



Organization of a Global Production Network

Some International Tax Issues
December 1, 2006

Jim Fitzgerald
Vice President, Dell Inc.

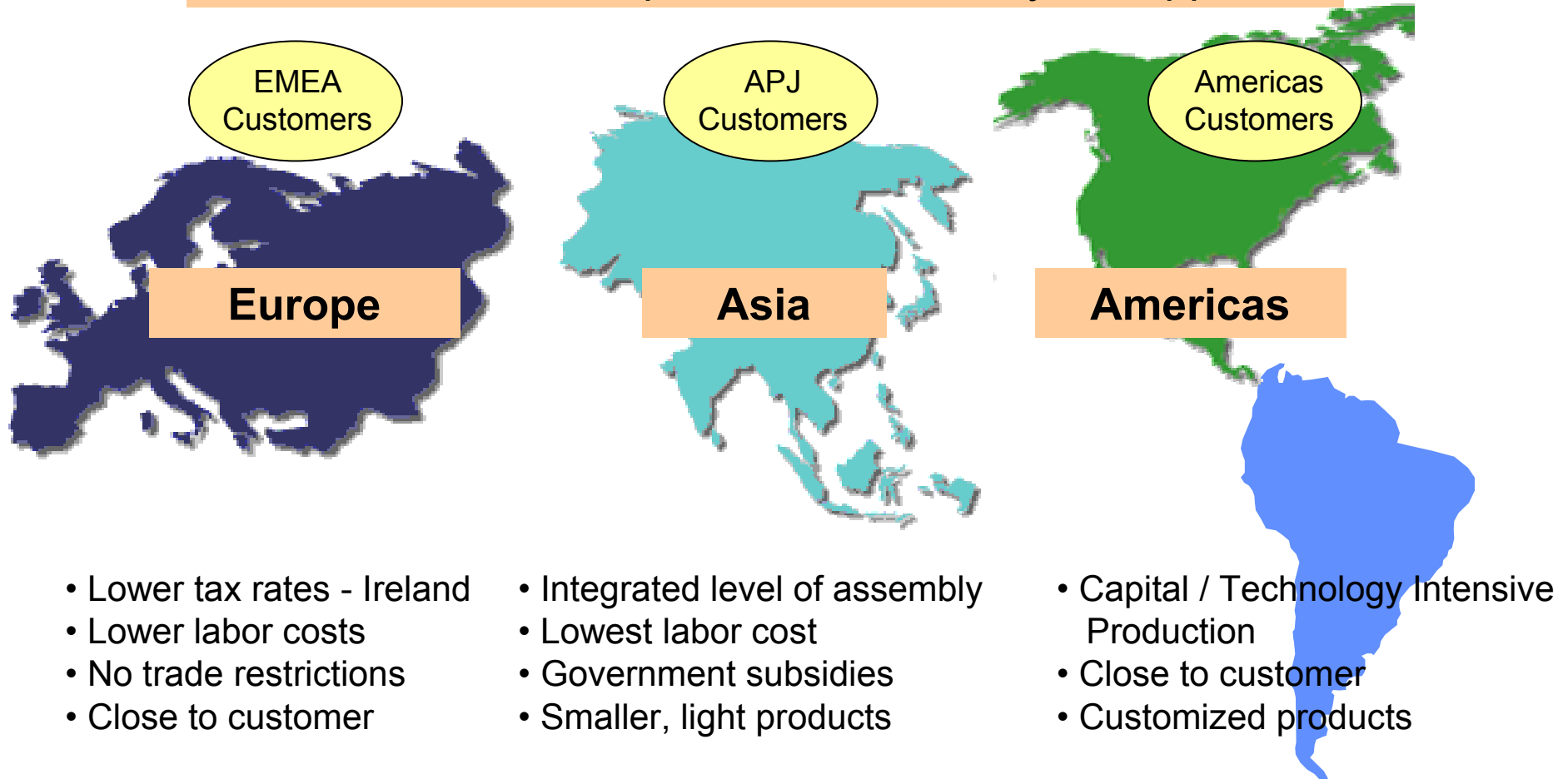
Global Production Networks

Operational Considerations

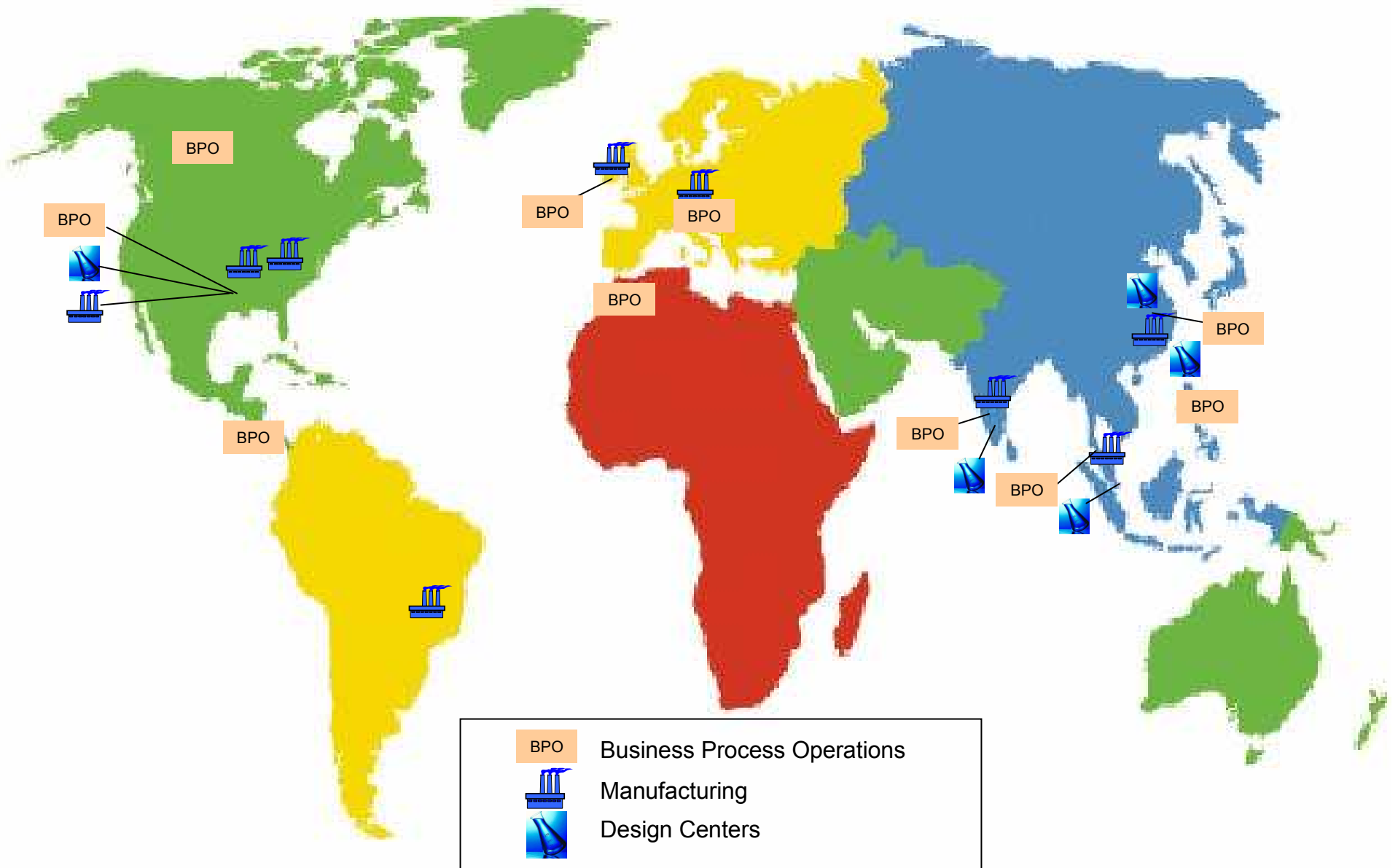
2

Optimal manufacturing solutions that balance

- Labor cost
- Available Talent
- Logistics cost
- Infrastructure
- Customer Experience
- Proximity to Suppliers



Global Production Network

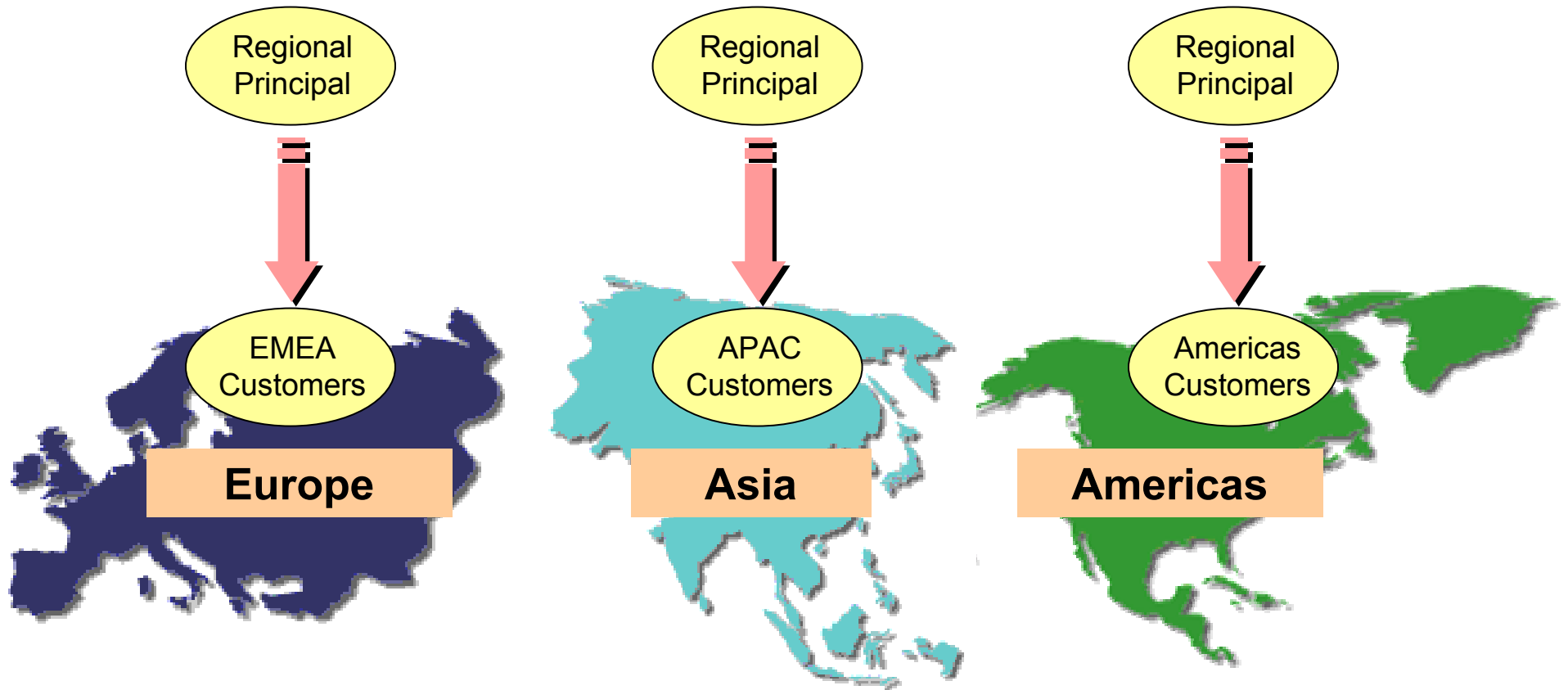


Global Sales Distribution Network



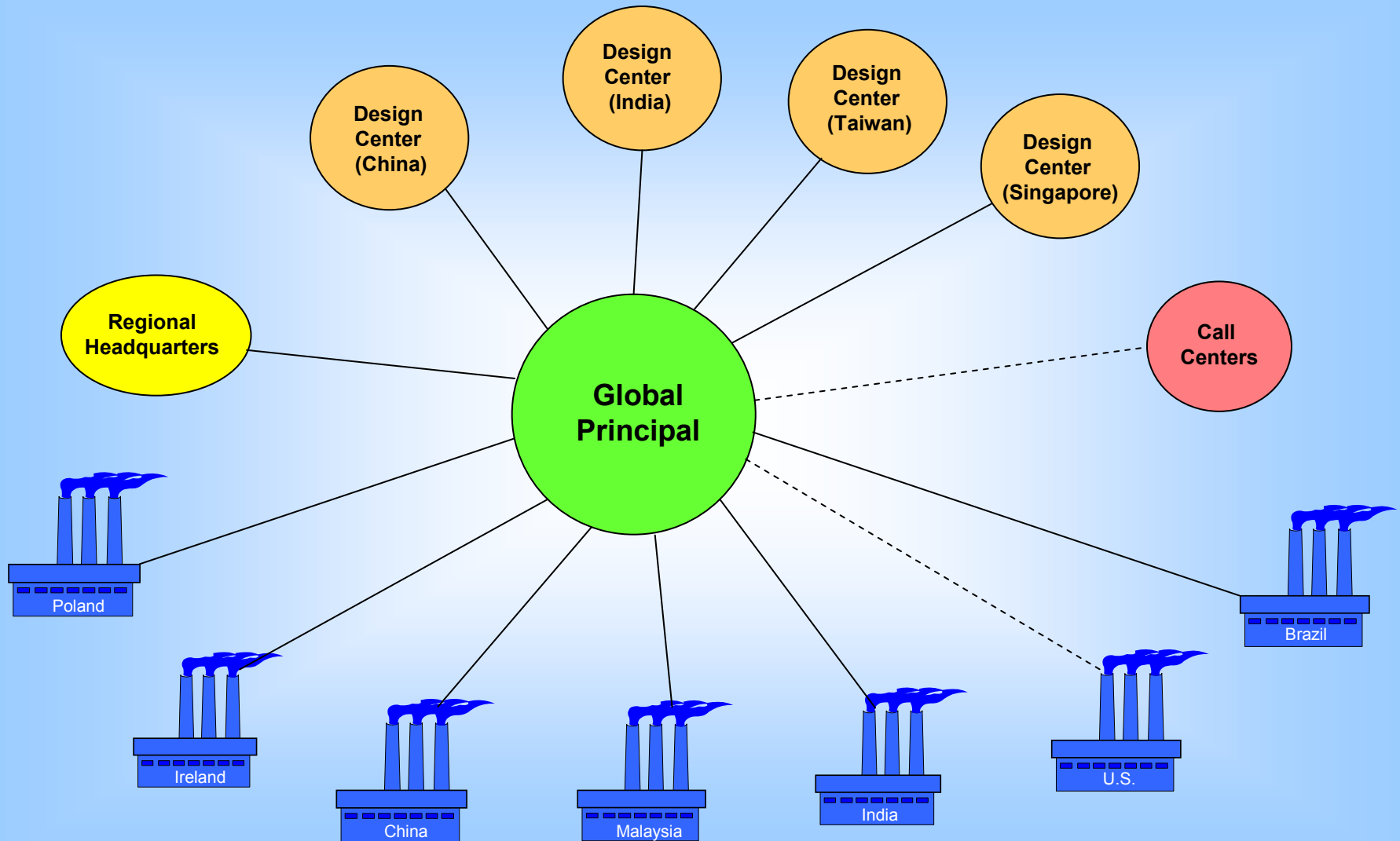
Regional Principal Approach

5



- Operational inflexibility
- Contract-based functions
- Incentive regime instability

Global Principal Approach



Global Structure – Key Considerations

- **Regional or Global Principal must have substance**
 - Business reasons key driver
 - Integrated Global Operations Center
- **Tax Incentives / Subsidies**
 - Rate reduction, R&D / Training subsidies, & employment grants
 - Caution: Protection of tax base through aggressive indirect tax regimes.

Global Structure – Key Considerations

- **Foreign Exchange Regulations Stability**
- **Long Term Stability in Tax Laws and Rates**
- **Wide network of tax treaties – Risk Mitigation**
- **Effective Dispute Resolution Methods**
- **Withholding Taxes**

Tax Landscape Developments

- **Transfer Pricing: Globalization Has Increased Cross-Border Disputes**

- Distribution Activities => Marketing Intangibles
- Off-shoring Activities => Location Cost Savings
- Intellectual Property => Transfer Valuation

- **Permanent Establishment: Increased Audit Pressure**

- Employee business travel
- Securing orders or concluding contracts
- Agency Structures – legal & economic independence

Tax Risk Management – Options Available

1. Transfer Price Options

- Advance Pricing Agreement (APA)
- Mutual Agreement Procedure (MAP)
- Domestic Court System

2. Permanent Establishment – Advance Ruling / APA vs. Audit / MAP

- 1st Line Of Defense – Demonstrate No Nexus
- 2nd Line Of Defense – Tested Party's Tax Return
- 3rd Line of Defense – Deemed Profit Mark-Up Approach

APA Evolution – Impact To Business

- **Provide Tax Certainty And Enhance Taxpayer's Financial Results**
 - Transfer Price Administration
 - Tax Reserve Adequacy More Predictable.
 - Effective Tax Rate More Predictable
- **Independent Benchmark For Other Tax Audits**
 - Point of reference for other taxing authorities.
 - Increased confidence level
- **APA Request – Part Of Incentive Negotiation**
 - Government : Certainty of economic/tax contribution to investment site.
 - Taxpayer : Certainty of incentive benefits / TP position.

Questions