

Substance requirement in global tax planning

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EXECUTIVE SUMMARY There are two broad conclusions drawn from the research paper on the taxonomy of multinational companies. As far as substance requirement is concerned, the paper draws a conclusion that multinational companies have a number of components substance including assets, equity, cash flow and liabilities. Because of the multi-varying components of substance, most multinational companies and especially tax authorities have measured the financial fortunes of companies based on their substance. It is in light of this that the research paper highlights the need and possibility of companies to use substance planning as a mechanism for undertaking tax planning as the amount of substance they hold gives a clear cut indication of the quantum of tax they may be expected to pay. As tax planning possibilities increase for companies, particularly holding companies, the research paper agreed with Jourdan (2009) who found that “ concerned states are eagerly trying to protect their tax base by developing anti-tax-avoidance legislation – often in ways that disregard the character of the activity conducted.” It is based on this recurring development that the research makes a very strong advocacy to companies to adapt radical means and measures of ensuring that the payment of taxes does not become a hitch to their financial growth. Part from the setting up of holding companies to be used in qualifying for tax exemptions, the research therefore concludes that companies could rather use re-basement of their assets. Some of the key findings made from the research paper on tax strategizing are given in the bullet points below: The key advantage associated with substance in international tax planning is that it helps the multinational company in better tracking its true financial assets with or without tax reliefs The use of claiming treaty benefit is one of the safest legal

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means of gaining legitimate reliefs from taxes. Since the quantum of incomes determine the tax base of companies, companies should strategize to reduce their come while concurrently reducing their expenditure to ensure stability of profit margin. Multinational companies should set up holding companies as a way of getting tax reliefs.