Centralized money management

Certain money management arrangements offered by parent corporations do not create a taxable activity. However, fees for services provided may be taxable.

Definition

Centralized money management generally involves a parent company that provides daily funding for its operating subsidiaries. At the start of the day, the parent company transfers operating funds to the subsidiary. Then at the end of the day, the funds are transferred back to the parent company's accounts.

Banks and other financial institutions provide centralized money management programs for a fee. Companies can choose to hire a bank or financial institution to provide these services, or they can perform these functions internally.

Centralized money management arrangements

Under a centralized money management arrangement, the parent company can consolidate cash received from its subsidiaries into one account to meet working capital needs and reduce transaction and clerical costs from outside loans. The parent can allocate funds where needed without obtaining outside financing.

When a financial institution provides these services, accounts may earn interest and incur transaction fees. In the same manner, a parent company may charge service fees to its subsidiaries as well.

Taxability

The mere internal transfer of funds from parent to subsidiary or from subsidiary to parent as part of a centralized money management arrangement is not income subject to business and occupation (B&O) tax.

Generally, recording interest income in accounting records as part of an internal cost management accounting system does not create a taxable event for B&O tax purposes. The parent company must not actually receive interest payments and the subsidiary must not be obligated to pay an interest charge.

Fees earned for providing centralized money management services are considered income taxable under the service and other activities B&O tax classification. These fees may be charged by a bank or financial institution, or from a parent company to a subsidiary. In this case, the centralized money management program is considered an arm's length transaction between two separate entities. Whether the two entities are related is immaterial for tax purposes.

Unfair tax avoidance

A centralized money management arrangement is not necessarily unfair tax avoidance (RCW 82.32.655). However, to the extent that a centralized money management arrangement is used to disguise or otherwise facilitate an unfair tax avoidance arrangement, the department will treat the arrangement as unfair tax avoidance.

References

WAC 458 20 203 – Corporations, Massachusetts trusts.

RCW 82.04.4281 – Deductions – Investments, dividends, interest on loans.

RCW 82.32.655 – Tax avoidance.