




# Treasury Tax Hot Topics

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## Foreign Exchange

Significant exchange rate volatility can lead to material tax and accounting exposures for businesses in respect of financial instruments.

We can help clients to consider different bespoke hedging options to mitigate future **tax and/or accounting** volatility which can reduce costs on potential external hedging, whilst providing certainty on future cash flows.

## Increased relevance of interest deductibility

With both interest rates and the corporation tax rate rising, obtaining deductions for interest expenses is now significantly more valuable to businesses.

We can help clients understand the impact of the UK's interest deductibility provisions on their financing costs in the context of their UK or worldwide interest deductibility position.

## Debt restructuring and refinancing

Groups may be seeking to alleviate liquidity pressures through debt restructuring, or external debt may be trading at a discount in the market presenting opportunities for clients to deleverage or refinance.

Deloitte has a specialist, cross-functional team offering expertise on debt restructuring transactions, from commercial, accounting and tax perspectives.

## Hedging activities and the Disregard Regulations

Increased volatility in exchange rates, interest rates and commodity prices means substantial fair value movements in existing derivatives giving rise to dry tax charges, clients reassessing hedging strategies, and hedges becoming ineffective as cash flow forecasts change.

Our cross-functional treasury team can help 'bridge the gap' between treasury, finance and tax to avoid inefficiencies in designing appropriate actions, ranging from tax elections to executing external derivatives.

## Controversy

Recent case law outcomes re purpose based anti-avoidance legislation have emboldened HMRC to raise enquiries into historical debt deductibility positions taken.

Our cross-functional team of treasury specialists, tax lawyers and ex-HMRC controversy specialists can help clients engage with HMRC across the full life cycle of an enquiry.

## Operate

The inherent complexity of financing arrangements can result in issues being identified and/or dealt with late in the compliance lifecycle and/or can result errors in submitting tax returns potentially leading to tax exposures.

Our treasury specialists can support throughout the whole compliance lifecycle to make sure complex tax treasury issues are identified, well understood and documented appropriately.

## Pillar 2

Under the OECD Pillar II model rules, it is anticipated that loan transactions and certain strategies commonly used to hedge exposures from a tax perspective in the UK may result in adverse Pillar II outcomes.

We can review client's intra-group loan arrangements and existing hedging strategies to provide a red flag analysis of exposures. We can also support in the design and implementation of mitigating solutions.

## Corporate Interest Restriction ("CIR")

Now that the UK CIR rules have been in force for a number of years combined with significant performance volatility during COVID, and now increased interest rates, clients are facing increasing complexity in their CIR calculations, such as the utilisation of CIR attributes carried forward.

We can assist clients in navigating the complexity of the rules and help maximise the utilisation of available attributes.

## Cash management and reserves extraction

Clients may face increasing pressure on cash flow, and cash 'trapped' overseas or reserves blocks in the distribution chain can exacerbate these issues.

Clients should review their cash surpluses and needs before they become business critical. We can assist clients in managing key tax exposures associated with cash centralisation and repatriation - WHT, FX, interest deductibility, CFC, etc.

## Complex financial instruments

Investors are increasingly considering alternative investment structures (e.g. convertible notes, preference shares, etc.) which may give rise to complex accounting and volatility in taxable profits.

Working alongside our accounting advisory team, we can assist clients in understanding the accounting and tax impacts of different financial instruments to support decision making and structuring of funding/investment arrangements,

## End to end M&A

Within an increasingly complex and sophisticated M&A environment it is key to consider potential tax risks and opportunities associated with financing and hedging arrangements throughout the whole lifecycle of a deal, from planning acquisition financing and hedging to post acquisition integration and compliance.

Our cross-functional team of treasury specialists can provide an integrated approach to help clients navigate the whole M&A spectrum.

## Intra-group reorganisations

Where groups are looking to reduce costs and find easier routes to repatriate cash, having unnecessary companies and intercompany balances can add to the administrative, compliance and cost burden.

Tidying up the group structure and intra-group financing arrangements may be a straight-forward cost-saving exercise. Where clients are resource-constrained, we can support in designing transactions and avoiding tax pitfalls.