

Case Study

Efficiently intersecting cross border tax strategy with group business strategy [CONTACT US](#)

Practice: Strategy and International tax services

Challenge:

An african conglomerate with strong regional presence felt that its group business operating structure was creating taxcompliance risk in each country of operations due to poorly defined inter group transaction structure. The group's regional expansion was not a planned one and expansion to new countries was as a result of random breakthrough of new contracts even though the operational execution was still largely dependent on countries where the group business operations started from. The group management felt that due to randomness in design of transaction execution,the group was incurring a significant portion of its operating costin managing the regulatory and tax compliance matters which were not factored while designing the pricing and budgeted profitability of the operations. Any unanticipated tax regulatory changes would further pose a potential risk to in-country profitable operations.

The client wanted to better understand the impact of country risk, regulatory environment risk and tax risk from inter group transaction structure totheir group business strategy and hence they asked Five Elements Advisory to conduct a risk study and design a cross border working strategy and organisation structure to help it respond consistently and effectively to these risks.

Approach:

FE team from their previous assignment experience understands that operating and regulatory environment in various countries in Africa is evolving, divergent and vulnerable to short notice changes. Hence, it was important first to consolidate from its proprietary risk repository those risk factors that impacts the client industry in each country of operations and translate them back to overall unmitigated group risk factors. FE team undertook several interviews with key business process owners from within the group and externally with industry experts to create a risk register for the group so that the client could identify, prioritise and focus on those risks that impactsongoing group business strategy.

Risk scenarios were built up and stress tested against a set transactional parametres in light of their

likelihood of occurrence and resultant impact it could have on the business operations of each country.

The client realized that destination planning of inter group transactions was critical to the mitigate group risk factors emanating from tax regulatory environment of each countries.

We helped the client identify its risk management objective, and then create a new cross border risk management strategy to define containment actions, possible actions on occurrence of various risk scenarios and build actions to prevent breach reoccurrence. This included

- Transfer pricing benchmarking study as per OECD guidelines in respect of inter-company controlled transactions
- Expatriate staff's tax compliance management
- Non-resident service provider's tax compliance management using double tax avoidance agreements for each country
- Thin capitalization tax risk management emanating from funding strategy adopted for the group
- Impact of divergent foreign exchange regulations on repatriation of profits to parent company or inter-company fund movement in order to cater to on-going funding needs of group
- Risk emanating from divergent VAT laws and its impact on bottom line profitability
- Group organisation structure rehash by allocating key business processes between those that needs to be centralized with head office, those that would be operated on decentralized model, non-core functions that would be outsourced, clarify roles under each department functions, remove redundancies in performance of such functions and set KPIs to monitor the ROI for each business process
- Revalidation and updatation of country business plan to factor the changes emanating from reviews and

consequent changes to business arrangements with customers and vendors

Impact:

The group board of directors have approved the cross border risk and tax strategy. The senior management team has taken a pro-active approach on dealing with the risks identified and mitigation plan approved and are now implementing the new strategy to drive the day to day operations. FE team strongly believes that this would enable the client to create a unique market place for itself and potentially gain an unparalleled confidence and competitive advantage. Miller and I moved away while recording the conference on [why should i do my homework for https://www.domyhomework.guru](https://www.domyhomework.guru) our note sheet