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Reorganization of a manufacturing company in an international group for tax optimization purposes

A STORY FROM TAX PRACTICE

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From 2012 to 2014, Martin served as director of the Tax and Legal department at **Pricewaterhouse Coopers Czech Republic**, and from 2004 to 2012 he worked as senior manager at **KPMG**. For several years, he also chaired the **International Taxation and Customs Section of the Chamber of Tax Advisors**. He studied Accounting and Financial management at the University of Economics in Prague as well as Faculty of Mathematics and Physics at Charles University. He has been helping Czech entrepreneurs with taxes and accounting for over 20 years.

Martin has long specialized in cross-border transactions and their implications, and for several years he also headed the **International Taxation and Transfer Pricing Section at KDP ČR.**

How to properly set up group transactions for optimal tax planning

Tax burden optimization, or tax planning, is a highly specialized discipline that requires knowledge of not only the Czech tax code but also international legislation.

Let’s take a closer look at an example where we created the ideal set up after the reorganization of a manufacturing company in an international group.

Tax planning is not tax evasion

Despite the beliefs of many managers, tax planning is not tax evasion. It is a completely legal way to reduce your tax burden. The goal of professional tax advisors is to reduce your tax liability in a legal way while maintaining several basic principles:

- Content vs. Form — The form of the transaction must correspond to the truly intended purpose
- Transfer pricing — Transfer prices must be at arm's length prices
- Restrictions on tax loss carryforwards — Trading with loss-making companies to reduce tax liability is against the law
- Low capitalization — The total volume of loans of companies in the group must not exceed four times the equity
- Tax avoidance in other ways — Transactions that are disadvantageous or clearly meaningless for the company are not allowed (e.g. wasted investments – a building followed by its sale and payment for its liquidation)
- Abuse of law — Formally in accordance with the law, but contrary to the social order – for example, special purpose foundations

A manufacturing company produces, but who generates the profit?

In our case, the manufacturing company was based on a situation where it not only manufactured products in various countries (the Czech Republic, China, the USA), but also managed business activities worldwide (through sales companies in Slovakia, Russia, and South America), secured financing, and owned all licenses.

Profit from trading operations for the year amounted to 750 million crowns, profit from financial operations amounted to 40 million crowns. Tax costs before the reorganization were 130 million crowns. The total operating result was therefore 660 million crowns.

He is a certified tax advisor, holder of a diploma from the Fellow of the Chartered Certified Accountants (FCCA) and a graduate of the **MBA program at the UCLA Anderson School of Management**.

Martin also holds an expert qualification in transfer pricing and international transactions in general.

Martin speaks Czech and English.

“We know how to reduce your tax burden within the limits of the law. “

Martin Houska

Dividing activities into different entities in different countries leads to tax optimization.

In this case, the entire group underwent a tax-optimized reorganization. The company was purchased by a Swiss principal. Now, the responsibilities and activities of the individual entities have been divided and optimized.

So how did everything get set up?

The Swiss entity was now newly responsible for:

Supply of production resources	Planning of production	Storage of finished products	And then the actual sale of the products

Intangible assets – i.e. the brand name – were transferred to a Maltese entity. Financing was now handled by a single entity in the group based in Ireland.

What financial impact did the reorganization have on the group's overall profit?

Thanks to the division of responsibilities and activities into entities with different tax regimes, the entire group was able to realize an after-tax profit 100 million higher compared to before the reorganization.

For the Czech entity, this meant a reduction in profits, which, however, became much more certain, predictable and stable thanks to the reorganization.

So how did it go overall?

The trading operating profit was 150 million, the financial profit was 80 million, the tax expense was 30 million, but the Maltese and Irish entities together generated a profit of 560 million. The total profit after tax was therefore 760 million, a full 100 million higher than before the reorganization.

And how can we at Acredos help you reduce your tax burden?