



# Stitching Substance Together

Tangled in the wires of substance? KPMG's dedicated practices of Regulatory, Direct Tax and Transfer Pricing can jointly help you untie the knots of your substance presence in Luxembourg. Together, we will sew the elements and seam a solution tailored to your needs.

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# Substance challenges under the KPMG spotlight



**Factors such as Brexit, financial and tax regulation** trigger changes in a number of areas. Both can be seen as an opportunity for asset managers to optimise their business models and extend their distribution networks by leveraging on KPMG's deep expertise and technology.



The upcoming double tax treaty agreement between France and Luxembourg is relevant for asset managers, as it:

- Broadens the scope of substance while extending the definition of permanent establishment
- The CSSF 18/698 circular provides clarity on regulatory requirements for asset managers on a number of areas:
  - Governance bodies
  - Central administration and internal organisations
  - Internal control functions
  - Portfolio management
  - Delegation and business setup

Brexit reshapes the business landscape for asset management:

- Managers consider the possibility of enhancing their presence in Luxembourg to distribute financial services in the EU.
- Specific regulatory requirements should be met with regard to substance, for the purpose of reaping benefits from a favourable taxation scheme.
- Best practices in Transfer Pricing and Tax need to be deployed aligning transfer pricing outcomes with value creation and ensuring compliance with the local transfer pricing and tax requirements.

## Stitching substance together



- Transfer Pricing and tax are directly linked to the current regulatory framework, where substance requirements are initially articulated.
- Substance is considered a tangible business function that requires a fair remuneration, while Direct Tax examines necessary substance, which mitigates potential tax residence challenges by foreign tax authorities, and determines which revenue streams will be taxed and how.
- Based on the balanced substance structure from a tax and regulatory perspective, Transfer Pricing assesses entity structures and roles of its members and reviews the foreign taxable presence of the Luxembourg asset manager, directly linking the permanent establishment setup and operation checks carried out within the other two functions.

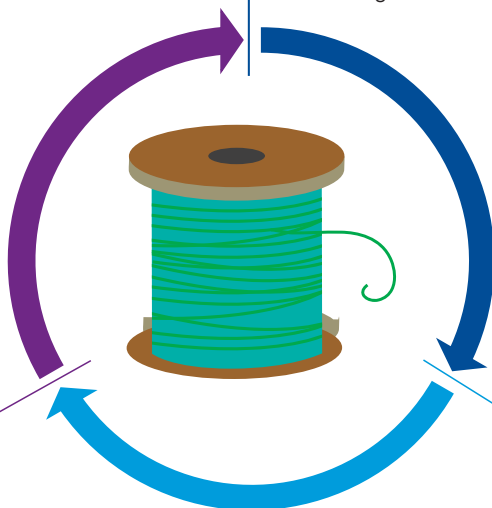
# Our service offerings

*Leveraging on new technologies, KPMG's integrated solutions follow a holistic approach that helps you tackle substance from all possible angles.*

## REGULATORY

The Regulatory level of substance, as defined by KPMG, will help you with:

- Advice on licensing, outlining health checks, performing gap analysis and deploying mock regulatory inspections
- Being delegated with several business functions (i.e. implementing risk management procedures) and streamlining business setup
- Rationalising operations with KPMG's Know Your Delegate platform
- Performing checks on the documentation related to Transfer Pricing and Direct Tax



## DIRECT TAX

Direct Tax will assist you to:

- Determine the tax treatment, based on structure and substance
- Check tax compliance
- Assess risks arising from cross-border management and where you have a permanent establishment abroad

## TRANSFER PRICING

Transfer Pricing will help you to:

- Set prices at arm's length on intra-group transactions, in line with transfer pricing regulations and best practices
- Perform functional/value chain analysis
- Conduct health checks to ensure that the functional profile/operating model of your company is in line with what was disclosed to the CSSF
- Assess your documentation on functions, risk and assets

# Contact us



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