



## **IO1 - International Tax Issues Task 3 - Tax Consulting Notices**

**Dear Tax Consultants,**

The Board of Sophia's Dream Group has requested you work with another country's tax team on a specific international tax issue of concern.

You are to liaise with the other team, discuss the issue(s) and agree a set of recommendations that may/should resolve the matter and allay the Board's concerns.

You should summarize the issue(s) and your recommendations in a brief PowerPoint presentation to the Board (8-10 minutes), allowing for 5 minutes of questions or further discussions.

Kind regards,

Phyllis Alexander (IO1 Lead)

Attachments: the following pages set out the collaborations and respective tax issues for consideration by each group of Tax Consultants.



## **Collaboration – Spain and Portugal**

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### **To the Tax Consultants in Spain:**

Your team has been contacted by the Tax Consultants in Portugal, who have become aware of the growing economic activities of the SDG micro-sites in Portugal. *SD-RC Spain LLC* has not recognized these micro-sites as permanent establishments and therefore has not filed corporate tax returns in Portugal for the profits attributable to that activity. The Portuguese Tax Team are concerned that SDG may be exposed to back taxes and significant penalties and interest for noncompliance, if challenged by the Portuguese Tax Authorities. The two teams will liaise on the questions of status and tax-exposures of the micro-sites: (1) do they fall under the internationally recognized definition of PE and if so, (2) how will the attributable profits be determined? The two teams should prepare a statement and set of recommendations to present to the SDG Board.

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### **To the Tax Consultants in Portugal:**

Your team has become aware of the growing economic activities of the SDG micro-sites in Portugal. *SD-RC Spain LLC* has not recognized these micro-sites as permanent establishments and therefore has not filed corporate tax returns in Portugal for the profits attributable to that activity. Your team are concerned that SDG may be exposed to back taxes and significant penalties and interest for noncompliance if challenged by the Portuguese Tax Authorities. Your team have recently contacted the Tax Consultants in Spain on this matter. The two teams will liaise on the questions of status and tax-exposures of the micro-sites: (1) do they fall under the internationally recognized definition of PE and if so, (2) how will the attributable profits be determined? The two teams should prepare a statement and set of recommendations to present to the SDG Board.



## Collaboration – Greece and Hungary

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### **To the Tax Consultants in Greece:**

Your team has become aware of workshops operating in Greece, engaging in procurement and early processing activities which may be deemed essential to the core business of SDG. *Sophia's Dream Blend Kft* has not recognized these workshops as permanent establishments and therefore has not filed corporate tax returns in Greece for the profits attributable to those activities. Your team are concerned that SDG may be exposed to back taxes and significant penalties and interest for noncompliance if challenged by the Greek Tax Authorities. Your team have recently contacted the Tax Consultants in Hungary on this matter with the intension to liaise on the questions of status and tax-exposures of the workshops: (1) do they fall under the internationally recognized definition of PE and if so, (2) how will the attributable profits be determined? The two teams should prepare a statement and set of recommendations to present to the SDG Board.

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### **To the Tax Consultants in Hungary:**

Your team has been contacted by the Tax Consultants in Greece, who have become aware of the activities of the workshops operating in that country. They have expressed concern over the position your team has taken in not recognizing the workshops as permanent establishments. They do not believe the activities are exempt as merely preparatory or auxiliary in nature. They believe this position may be challenged by the Greek Tax Authorities who will deem the activities of procurement and processing as essential to the core business of SDG. If the Greek Tax Authorities are successful in their challenge, SDG may be exposed to back taxes and significant penalties and interest for noncompliance. Your team are to liaise with Tax Consultants in Greece to discuss the status and tax-exposure of workshops: (1) do they fall under the internationally recognized definition of PE and if so, (2) how will the attributable profits be determined? The two teams should prepare a statement and set of recommendations to present to the SDG Board.



## **Collaboration – Lithuania and Hungary**

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### **To the Tax Consultants in Lithuania:**

Your team has become aware of the growing economic activities of the SDG micro-sites in Lithuania. *Virtually Sophia Kft* has not recognized these micro-sites as permanent establishments and therefore has not filed corporate tax returns in Lithuania for the profits attributable to that activity. Your team is also concerned by the fact that the Group lease a server in Lithuania, further evidencing their significant (taxable?) presence. Your team are concerned that SDG may be exposed to back taxes and significant penalties and interest for noncompliance if challenged by the Lithuanian Tax Authorities on these two matters. Your team has therefore contacted the Tax Consultants in Hungary to liaise in the preparation of a statement and set of recommendations to present to the SDG Board.

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### **To the Tax Consultants in Hungary:**

Your team has been contacted by the Tax Consultants in Lithuania, who have become aware of the growing economic activities of the SDG micro-sites in Lithuania. *Virtually Sophia Kft* has not recognized these micro-sites as permanent establishments and therefore has not filed corporate tax returns in Lithuania for the profits attributable to that activity. The Lithuanian Tax Team are concerned that SDG may be exposed to back taxes and significant penalties and interest for noncompliance, if challenged by the Lithuanian Tax Authorities. They have also expressed concern over the lease of the server in Lithuania, claiming this may be construed to also be a permanent establishment. Your team are to liaise with the Lithuanian Team in the preparation of a statement and set of recommendations to present to the SDG Board.



## **Collaboration – The UK and Luxembourg**

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### **To the Tax Consultants in the UK:**

Your team has become increasingly concerned by the aggressive tax position taken by SDG with the placement of Intellectual Property in Luxembourg. As all of the research and development occurs in the UK, the subsequent transfer of viable IP for exclusive exploitation may expose the Group to significant reputational and monetary damages. You are concerned that the UK Tax Authorities might challenge the Group's structure and then assess back taxes and significant penalties and interest. Your team has therefore contacted the Tax Consultants in Luxembourg to discuss the validity of the current structure and liaise in the preparation of a statement and set of recommendations to present to the SDG Board.

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### **To the Tax Consultants in Luxembourg:**

Your team has been contacted by the Tax Consultants in the UK, claiming to be concerned by what they call an 'aggressive tax position' taken by SDG with the placement of Intellectual Property in Luxembourg. They are concerned by the Group's transfer of viable IP for exclusive exploitation, claiming potential exposure to significant reputational and monetary damages. They have expressed concern that the UK Tax Authorities might challenge the Group's structure and then assess back taxes and significant penalties and interest. Your team are to liaise with the Tax Consultants in the UK to discuss the validity of the current structure and prepare of a statement and set of recommendations to present to the SDG Board.



## Collaboration – Italy and Germany

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### To the Tax Consultants in Germany:

Your team has become aware that *Sophia's Dream World GmbH* sells 3D printers and hologram projectors to retail centres and micro-sites across Europe and in North America at cost and then provides hardware technical support/servicing and general IT support to the Group without remuneration. You are concerned that the German Tax Authorities might challenge these inter-group transfer pricings and then assess back taxes and significant penalties and interest on the unreported revenue. Your team has decided to contact the Tax Consultants to one affiliated entity, *SDRC-Italy Srl*. You will discuss the justifications and/or tax-exposures given the current transfer pricing and liaise in the preparation of a statement and set of recommendations to present to the SDG Board.

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### To the Tax Consultants in Italy:

Your team has been contacted by the Tax Consultants in Germany, expressing concern over transfer pricing of hardware and technical/IT support within SDG. *Sophia's Dream World GmbH* sells 3D printers and hologram projectors to retail centres and micro-sites across Europe and in North America at cost and then provides hardware technical support/servicing and general IT support to the Group without remuneration. The German Team are concerned that the German Tax Authorities might challenge these inter-group transfer pricings and then assess back taxes and significant penalties and interest on the unreported revenue. Your team will liaise with the German Team, discuss the justifications and/or tax-exposures given the current transfer pricing and then prepare a statement and set of recommendations to present to the SDG Board.



## Collaboration – Romania and France

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### To the Tax Consultants in Romania:

Your team has become aware that *New Tech SC* leases electric vehicles and drones to SDG retail centres and micro-sites across Europe and in North America at significantly discounted rates but then provides service contracts for remuneration well-above the amounts charged to other customers. You are concerned that the Romanian Tax Authorities might challenge SDG lease arrangements on the grounds that they constitute transfer pricings between affiliates. If the Authorities are successful, SDG will potentially be liable for significant tax liabilities, as well as significant penalties and interest on the under-reported revenue for the leases. Due consideration for the subsequent service contracts will then be necessary. Your team has decided to contact the Tax Consultants to *SDRC-France SAS*. You will discuss the relationship of the entities (are they affiliated?) and the justifications and/or tax-exposure to potential transfer pricing with the French Team. You will liaise in the preparation of a statement and set of recommendations to present to the SDG Board.

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### To the Tax Consultants in France:

Your team has been contacted by the Tax Consultants in Romania, expressing concern over what they believe to be transfer pricing issues between affiliates. *New Tech SC* offers long-term leasing contracts of electric vehicles and drones to retail centres (including *SDRC-France SAS*) and micro-sites across Europe and in North America at significant discounts and then provides service contracts well-above the amounts charged to other customers. The Romanian Team are concerned that the Romanian Tax Authorities might consider the affiliation of *New Tech SC* to SDG close enough to warrant transfer-pricing consideration and thereby challenge the leasing arrangements, assessing back taxes and significant penalties and interest on the under-reported revenue. Due consideration for the subsequent service contracts will also be necessary. Your team will liaise with the Romanian Team, discuss the justifications and/or tax-exposures given the current transfer pricing and then prepare a statement and set of recommendations to present to the SDG Board.



## **Collaboration – Austria and Germany**

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### **To the Tax Consultants in Germany:**

Your team has become aware that *Sophia's Dream World GmbH* has accumulated a significant amount of debt over the past five years, all of which are loans from *Sophia's Finance Ltd*. You are concerned that the German Tax Authorities might challenge this inter-group financing arrangement, restrict interest deductions and assess additional corporate taxes with penalties and interest. Your team has decided to contact the Tax Consultants in Austria to discuss the justifications and/or tax-exposures given the current transfer pricing arrangements and then prepare a statement and set of recommendations to present to the SDG Board.

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### **To the Tax Consultants in Austria:**

Your team has been contacted by the Tax Consultants in Austria, expressing concern over the transfer pricing of the inter-group loans extended to *Sophia's Dream World GmbH*. The German Team are concerned that the German Tax Authorities might challenge these inter-group financing arrangements, restrict interest deductions and assess additional corporate taxes with penalties and interest. Your team will liaise with the German Team, discuss the justifications and/or tax-exposures given the current transfer pricing and then prepare a statement and set of recommendations to present to the SDG Board.