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The importance of Economic Substance

Every year economic substance (also addressed as tax substance) is becoming an increasingly important topic for companies that operate across the borders.

The corporate structure you hold abroad should have 'real' substance and should not be an empty shell or conduit company. Without so-called 'economic substance' the tax authorities could ignore your carefully planned and tax optimised structure and your company could lose the benefits offered by treaties for the avoidance of double taxation.

All structures are affected

Although most governments are focusing on multinational companies in this respect, small and medium sized companies with cross border activities are (or will be) strongly affected as well. This is mainly due to the fact that after the broad international discussions (on G20, OECD and EU level) about economic substance, tax authorities in most countries of the world are focusing more on this subject when reviewing cross border structures and are carefully checking the benefits claimed under treaties for the avoidance of double taxation. An increased local use of anti-avoidance measures plays an important role, too.

Avoiding problems

In order to avoid problems your international corporate structure should be set up as an actual and 'real' corporate structure. Generally speaking this means that you need to have:

- staff,
- an office,
- local decision power,
- local costs,
- etc.,

all present in the company located abroad. Based on the actual role the company plays in your worldwide structure, there needs to be a relevant level of 'real' activity. In practice this means for example that the company address should not coincide with that of several hundred other companies (i.e. provided by a local trust company) and the director(s) of the company should not be (a) director(s) in hundreds of other companies simultaneously. In other words, your corporate address should at least be unique and the director(s) should have a real (part-time) function in the company.

Our services

Economic-Substance.com is specialised in everything related to substance:

- We can advise you with respect to the necessary level of economic substance for your international corporate structure,
- We can organise adequate substance (in Switzerland) for your international structure,
- We can review your existing structure and assess the existing (lack of) substance.

Read more about this trending topic on this website or [contact](#) us directly.