

OUTSOURCING - OFFSHORING

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OUTSOURCING X OFFSHORING

Outsourcing = subcontracting a service such as product design or manufacturing, to a third-party company

Offshoring = relocation of one or more stages of production (or other company process) from the home country to a foreign country no matter whether the production is carried out by a fully owned subsidiary or a third party with the aim to reduce costs.

international tax planning

OUTSOURCING X OFFSHORING

Location of production		Ownership of production	
		Insourced (internalized)	Outsourced (externalized)
	Onshore production (home country)	1 Production kept in-house at home	2 Production outsourced to third-parties at home
	Offshore production (foreign country)	3 Production by foreign affiliates in a host country	4 Production outsourced to third-parties abroad

Source: Eden (2004), revision of GAO (2004, p. 58).

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Which processes are suitable to be outsourced



if they **do not meet** these criteria:

- They provide customer a value added
- They are hard to be imitated / copied by competition
- They can be broadly used during production many different products or transferred to many markets

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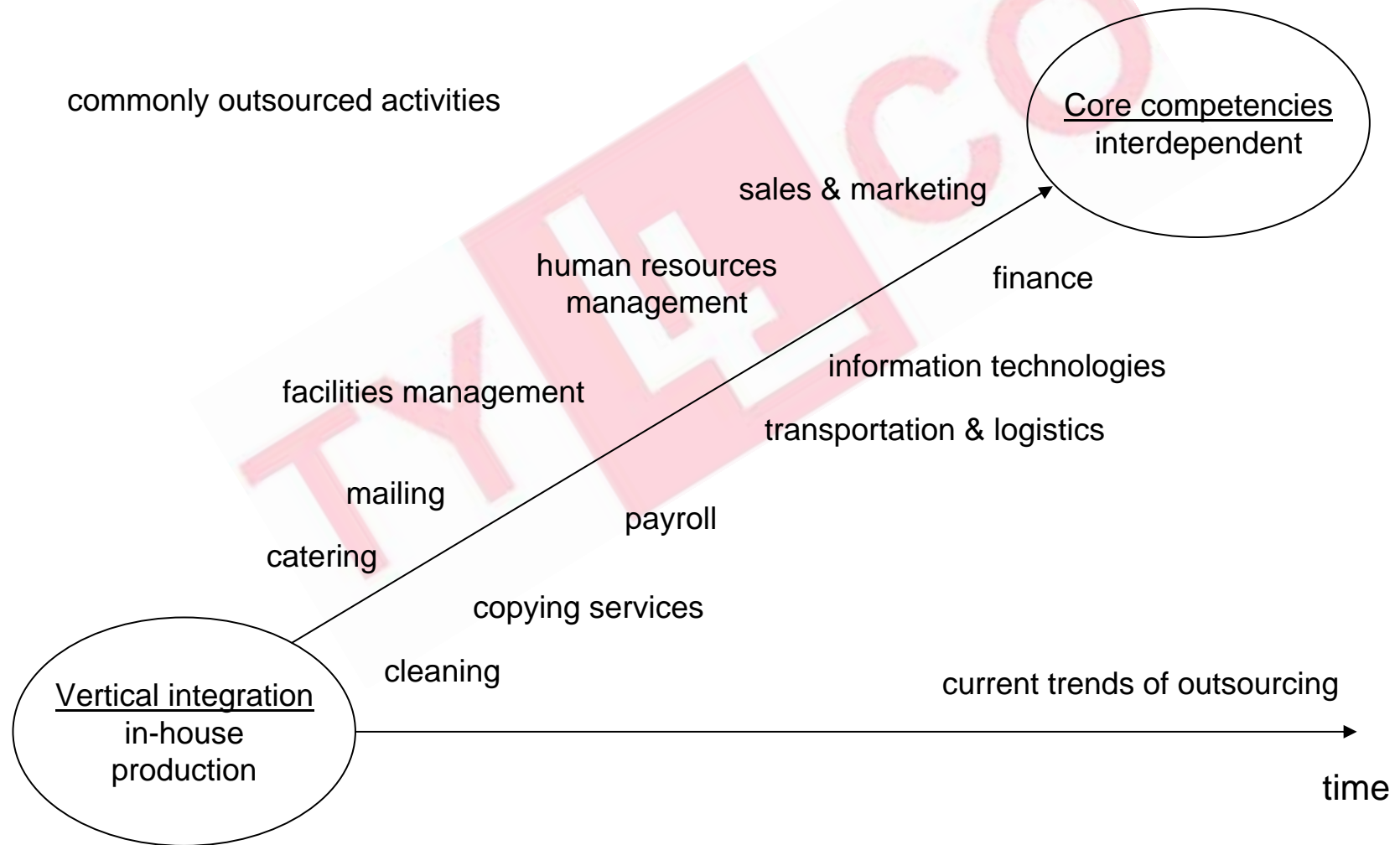
What to outsource

Porter value chain



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What to outsource ?



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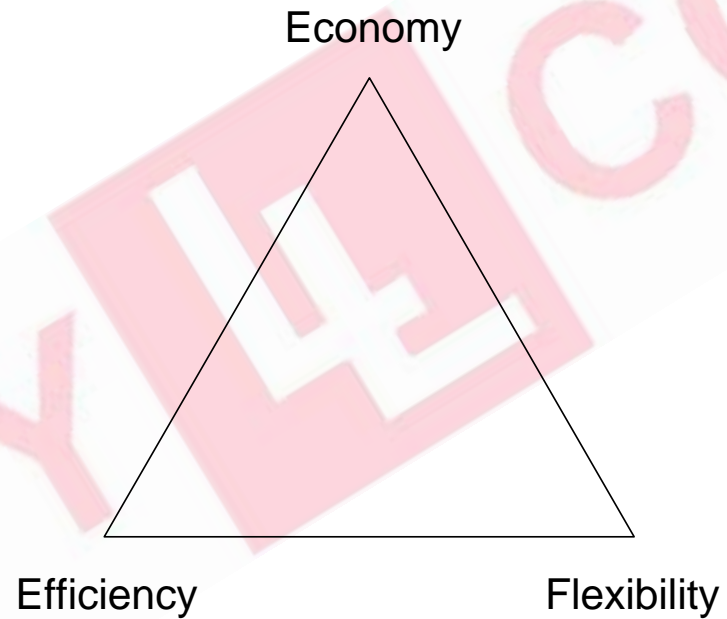
What to outsource - LIMITS

- COSTS
- LOST OF CONTROL
- CONTRACUTAL RESTRICTIONS



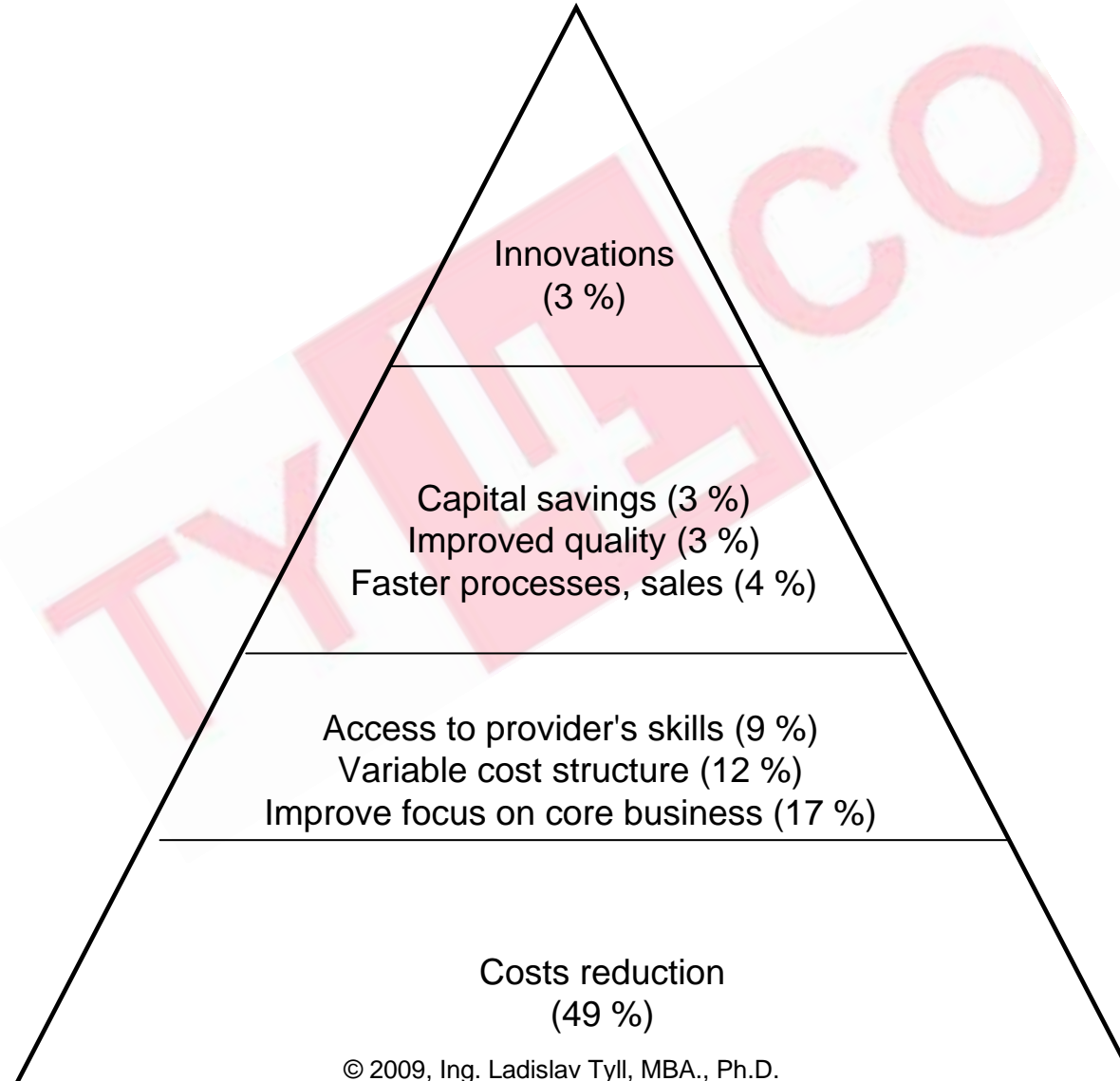
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Goals of outsourcing



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Top reasons for outsourcing



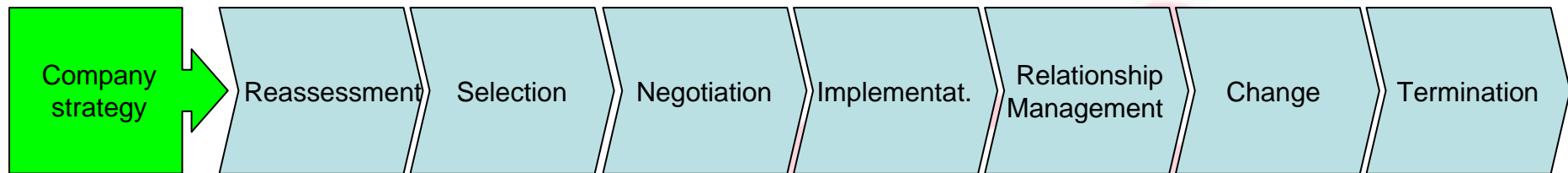
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Reasons for using outsourcing

1. Strategic reasons – focus on the core business
2. Financial reasons
 - savings of financial sources
 - lower price for given process
 - unblocking of capital funds
 - cash infusion
3. Access to possibilities and capabilities on the world level (Best practices)
4. Risk sharing
5. The process does not provide any competitive advantage
6. Resources (inputs) are not available in-house

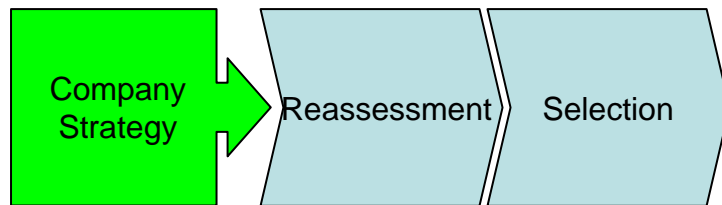
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Life cycle of outsourcing



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Life cycle of outsourcing



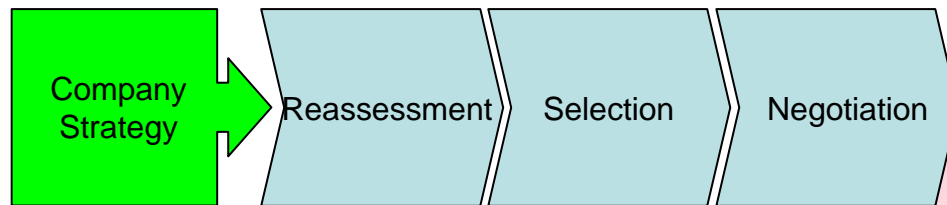
Selection of outsourcing provider

Stages:

- definition of demanded (requested) service (products),
- setting evaluation metrics,
- determination of limit conditions for provided service,
- identification/preselection of prospective providers,
- addressing prospective providers using formal techniques as:
„Request for information“ or „Request for offer“
- short list of candidates (3-6),
- candidates evaluation (ideally on the basis of multicriteria analysis, Due Diligence, Scorecard etc.),
- selection of candidate.

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Life cycle of outsourcing



Contractual conditions

SLA x SLS

SLA

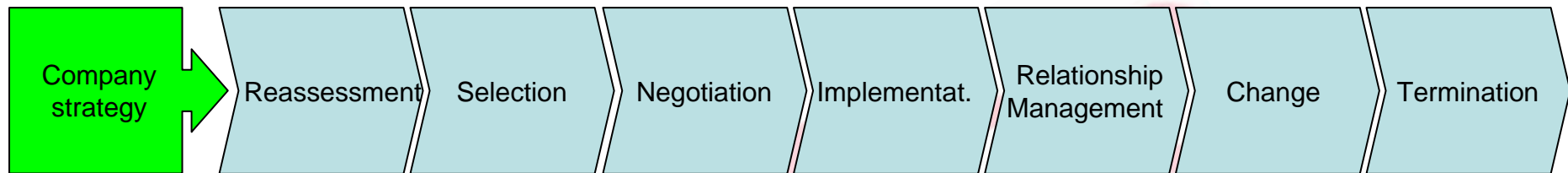
- availability
- reliability
- response time
- scalability

Metrics

- according to the process and aims
- objective + controllable by the provider
- motivating
- available data for analysis
- relevant
- feasible dispersion of gathered values

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Life cycle of outsourcing



Questions:

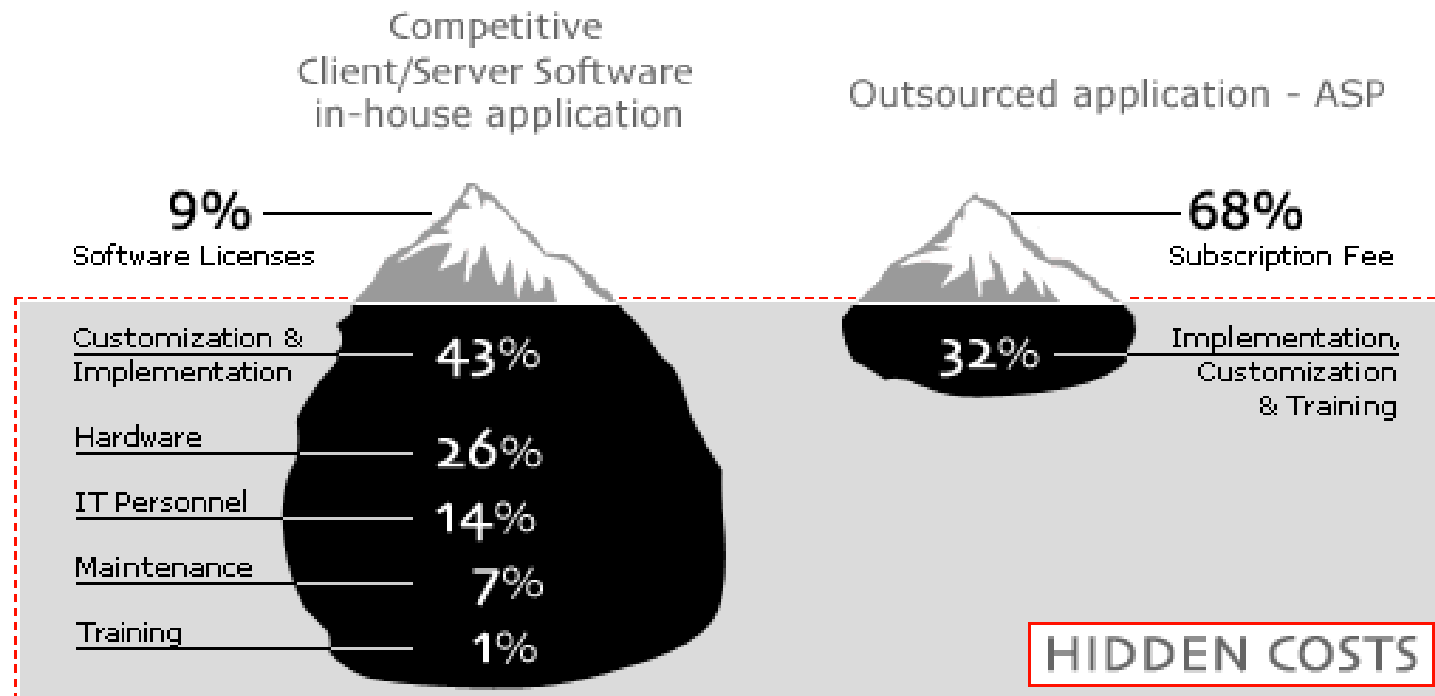
Shall we demand a service from an other provider?

1. Shall we take the process in house again?
2. Shall we even ever need this service?

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Costs for outsourcing

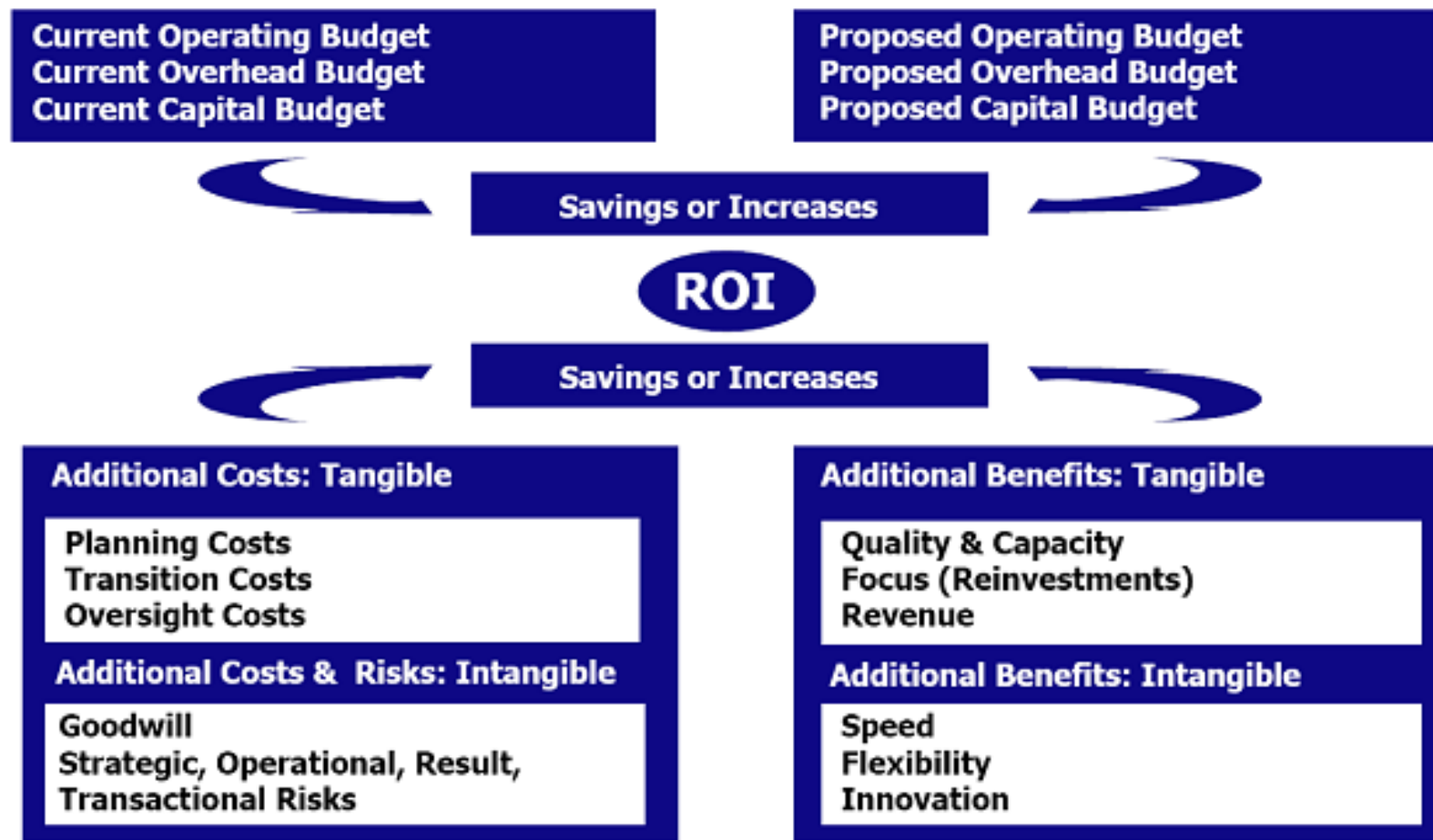
Production x Transactional x Hidden



Advantage: Outsourcing costs are proportional over time

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Financial analysis of an outsourcing decision



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Risks of outsourcing

- Strategic risks
 - Operational risks
 - Transactional risks
 - Financial risks
 - Other risks
- 1. Lost of control*
 - 2. Partner's inability to fulfill its obligations*
 - 3. Quality of provided service or supplied goods*
 - 4. Protection of confidential data*
 - 5. Hidden and indistinct costs*
 - 6. Transfer of knowledge*

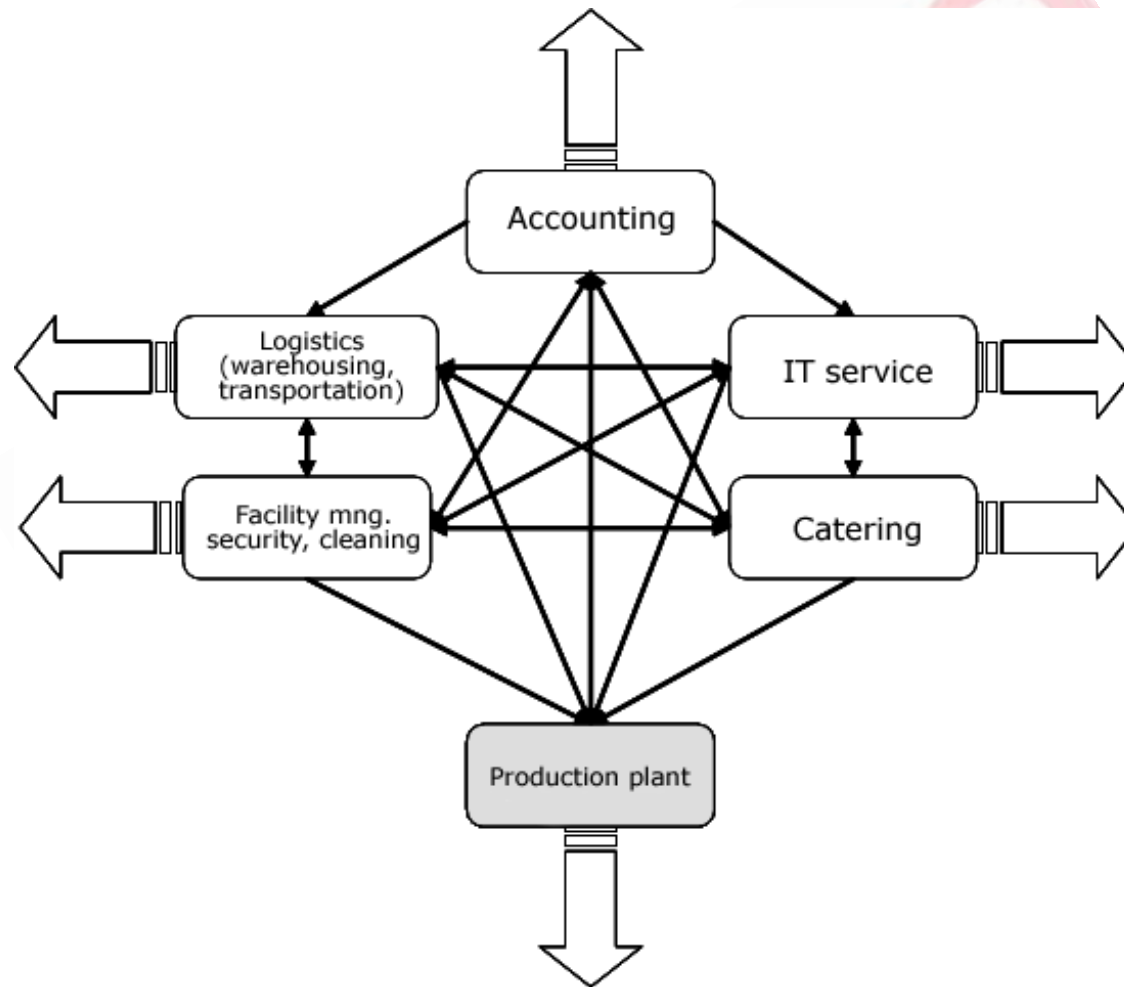
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Organizational forms of cooperation

1. Short-term, occasional contracts usually covering clearly specified tasks for a limited time
2. Typical long-term contract focused on a significant part of a given process.
Contracts for 5 - 10 years.
3. Joint Ventures and long-term partnerships, where both parties share their risks and costs of given processes.

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Organizational forms of cooperation Clusters



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	Outsourcing	In-house
Advantages	<ul style="list-style-type: none"> • better focus on core business • access to professional capabilities • new technologies without additional costs • speed up implementation of new technologies • no responsibility for given process • proportional cost over time • investments reduction • risk sharing with the provider • cash infusion • frees up human resources • easier merger with other companies 	<ul style="list-style-type: none"> • high operability • lower risk of internal information leakage
Disadvantages	<ul style="list-style-type: none"> • lower operability • lost of control over given process • irreversibility of decision without high costs • higher costs for an eventual change • necessity to manage the relationship • risk of inability to deliver the service or goods • uncontrolled internal information flows out of the company • lost of internal talents • hardly quantified revenues (benefits) 	<ul style="list-style-type: none"> • hard to follow world level of the process • responsibility for the process and its management • necessary investments into the process • risk of process stagnation

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Rank	Company	Strengths
1	IBM	Company size and growth
2	Capgemini	Evaluation by clients
3	Hewlett-Packard	Company management
4	Sodexo Alliance	No. of served customers
5	Accenture	Balanced strengths
6	Wipro Technologies	Balanced strengths
7	Infosys	Evaluation by clients
8	Genpact	Company management
9	Tech Mahindra	Employees leadership
10	Cambridge	Company management
11	Mastek	Methodology/Innovation
12	CGI Group	No. of served customers
13	Xchanging	Company size and growth
14	EDS	Methodology/Innovation
15	HCL Technologies	Methodology/Innovation
16	ARAMARK	No. of served customers
17	ACS	No. of served customers
18	Teletech	Balanced strengths

Offshoring

Over and over again courts have said that there is nothing sinister in so arranging one's affairs as to keep taxes as low as possible. Everybody does so, rich or poor; and all do right, for nobody owes any public duty to pay more than the law demands: taxes are enforced exactions, not voluntary contributions. To demand more in the name of morals is mere cant.

American Judge Learned Hand

Offshoring = Reallocation of enterprises processes from one country to another. As a process we consider anything - production and/or services.

Tax haven = country/area with a very favorable tax conditions often with a zero income tax rate.

Offshore companies = Legal entities registered in tax havens

Tax optimisation is a legal downsizing of a tax base

while

Tax evasion is an illegal method of downsizing taxes or avoidance of paying them

Free Trade Zones (FTZ)

= a part of a country where the tax rates, custom duties and quotas are decreased; as well as more reasonable bureaucratic procedures are carried out with the goal to attract investors

Examples of FTZ:

- Konstanca
- Greater Arab Free Trade Area (GAFTA)
- South American Community of Nations (planned for 2007)
- Mercosur
- Andean Community
- Colón Free Trade Zone
- Jamaican Free Zones
- Jebel Ali Free Zone
- Shannon Free Zone
- Andorra

Tax haven

Reasons for a country to become a tax haven:

- gaining regular annual payments to a national budget
- growth of local labour force employment
- attraction of FDI with the impact on the growth of domestic production

Key characteristics of successful tax havens:

- Reasonable level of regulation
- Communication
- Specialisation
- Credibility
- Infrastructure
- Stability
- Flexibility

History of tax havens

- beginning in 80's of 20th century
- boom thanks to new telecommunication technologies
- today approx. ½ of world financial transactions is carried out via tax havens
- 140.000 companies are registered annually in offshore centres

Tax havens clients profile

Individuals:

- Individual heritor
- Entrepreneurs and industrialists
- Businessmen and senior executives
- Entertainers and authors
- Sportsmen and other personalities
- Inventors, engineers and designers
- Owners of intellectual property rights

Legal entities:

- Multinational companies
- Conglomerates
- Shipping companies
- Financial companies

Examples of tax havens

Andorra (0% tax rate from individual incomes)

Bahamas (0% tax rate from income of individuals, corporations and inheritors)

Barbados

Bermudas (0% income tax on foreign earnings)

British Virgin Islands (domicile for 41% offshore companies)

Cayman Islands

Cyprus

Ireland (0% income tax on foreign earnings of entertainers, 10-12% corporate income tax)

Island of Man (No corporate income tax, local earnings taxed by 10%, foreign incomes tax 18%)

Lichtenstein

Luxembourg

Malta

Monaco (no personal income tax.)

Seychelles

Switzerland (taxable income is assumed to be five times the accommodation rental paid)

USA - Delaware

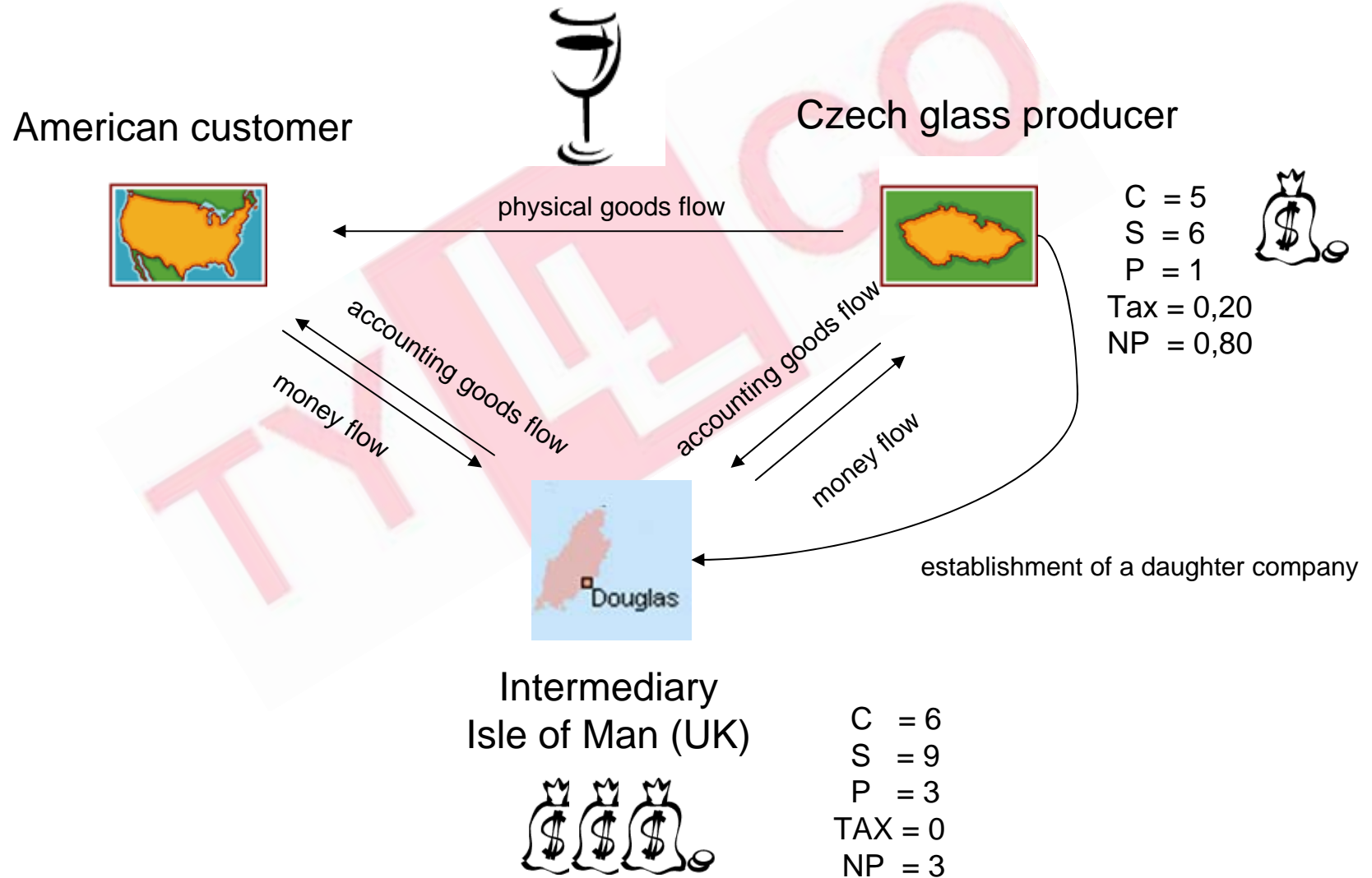
Motives for offshore business

- tax optimization
- exploitation of different law environment
- asset protection
- less regulation (hedge funds, gambling...)
- privacy – anonymity of ownership
- avoidance of forced heirship
- tax evasion (illegal!)
- money laundering (illegal!)

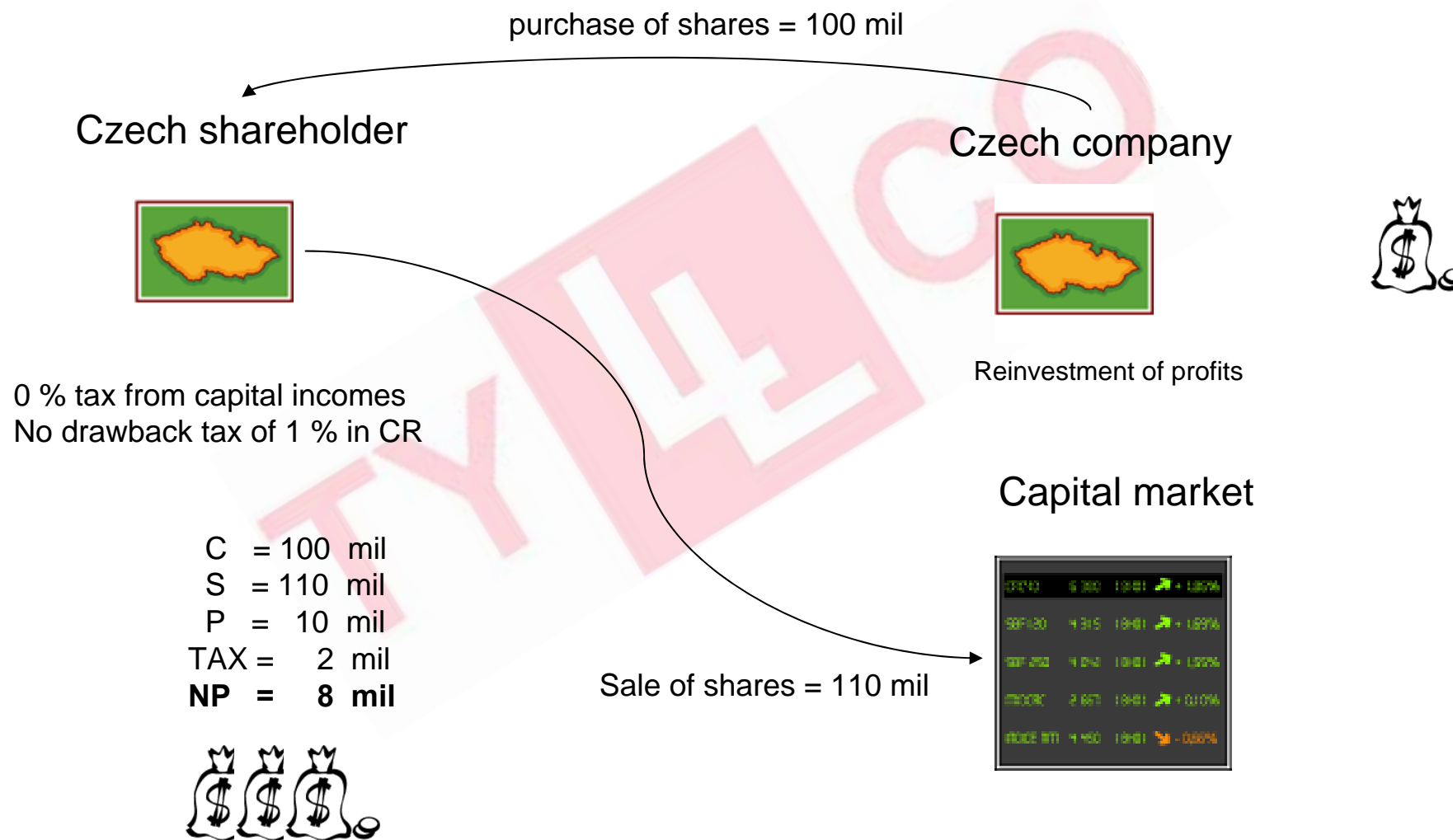
Ten most common reasons for offshoring

1. International trade
2. Consultancy and other business services
3. Financing, funding - investment companies
4. Holding companies
5. Debt collection (factoring, forfeiting)
6. Accumulation of profits from intellectual property
7. Asset ownership - privacy
8. Production
9. Internet casinos
10. Registration of ships

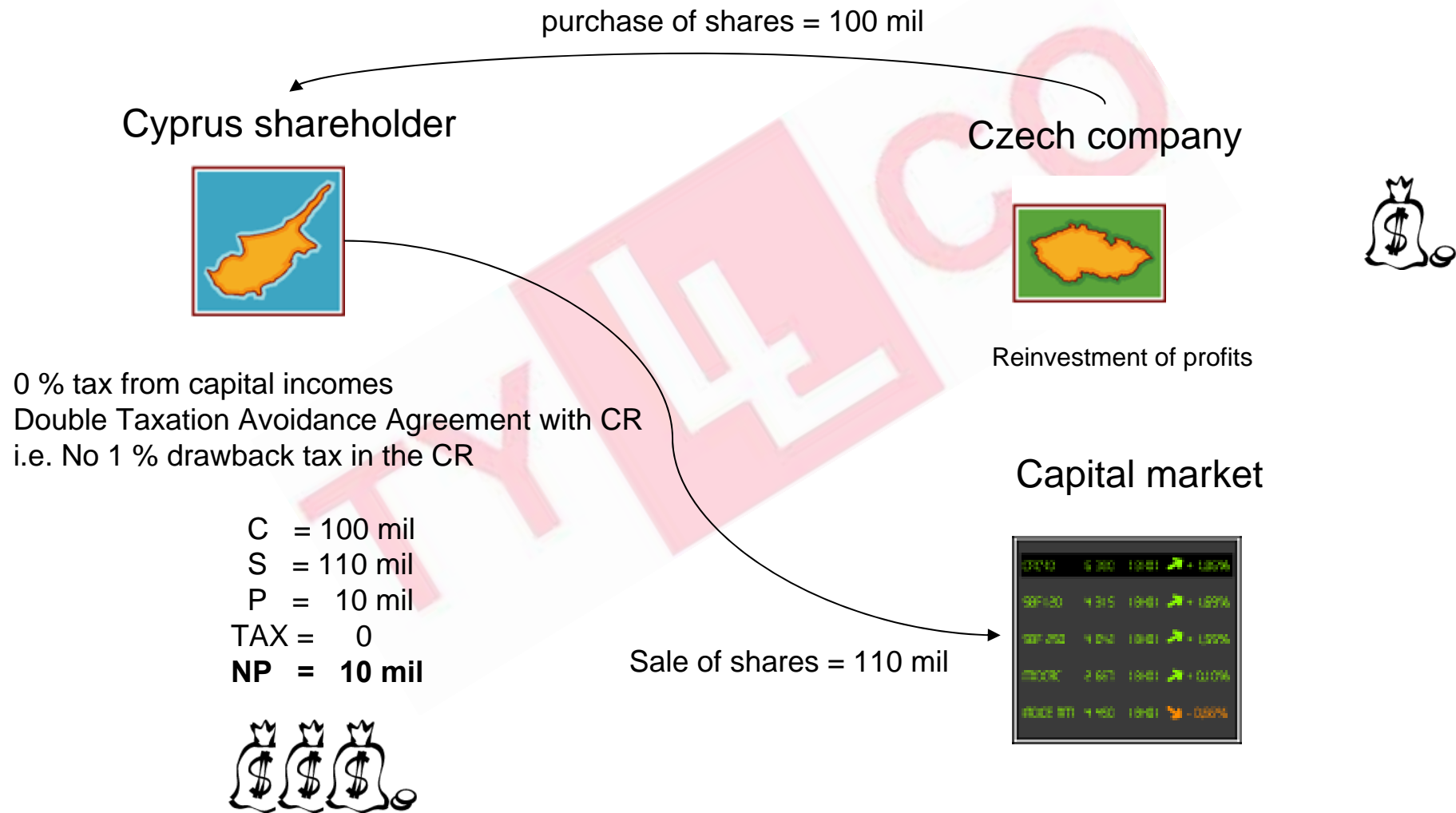
Examples of using offshore companies in international trade – Transfer pricing



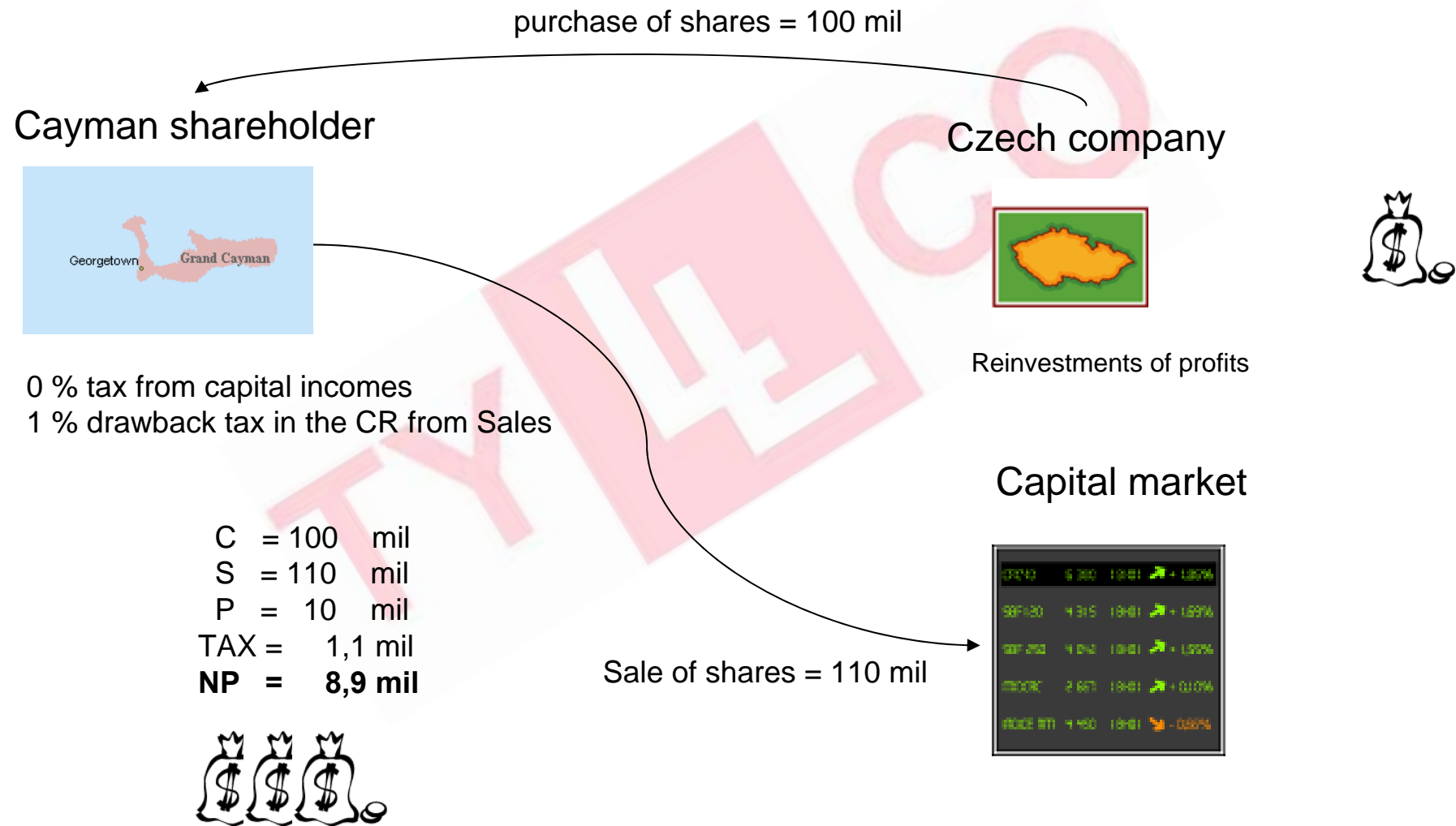
Examples of using offshore companies in international trade with shares



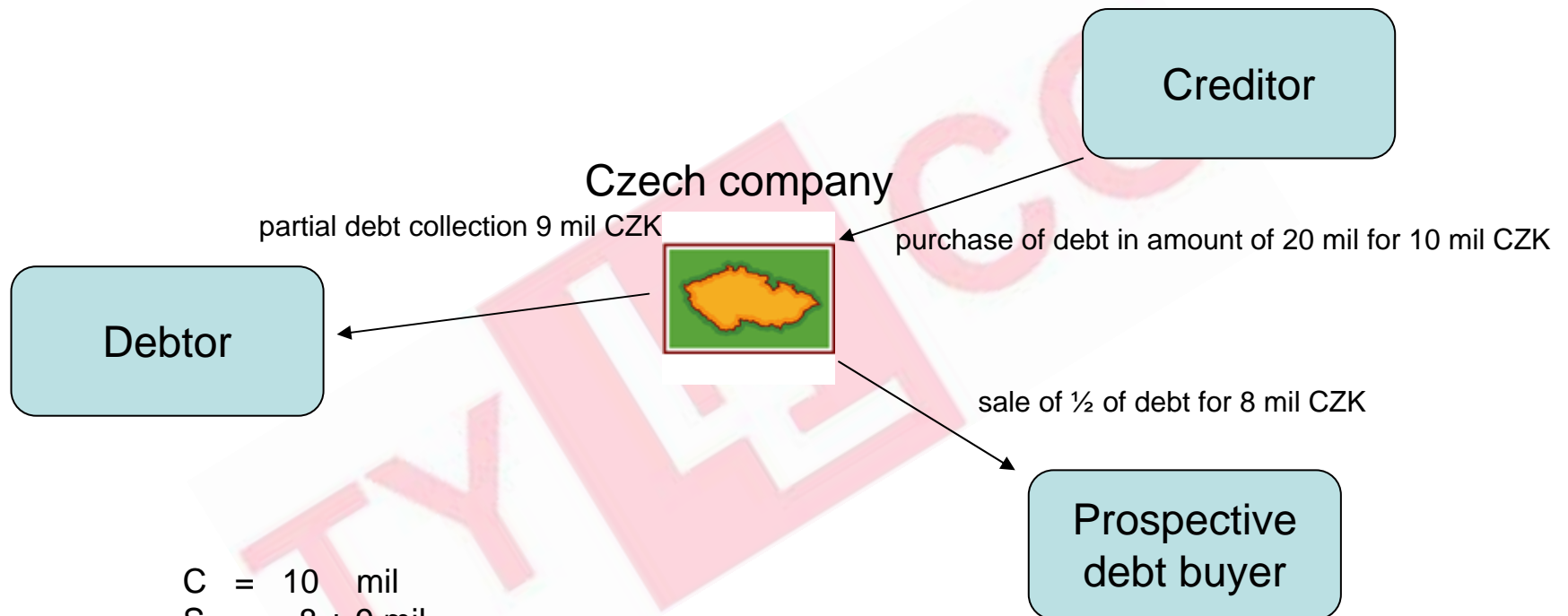
Examples of using offshore companies in international trade with shares



Examples of using offshore companies in international trade with shares



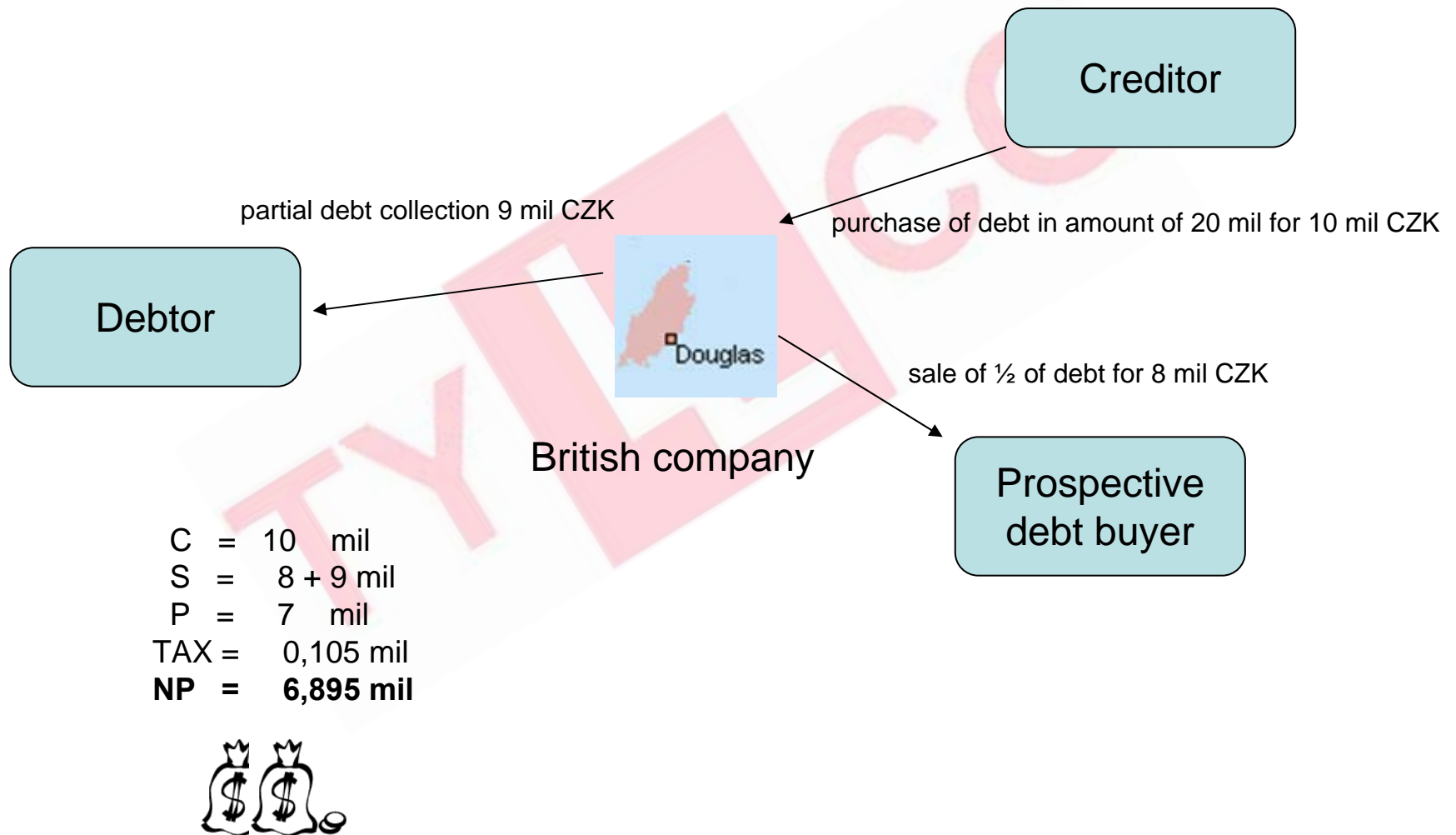
Examples of using offshore companies for debts collection



C = 10 mil
S = 8 + 9 mil
P = 7 mil
TAX = 1,4 mil
NP = 5,6 mil

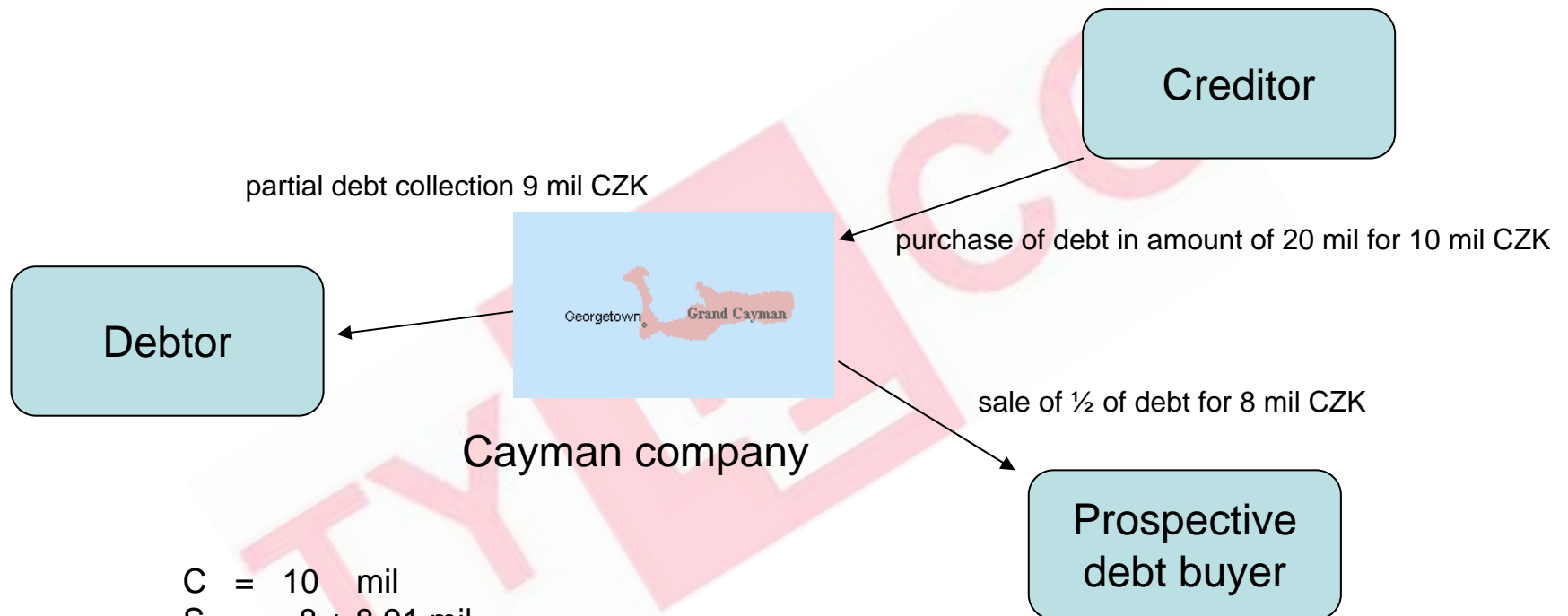


Examples of using offshore companies for debts collection



According to British law there are profits from debts collection taxed by 1,5 %

Examples of using offshore companies for debts collection



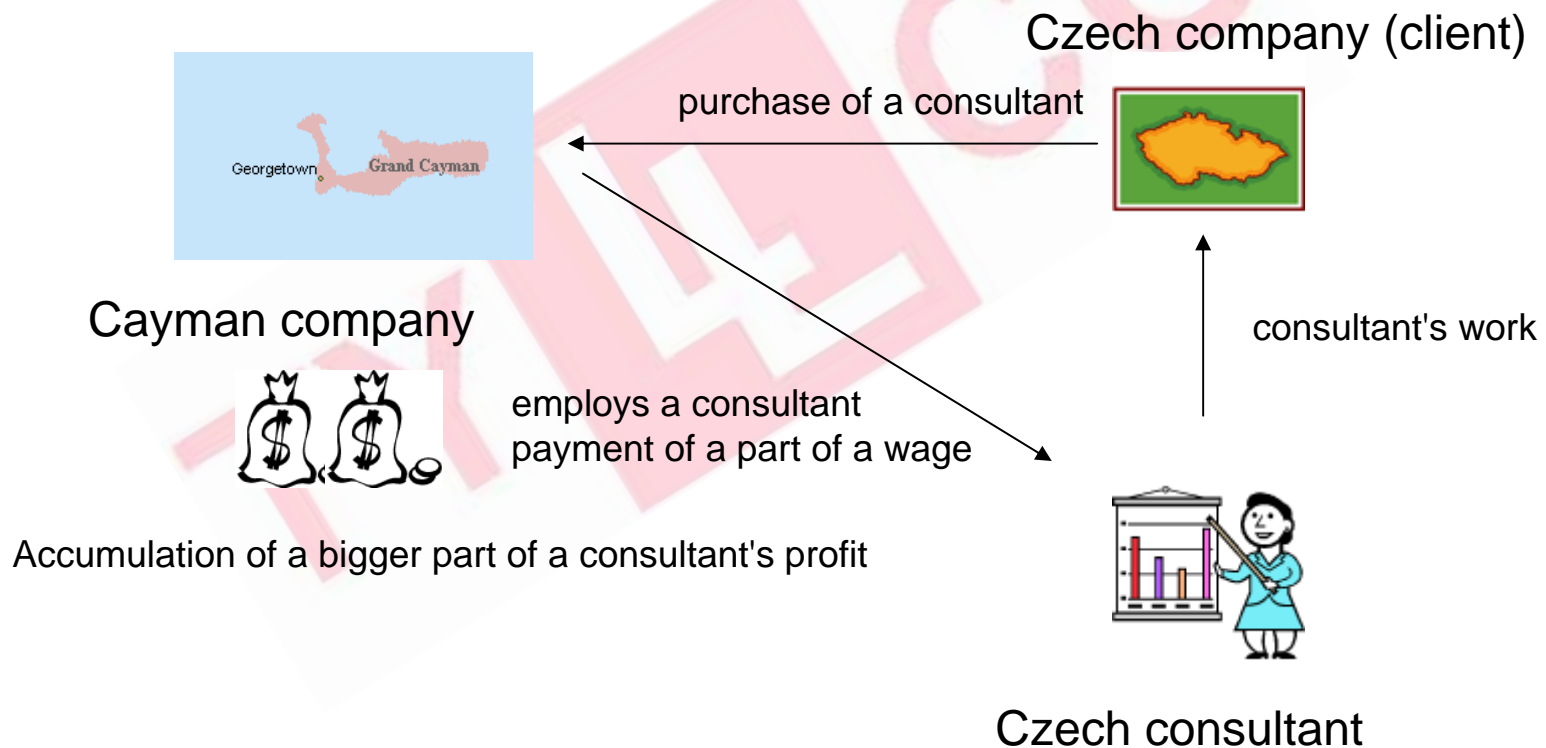
$C = 10 \text{ mil}$
 $S = 8 + 8,91 \text{ mil}$
 $P = 6,91 \text{ mil}$
 $TAX = 0 \text{ mil}$
 $NP = 6,91 \text{ mil}$



Cayman Islands – 0% income tax

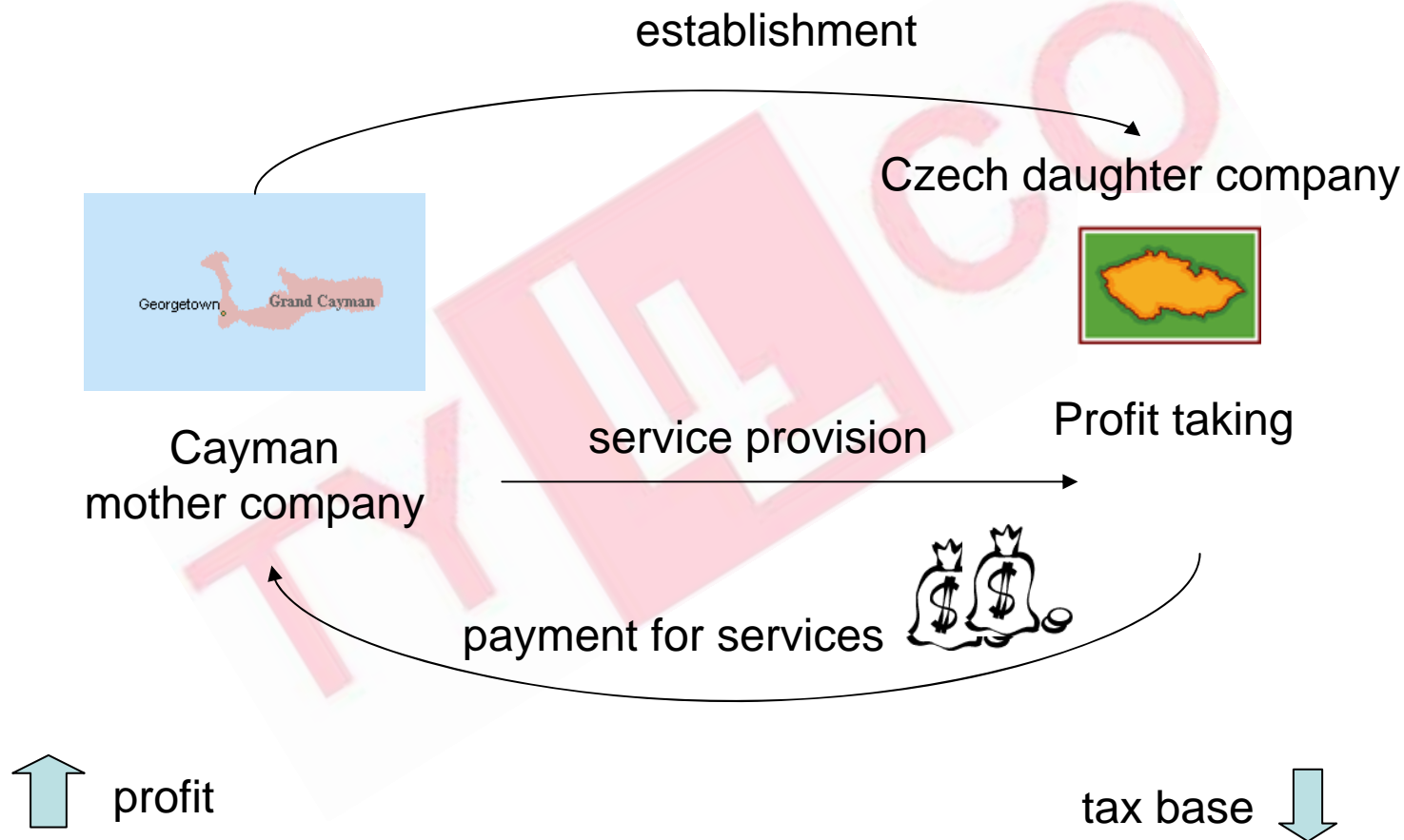
In the CR there is a 1% tax imposed on debt collection gained by cession. Paid by a debtor.

Examples of using offshore companies for providing consultancy and other services



Examples of using offshore companies

Holding companies – Transfer pricing



! Law of income tax (Direction MF CR No. D-292, D-293) !

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Selection of a suitable jurisdiction

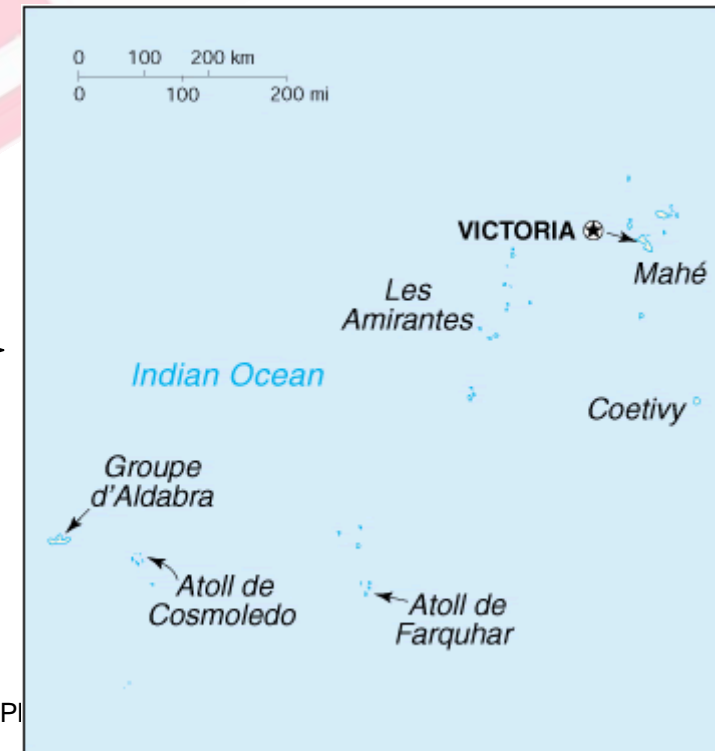
Selection criteria:

- Political and economic stability
- Legislation
- Applicable commercial law
 - English Common Law
 - European commercial law
 - American law
 - Hybrid law
- Existence of a Double Taxation Avoidance Treaties
- Existence desirable conditions
 - Notification duty and bureaucracy
 - System of different licences, standards and regulations
 - Wide spread of enabled company names and their „suffixes“ expressing their limited liability
 - Low requirements for initial (stock) capital
 - Availability to take general meetings anywhere in the world
 - Overall absence or freedom selection of obligatory accounting audits

Republic of Seychelles



- population 84.000
- area 455 km²
- capital Victoria
- official languages: French, English, Creole
- currency: Seychellois rupee (1USD = 5,25SCR)
- No. of registered offshore companies: 23.000 (r. 2005)



Republic of Seychelles



- extraordinary quick establishment of a company – **only hours**
- capital denominated in **any currency**
- minimal amount of initial capital **1 USD**
- **0 %** foreign income tax
- annual fee **100 USD** (if basic share capital up to 100.000 USD, otherwise 300 resp. 1000 USD)
- Seychellois jurisdiction is not on OECD or FATF lists mentioned as a country supporting money laundering
- the law allows to chose a name of a company with any appendix
e.g. s. r. o., a. s., GmbH., AG, Ltd., Co., etc.
- Czech registration courts accept Seychellois documents and IBC without any problems, i.e. they can acquire business shares in the Czech Republic
- there are negotiations with the CR about signing Double taxation avoidance treaty

	Bahamas	Belize	Bermuda	BVI	Cayman Islands	Cyprus	Ireland	Isle of Man	Liechtenstein	Luxembourg	Holland	Seychelles	Switzerland	UK	USA
Type of company	IBC	IBC	Exempt	IBC	Exempt	IBC	PLC	Int. LLC	Anstalt	1929 Holding	BV	IBC	GmbH	LLP	LLC
Common or Civil Law Jurisdiction	Common	Common	Common	Common	Common	Common	Common	Common	Civil	Civil	Civil	Hybrid	Civil	Common	Common
Time to incorporate	10 days	2 days	15 days	2 days	2 days	5 days	10 days	1 day	15 days	2 days	6-8 weeks	2 hours	8 - 10 days	1-8 days	2 days
Minimum annual licence, duty or franchise fee	US\$ 350	US\$ 100	US\$ 1,695	US\$ 300	US\$ 575	N/A	N/A	€ 430	CHF 1,000	0.2% of capital	NLG333	US\$ 100	Varies	N/A	Varies
Annual return filing fee	N/A	N/A	N/A	N/A	N/A	CYP 7	IR€ 150	£ 50	N/A	Nil	N/A	N/A	N/A	£ 50	Varies
Taxation on foreign profits	Nil	Nil	Nil	Nil	Nil	4.25%	Varies	Fiscally transpar.	Annual capital tax of 0.1%	Nil	35%	Nil	Varies	Fiscally transpar.	Fiscally transpar.
Disclosure of beneficial ownership	No	No	Yes	No	No	Yes	No	No	No	No	No	No	Yes	No	No
Bearer shares permitted. Not recommended!	No	Yes	No	Yes	Yes	No	No	N/A	No	Yes	No	Yes	No	No	N/A
Standard minimum paid up capital	US\$ 1	US\$ 1	US\$ 1	US\$ 1	US\$ 1	CYP 1,000	IR€ 2	N/A	CHF 30k	FLUX 1.25M	NLG 40,000	US\$ 1	Normally CHF 20k	£ 2	US\$ 2
Standard authorised share capital	US\$ 50,000	US\$ 50k	US\$ 12k	US\$ 50k	US\$ 50k	CYP 5,000	IR€ 1M	N/A	CHF 30k	FLUX 1.25M	NLG 200,000	US\$ 5000	N/A	N/A	N/A
Permitted currencies of capital	Any	Any	Bermuda \$	Any	Any	Cyprus Pound	Any	Any	Swiss Franc	Any	Any	Any	CHF	Any	Any
Minimum number of members	1	1	1	1	1	1	Normally 2	2	1	2	1	1	2	2	Normally 2
Minimum number of directors / managers	2	1	2	1	1	1	2	Normally 1 manager	1	3	1	1	1	2	Normally 1
Corporate directors / managers permitted	Yes	Yes	No	Yes	Yes	Yes	No	Corporate Managers	Yes	Yes	Yes	Yes	No	Yes	Yes
Local directors / managers required	No	No	No	No	No	No	No	N/A	Yes - one	No	No	No	Yes - majority	No	No
Company secretary required	No	No	Yes- local	No	No	Yes	Yes	N/A	No	No	No	No	No	N/A	N/A
Company seal required	Yes	Yes	Optional	Yes	No	Yes	Yes	No	Optional	Optional	No	Optional	No	Optional	Optional
Public record of directors / managers	Yes	No	No	No	No	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	N/A
Public record of members	No	No	Yes	Optional	No	Yes	Yes	Yes	Yes	No	No	No	Yes	Yes	No
Location of directors / managers meetings	Anywhere	Anywhere	Anywhere	Anywhere	Anywhere	Anywhere	Anywhere	Anywhere	Anywhere	Anywhere	Anywhere	Anywhere	Anywhere	Anywhere	Anywhere
Location of members meetings	Anywhere	Anywhere	Anywhere	Anywhere	Anywhere	Anywhere	Anywhere	Anywhere	Anywhere	Anywhere	Netherlands	Anywhere	Anywhere	Anywhere	Anywhere
Telephone board / managers meetings	Yes	Yes	Yes	Yes	No	No	Yes	N/A	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Double taxation treaty access	No	No	No	No	No	Yes	Yes	No	No	Varies	Yes	No	Varies	Fiscally transpar.	Normally No
Requirement to file accounts	No	No	No	No	No	Yes	Yes	No (accounts needed)	Only Commercial Anstalt	Yes	Yes	No	Yes	Yes	No
Requirement to file annual return	No	No	No	No	Yes	Yes	Yes	Yes	Yes	Yes	No	No	No	Yes	Yes
Time Zone GMT +/-	-5	-6	-4	-4	-5	+2	GMT	GMT	+1	+1	+1	+4	+1		Varies

N/A = Not applicable

Differences between a British Limited company and a Czech s.r.o.

	s.r.o.	Limited
Law	Commercial law	Company Act 1985
Institution (establishment), changes, etc	notary	Private record
Establishment	weeks	Max. 24 hours
Changes in company register	weeks	The same day
Cost for establishment	Approx. 30.000 CZK	175 Euro
Company as an owner of own shares	NO	YES
Minimal basic capital	200.000 CZK	1 GBP
Minimal stake of each partner	20.000 CZK	NO
Legal entity as a corporate agent	NO	ANO
Extract from the rap sheet for the agent	YES	NO
Record of partners to the company register	YES	NO
Single corporate agent	YES	YES
Limits for establishment by 1 partner	YES	NO
Max. No. of companies with 1 partner	3	NO LIMITS

Differences between a British Limited company and a Czech s.r.o.

	s.r.o.	Limited
Can a company with 1 partner establish another company	NO	YES
Liability of partners by their own property	NO	NO
Subject of business	According to Trade law	„any legal activities"
Deductions (social + health insurance)	YES	NOT ALWAYS
„Employees" working on the basis of Trade licence (so called Schwarz system)	BAN	YES
Knowledge of such legal form in the world	NO	YES
Reputation of such legal form in the world	Minimal	YES
ID, VAT No. in the Czech Republic	YES	YES
ID, VAT No. anywhere in the world	YES	YES
Tax liability	CR	Britain, Czech branch in CR
Tax rate	20%	19% (9%)
Labour law / co-decision of labour unions	YES	NO
Dividend tax	15%	10%
Liquidation of the company without problems	Months	4 months

Tax havens in the Czech Republic

TO No.	Name of Tax office	Inspection cycle	Staff	No. of PE	No. of LE	No. of subj /official	Inspections/ year	Inspections/ officials
č. 8	FÚ pro Prahu 8 [A]	139 yrs	32	18604	4159	711	194	6
č. 7	FÚ pro Prahu 7 [A]	97 yrs.	15	8009	3189	747	148	10
č. 6	FÚ pro Prahu 6 [A]	75 yrs.	33	25259	7931	1006	545	17
č. 388	FÚ Ostrava I [T]	69 yrs.	25	8015	3225	450	210	8
č. 2	FÚ pro Prahu 2 [A]	68 yrs.	35	10952	6883	510	366	10
č. 248	FÚ v Pardubicích [E]	62 yrs.	39	15424	3106	475	350	9
č. 9	FÚ pro Prahu 9 [A]	56 yrs.	44	22086	5209	620	576	13
č. 12	FÚ v Praze - Modřanech [A]	52 yrs.	22	11361	2212	617	301	14
č. 3	FÚ pro Prahu 3 [A]	50 yrs.	30	13211	4989	607	465	16
č. 5	FÚ pro Prahu 5 [A]	44 yrs.	43	28296	9644	882	1080	25
č. 4	FÚ pro Prahu 4 [A]	38 yrs.	41	24909	9693	844	1154	28
č. 228	FÚ v Hradci Králové [H]	38 yrs.	63	18182	4284	357	706	11
č. 210	FÚ v Teplicích [U]	35 yrs.	25	10027	2152	487	404	16
č. 376	FÚ v Kopřivnici [T]	35 yrs.	13	5457	697	473	197	15
č. 60	FÚ Praha-západ [A]	34 yrs.	24	15382	3032	767	632	26
č. 201	FÚ v Lounech [U]	33 yrs.	12	4214	475	391	157	13
č. 389	FÚ Ostrava II [T]	33 yrs.	28	11320	1962	474	464	17
č. 129	FÚ v Ostrově [K]	32 yrs.	10	3918	355	427	145	15
č. 10	FÚ pro Prahu 10 [A]	32 yrs.	38	27002	8415	932	1388	37

Daňový ráj v ČR

TO No.	Name of Tax office	Inspection cycle	Staff	No. of PE	No. of LE	No. of subj /official	Inspections/ year	Inspections/ officials
č. 353	FÚ ve Velkém Meziříčí [J]	5 years	13	4006	609	355	969	75
č. 333	FÚ v Náměšti nad Oslavou [J]	5 years	8	1636	253	236	403	50
č. 134	FÚ v Horažďovicích [P]	5 years	6	1645	241	314	407	68
č. 130	FÚ v Toužimi [K]	5 years	6	1552	211	294	385	64
č. 315	FÚ v Polné [J]	5 years	5	1116	159	255	283	57
č. 94	FÚ v Pacově [J]	5 years	5	1631	193	365	401	80
č. 352	FÚ v Bystřici nad Pernštejnem [J]	5 years	9	2717	518	359	750	83
č. 351	FÚ ve Žďáru nad Sázavou [J]	5 years	23	6958	940	343	1798	78
č. 49	FÚ v Benátkách nad Jizerou [S]	5 years	8	2188	277	308	568	71
č. 79	FÚ v Týně nad Vltavou [C]	5 years	7	1679	278	280	478	68
č. 93	FÚ v Kamenici n.Lipou [J]	5 years	7	1765	196	280	464	66
č. 53	FÚ v Nymburku [S]	5 years	18	5324	890	345	1552	86
č. 64	FÚ v Březnici [S]	4 years	7	1490	232	246	454	65
č. 40	FÚ v Uhlířských Janovicích [S]	4 years	8	2249	241	311	707	88
č. 88	FÚ v Třeboni [C]	4 years	13	2782	365	242	933	72
č. 358	FÚ v Bruntále [T]	4 years	15	5834	825	444	2027	135
č. 147	FÚ v Manětíně [P]	2 years	3	617	102	240	436	145