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A place in the sun?

Brass, Richard

Shifting your procurement operations to a tax haven might sound like a good idea, but it's unwise unless it's for sound commercial reasons, finds Richard Brass

Are you enjoying your job?

Do you think you've got the right suppliers in place and the right kinds of contracts running? Are you pleased with how you're contributing to your corporate performance?

Well, don't get too comfortable. The signs are that an increasing number of companies are looking to make even more out of their procurement functions, however lean and efficient they already are, by offshoring them to more tax-friendly locations.

A recent survey of 60 CPOs at leading global companies by German consultancy BrainNet found 19 per cent had offshored their procurement shared service centre to optimise tax performance. A further 23 per cent were planning to follow suit.

This indicates that a shift to a less demanding tax environment could be on the cards for procurement departments all over the UK.

NEW LEASE OF LIFE

So should you stock up on sun cream and prepare for a refreshing posting to the Cayman Islands, or hone your fishing skills for a new life on Jersey?

Not according to Nick Farr, international tax partner with accountancy firm Grant Thornton. While many companies are moving their procurement functions to more tax-friendly locations, he says, very few are choosing classic tax havens. Instead, they are moving to less glamorous places - as they must, he believes, because it's a move that should only be made for the right reasons and in the right circumstances. "Increasingly, firms are looking at setting up their operations in a tax-efficient way and moving purchasing overseas is a way of potentially doing that. But I've never known a company to do this purely for tax reasons. It needs to be commercially driven."

In other words, the offshore move needs to be for commercial reasons first, with the potential tax benefits being only a secondary consideration. Otherwise, he says, you could be asking for trouble and will probably blow the potential benefit. "If a UK company were just to drop a purchasing function into, for example, Jersey and say, 'We're going to make some profits there and pay no tax', the UK authorities would almost certainly tax it.

"They would use their anti-avoidance powers and say, 'You're doing this for tax-avoidance reasons'. Unless there's substance and a commercial reason for being there, the UK will probably try to tax the profits there as if they were in the UK."

He says firms often move their purchasing functions to Hong Kong and sometimes Singapore as many get their supplies from the Far East and China and they want their teams close to those suppliers.

"I'm not sure if you'd call those countries tax havens, but they're certainly low-tax jurisdictions. Ireland's another place I've seen a lot of people going, with a 12.5 per cent tax rate. These are commercial destinations close to supply hubs, whether

eastern or European, so there's commercial sense in doing it. You can generate a certain amount of profits in that jurisdiction, which will be subject to a lower tax rate, so there's a potential tax advantage.

He adds it make sense to have a central procurement hub close to your suppliers. "If you can do that for commercial reasons, then some of the profits that it generates can be taxed at a lower rate. But if it's a shell company with no commercial reason to be there, it's very likely the UK authorities will seek to tax that."

Switzerland has also attracted such moves, but Farr says it has its drawbacks: "A pharmaceutical company, for example, might have a good reason for putting operations in Switzerland. But the problem is it's very expensive to run an office and employ staff."

WHO IS DOING WHAT

Farr is reluctant to name names of companies that have made or are planning to make this move, but he says he knows of several retailers who have relocated their procurement functions to the Far East, along with goods branding companies, furniture designers and cosmetic designers. It's a sensitive topic. Marks & Spencer, Woolworths, Unilever, Microsoft, Oracle and Motorola are among the companies reported to have offshored their procurement functions to lower-tax jurisdictions, but only three of them responded to SATs requests to discuss their experience. And one of those three, Microsoft, said it had nothing to say on the matter. Both Motorola and Woolworths said simply that their respective procurement moves to Singapore and Hong Kong provided obvious commercial benefits.

This lack of communication makes it hard to work out precisely what kinds of function are being offshored. But, according to Andrew Marsh, a consultant from Atos Consulting, only certain activities are being moved.

"We are seeing a shift where people are looking to move into countries where there's a lower cost base and a tax benefit associated with it. But they are offshoring more of the back-office type of activity, the basic transaction activity. What they're not doing necessarily at this stage is offshoring all of the core category management, the core supplier relationship management"

Marsh believes the shift to offshoring is part of a growing collaboration between procurement and other corporate functions, which can only be good news.

"There's a lot of rhetoric about business needs and getting procurement to that level. But time and time again we fall into trying to drive out the better deal, trying to find the extra five quid off, the extra way of cutting delivery down a little bit more and putting the extra layer of terms and conditions in.

"Most buyers and business users tend not to get people like treasuries and the management accountants involved early, which is a bit of a mistake. Having that tax advisory and management accountancy up front as part of the evaluation team to give you the options of how you might buy and where you might source from is unique."

But he adds there's now more integration in procurement strategies and more integrated project teams out there. "As part of that, we're increasingly seeing tax havens being looked at as a way of further streamlining benefits. But the big driver is that it's cheaper and more effective [to relocate]. The tax thing is just an added sweetener."

Richard Brass is a freelance journalist

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