
  - **Local controlled foreign company rules** which might subject the new facility's profits to taxation in another territory;
  - **Foreign tax credit considerations** – Companies incurring tax losses at the parent level are normally unable to realise foreign tax credits for taxes paid in other jurisdictions. Also, consider opportunities for using techniques and provisions such as the US "check-the-box" rules;
  - **Debt/equity limitations** – Most countries have statutorily defined limitations on interest deductions from debt financing;
- **VAT and sales tax** – Registration requirements, findings, minimising irrecoverable taxes, etc; and.
- **Customs duty implications** – New transactions also call for a prudent assessment of the duty classification and valuation of intermediate components or intermediate sales of components to a new plant. Royalties can add to the dutiable value of imported components depending on the structure. It needs to be verified whether the transfer pricing method to determine the product prices is in harmony with the customs valuation method.
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After considering the international and indirect tax implications of a PCM restructuring, and by benchmarking the correct arm's-length level of profitability at the new facility, a multinational possesses much more freedom to fund costs incurred in the restructuring process. Multinationals can better predict cash-flow needs and taxes payable with a consistent level of profitability in the new facility. The alternative is a succession of expensive tax-planning and cash-repatriation ideas that represent red flags to all tax authorities involved.

For companies trying to “fix” a situation after the fact, a royalty or intangible payment is far more difficult to implement after a new plant is up and running. New intercompany service charging arrangements face similar hurdles. Tax authorities in the new location can easily spot a new royalty payment, intangible payment or intercompany charge when comparing tax returns from year to year.

In reviewing the profitability of new facilities, a multinational company needs to test whether profits on an entity-by-entity basis are reasonable, especially if the new plant is effectively operating to specifications developed elsewhere within the business. Companies that can align their taxable income with the realities of their operations have far more success in managing both their cash-flow needs and global effective tax rates.

## Managing PCM developments in practice

A well-thought-out strategy requires some up-front planning. In essence, aligning taxable income in a dynamic PCM environment involves matching the income of a company's global manufacturing footprint with each facility's activities, risks and assets to avoid artificial profit-shifting structures. The strategy involves, from the start, matching the profits that should be earned by new facilities and correctly compensating older facilities and other entities for their functions, assets and risks.

Once intercompany pricing is aligned with the changes in PCM, new factories naturally earn a correct amount of profit without requiring complicated tax structures to repatriate cash. Again, the essence of this concept is that the location savings will not be completely kept by the new manufacturing location and will be shared with those parties that enabled the restructuring and took the corresponding business risks. A PCM restructuring may also create the opportunity to consider centralised IP ownership structures. Modeling correct intercompany pricing is the next key element in the strategy. A proactive plan to address intercompany pricing in conjunction with PCM issues can minimise difficulties in complying with the arm's-length standard, while creating more options for managing cash-flow needs. Again, from a tax perspective, the new facility should earn a return commensurate with its role, risks and assets. As such, older or closing facilities should, if necessary, be compensated for the expertise or other intangibles transferred to the new site. From a cash-flow perspective, a company restructuring its operations has another avenue of funding via royalty arrangements or an outright sale of transferred assets.

One final consideration to remember is developing a practical system of metrics for managers within the new supply chain system. Simply stated, intercompany pricing should not drive business decision-making within a multinational. Managers of new plants should be rewarded for driving costs out of the supply chain instead of maximising “intercompany profitability.” Managers at purchasing companies should be rewarded for looking for the lowest-cost provider. Otherwise, arguments over intercompany pricing can lead to purchasing companies looking elsewhere for suppliers, resulting in a net loss to the company through deterioration in margins.

Another case study illustrates these problems in practice.

**Case study:**

One major automotive supplier with a comprehensive network of overseas subsidiaries, but no global transfer pricing policy, faced enormous difficulties in complying with the growth in global transfer pricing enforcement rules. The problem? Local country managing directors and finance directors became very interested in intercompany pricing when performance bonuses hinged on business unit performance, including results from intercompany activity. For example, the managing director of a subsidiary earning \$1 million more in profit through an increase in intercompany pricing had a bigger paycheck, as well as a bigger corporate income tax bill. Unfortunately, a managing director of the company paying \$1 million more had a smaller paycheck, potentially a tax loss and a much higher risk of a tax audit.

From a global tax and cash-management perspective, numerous debates over changes in intercompany pricing led to substantial difficulties in managing the company's global tax rate. The best negotiators "gamed the system" by demanding price concessions or instituted price increases on sales to other subsidiaries. The CFO had far less control and visibility in forecasting cash needs as intercompany prices and, consequently, profitability was negotiated on a transaction-by-transaction basis. Meanwhile, the tax director had more difficulty in managing the company's global tax rate. More critically, top management at each affiliate spent an inordinate amount of time on intercompany pricing instead of managing the business.

After a few expensive and time-consuming lessons in transfer pricing tax audits, the supplier made critical changes to the company's intercompany pricing policy. Most importantly, intercompany pricing, royalties and management charges had no impact on new compensation calculations because intercompany profits were not an element of compensation, so local management focused their efforts on outside markets. The company memorialised these changes in a written global transfer pricing policy to bring much-needed predictability and transparency to international intercompany transactions.

## Benefits of alignment in a PCM restructuring

From a practical perspective, once intercompany pricing is aligned with PCM, CFOs and tax directors can realise significant improvements in transparency and predictability over restructured operations. A multinational company can plan on a new facility earning a regular, reasonable return in the ordinary course of business. CFOs and company treasurers are also not surprised with significant fluctuations in cash flow.

What is the alternative to aligning pricing with PCM? Frequently, the tax department must scramble to implement the next complicated "big idea" in tax planning to repatriate cash that could be better used elsewhere. The multinational also misses out on opportunities to utilise tax losses. Tax departments also have more visibility over potential customs duties and VAT issues with a properly implemented PCM strategy.

Furthermore, on the tax side, a changing multinational company can avoid raising unnecessary attention from a tax audit perspective. As might be expected, restructurings often attract audits as tax authorities normally raise questions when they identify significant changes in taxable income levels. Changes in profit levels to meet cash-flow needs, well after the original restructuring, will only raise more difficult questions in an audit context. Preparation of transfer pricing documentation, often required in conjunction with tax returns, is a much more straightforward process when conducted at the time of planning and executing the PCM restructuring.

## PCM best practices

In implementing a PCM strategy, successful companies have identified several best practices when undergoing a supply chain restructuring to optimise cash and taxes payable - some obvious, some requiring a little more work.

- Consider tax and cash-flow issues early in the restructuring process – By educating stakeholders up front on intercompany pricing and cash-management issues in the PCM process, decision makers are better placed to realise cash and tax savings in a restructuring.
- Review worldwide company profitability and tax payments as well as cash-flow needs – In a complex multinational company, CFOs and tax directors are much better placed to locate potential tax and cash-flow savings with a thorough overview of the business.
- Prepare a function and risk analysis for the old and the new business models – It will need to be demonstrated that the new transfer pricing model provides arm's-length results for (intangible) assets, risks and functions.
- Consider royalty payments for intangibles – Should a new plant pay a royalty for either product or manufacturing process intangibles? Intellectual property owned by older plants and centralised IP owners may be very valuable in the day-to-day operations of a new plant. In addition, royalties or outright sales of intangible property are another opportunity to repatriate cash and utilise tax NOLs.

Tax authorities' attitudes to royalty payments vary by country. However, companies are generally more successful introducing royalties sooner rather than later.

- Should services be charged? – Tax authority attitudes vary on inbound service charges, but if services are provided to the new plant, it is easier to introduce them early in the process. Technical services are frequently more acceptable than general administrative charge-outs. However, the US recently issued temporary services regulations providing detailed rules for US multinationals to determine the charge-out of costs to subsidiaries. Although, in some areas, the definitions have now been brought more in line with OECD guidelines, careful monitoring is required to avoid double taxation.
- Review applicable international and indirect tax considerations – International tax treaty considerations, customs duties and VAT can all have significant impacts on the return on a new investment.
- Model fluctuations in the business – Be prepared to adapt the pricing strategy – make changes to pricing – in the event that the restructuring goes better or worse than planned.
- Implement intercompany contracts to memorialise changes in the business – Intercompany contracts provide additional support to skeptical tax authorities that roles and responsibilities have changed within a company.
- Consider developing a global transfer pricing policy – A global transfer pricing policy is a natural extension from instituting intercompany contracts. A global policy also provides additional predictability for planning purposes.
- Regularly review “standard” costs for new plants – Companies need to be prepared to monitor and revise standard costs for manufacturing in developing countries. Cost accountants do not always get it right in the budgeting process, leading to unwelcome surprises at the end of the year.
- Review intercompany profitability on a quarterly basis – Consider a regular review of intercompany profitability. It is typically easier to make changes to intercompany pricing during the year than after year-end. Multinationals with a “transparent” transfer pricing system can make changes to pricing more easily than others. This may require some improvements in financial reporting systems.

# Conclusions

No one ever said that a PCM restructuring is easy. Beyond the day-to-day operational changes, any multinational implementing substantial alterations in its global manufacturing footprint invests substantial time, effort and money to improve the supply chain. Unfortunately, some companies fail to address a number of fundamental tax and cash-flow issues that can be resolved early in planning. These tax and cash-flow concerns can make the difference between a successful restructuring and a company that fails to realise the benefits of lower-cost manufacturing.

Companies that properly align taxable income with their global operations gain far more flexibility in addressing cash-flow needs and optimising their global tax rates. Subsidiaries with facilities that are closing or downsizing should (where appropriate) receive royalty income or compensation for the functions and intangibles transferred or licensed to new facilities. In most cases, affiliated companies should be charged for intercompany services rendered. These payments can provide an additional benefit in that companies can utilise tax losses incurred from difficult business conditions while reducing borrowing costs required for closing facilities. Companies with new subsidiaries earning unusually large profits may also have difficulties repatriating cash through dividends.

Tax authorities are also very interested in new facilities; from a tax perspective, new subsidiaries should not necessarily be earning extraordinary profits, particularly at the expense of other affiliates within the company. Tax auditors reviewing transactions with a new overseas facility can easily question intercompany transactions that enable a new subsidiary to earn large profits.

Companies implementing royalties and intercompany charges well after a plant is established are also easy targets. Tax authorities are likely to investigate for one of two reasons: 1) if the new facility's success is due to greater than arm's-length pricing or unusually low royalty or service charge payments; and 2) if profits for a new facility fluctuate significantly. Local country tax officials are especially skeptical on reductions in profit after a negotiated tax holiday has expired. Proper planning can help manage the risk of audits in both the old and new locations.

While this article has highlighted several other key tax considerations, as a first step, CFOs and tax directors need to be involved early in the PCM restructuring process to address the company's global cash-flow and global tax positions. Key questions to ask are: What level of profits should a new facility earn? What intangibles will be transferred to the new site? What services are being provided to the new facility?

A well-supported analysis in the beginning can reduce the risks of tax audits from these types of pricing issues. Finally, from an operational standpoint, CFOs and tax directors should also pay particular attention to the impact that intercompany pricing has on performance metrics for key management. By managing these issues proactively, CFOs and tax directors can help optimise a company's overall return from a change in the supply chain.

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