

Increasing deal value through tax and transfer pricing optimisation



By LanPeng Chin, Transfer Pricing Director, KPMG in Singapore

When acquiring a business, executives of Private Equity firms and MNCs generally identify opportunities to generate value through three broad value creation levers. These include:

- i. Financial engineering:** The application of debt and equity mix to maximize return on investment.
- ii. Governance engineering:** The use of governance to improve management oversight and control.
- iii. Operational engineering:** Redefining the business and operating model to drive revenue enhancement and cost optimisation.

Tax efficiencies can play a contributing role in each of the three value drivers. For example:

- i. Financial engineering:** Ensuring interest deductibility of the debt.
- ii. Governance engineering:** Structuring tax efficient incentive programmes for the management team.
- iii. Operational engineering:** Ensuring that the newly implemented operating model and supply chain are tax optimised.

With rising interest rates, executives are increasingly focused on operational engineering to drive value by improving business operation efficiencies. For businesses with operations spanning more than one tax jurisdiction, our experience demonstrates that executives who implemented tax and transfer pricing optimisation at the operational engineering planning phase were able to further enhance the EBITDA and cash flow benefits, thereby increasing business value.

Broadly, tax efficiencies could be achieved by:

- i.** Aligning profits of the business to where the value is generated;
- ii.** Reducing tax leakages through withholding taxes, ensuring cash is repatriation to the business, shareholder and to repay debt in the most efficient manner; and
- iii.** Tax optimising the supply chain to manage custom/indirect tax costs.

In summary, with the pressure to deliver alpha, tax and transfer pricing optimisation initiatives can be a useful lever in the value creation playbook to further improve EBITDA and cash flow. For example, establishing a tax efficient holding structure and an operating model underpinned with robust transfer pricing principles can help achieve savings on cash tax and improve valuation through a lower effective tax rate and improved deferred tax asset recognition.

How can we help?

KPMG in Singapore's transfer pricing team works closely with the firm's tax and deal advisory units and are well positioned to deliver strategic, tailored solutions to help you identify and leverage key opportunities in your tax optimisation journey. Feel free to reach out to any of the key contacts listed below to find out more.

Contact us

KPMG Services Pte Ltd

12 Marine View, #15-01

Asia Square Tower 2

Singapore 018916

T: +65 6213 3388

F: +65 6225 0984



Felicia Chia

Partner

Head of Transfer Pricing

Tax

KPMG in Singapore

T: +65 8198 4967

E: fchia@kpmg.com.sg



Adam Rees

Partner

M&A

Tax

KPMG in Singapore

T: +65 6213 2991

E: adamrees@kpmg.com.sg



LanPeng Chin

Transfer Pricing

Director

Tax

KPMG in Singapore

T: +65 9736 0569

E: lanpengchin@kpmg.com.sg

kpmg.com/socialmedia



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