Willis Towers Watson

RADAR

A positive approach to meeting the challenge of Base Erosion and Profit Shifting (BEPS)

International tax issues have never been subject to as much public or political attention as in recent years. High profile cases of international profit shifting to lower tax jurisdictions involving well known global corporations and a number of controversial 'leaks', including the "Panama Papers", has further increased sensitivity to these issues.

In response to this, the G20 and the Organisation for Economic Co-operation and Development (OECD) jointly developed the Base Erosion and Profit Shifting (BEPS) action plan which aims to renovate the global taxation rules and in particular the areas which could potentially lead to unfair tax practices and treatments.

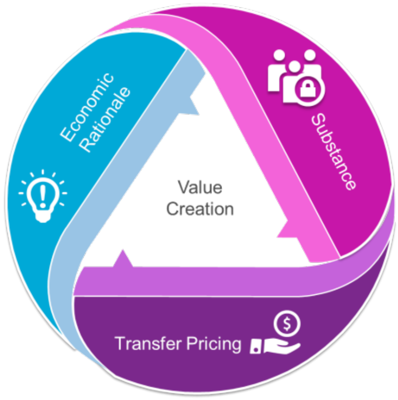
Captive insurance companies are specifically referenced by the OECD as an instrument through which profit shifting could be achieved. For this reason captives will be a distinct area of focus and as such it is incumbent upon captive owners to prepare and ensure that they have a comprehensive response to BEPS scrutiny.

BEPS implications for captives

The anti BEPS measures introduced as part of the OECD's 15 point action plan are wide ranging and could potentially target a captive in multiple ways. The implications of BEPS scrutiny could range from;

- Double taxation or Inadmissibility of tax deductions from premiums;
- Increased time and costs from audit and negotiations with tax auditors;
- Reputational Risk (internal and/or external)

The BEPS package is designed around three key test areas or 'pillars':



Economic Rationale – Risk/reward and employment of assets compared to profits – does the arrangement make financial sense?

Substance – Direction, management and infrastructure in place commensurate with profit creation

Transfer Pricing – Is the arm's length principle being appropriately applied – can transactions be independently benchmarked?

The three pillars combine to support the principle of Value Creation - can profits be aligned to demonstrate genuine corporate value? Such implications may severely impact the ongoing viability of the captive, potentially resulting in the re-domiciliation and in some cases, the closure of captives.

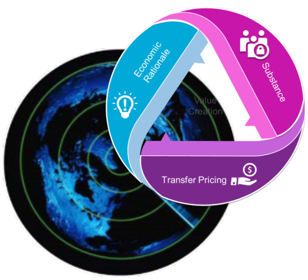
Willis Towers Watson's new RADAR programme provides a holistic, comprehensive and progressive response to the three pillars of the BEPS captive package. Supported by proprietary quantitative and qualitative assessment, RADAR will enable captive owners to make fully informed decisions and ensure that their captive strategy retains BEPS resilience.

So, how does RADAR work?

RADAR is a framework of actions and proprietary tools designed to help captive owners to respond effectively to the challenge of BEPS	
Review	provides a framework to review and assess BEPS compliance
Analyse	establish robust protocols to analyse areas for improvement
Document	ensure that all aspects of compliance are properly documented
Action	prepare an agreed action plan for appropriate remedial action
Reassess	continuous reassessment to maintain compliance

The purpose of RADAR is to provide captive owners with a clear blueprint to BEPS compliance, captive value and future strategy in a format that is reviewable and which supports high level governance and oversight.

RADAR is a bespoke service, built around each client's individual needs, which will provide advice in key areas including:



- Economic Rationale
- Value
- Substance
- Documentation

Our RADAR analysis provides insight to the OECD BEPS action plan and helps you prepare answers to many of the risk factors addressed in relation to your captive. Our approach is structured to your specific needs and will help you gain:

- A greater understanding of the OECD BEPS action plan measures, timelines and impact on captives
- Formal documentation of the justification of the captive usage as a basis for BEPS scrutiny
- Identification of options to strengthen the captives position regarding BEPS compliance
- Greater understanding of the long term implications of BEPS on the parent organisation's risk and insurance strategy

Contacts

Speak to one of our senior captive consultants to arrange an appointment to explore how RADAR can help your business

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