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How to Take Advantage of Corporate Simplification

Create Value by Streamlining Entity Management

In July 2021, finance ministers at all member states of the G20 summit agreed to make a change to the international tax code that will have massive repercussions for how all multinational corporations will pay taxes.

Up until now, large multinational corporations have been able to skirt high income tax rates by moving their headquarters and central production operations to countries that have low tax rates, allowing them to choose the lowest possible tax rate. As this system of corporate taxation dates back to just after World War I, organizations old and new have spent massive amounts of time and money to develop efficient ways to take full advantage of these countries with lower tax rates.

For more than a century, this system has essentially created a "race to the bottom": Economically struggling countries that need a financial booster shot from multinational companies will simply lower their tax rates to draw corporations in. By 2023, this will change.

Across the world, there is a high level of interplay between foreign and domestic company ownership and management of large corporations.

Multinational corporations spend massive amounts of time and money to take advantage of highly complicated tax codes. This commonly results in organizations with highly complicated structures, spread out over multiple national borders. Much of the country-shuffling that modern organizations have fully adapted to will soon change, if not disappear. Companies will soon have to pay taxes in the jurisdictions where they make sales, forcing a major restructuring of where taxes will go.

For years, multinational companies who want to sell their product in the U.S. have headquartered themselves elsewhere to reap the lower tax brackets available in other countries. When this new global minimum tax comes into effect, this level of complication will cease to have a purpose. All multinational corporations with more than US$890 million in revenue will be subject to a 15% tax bracket, wherever they operate. This will create both opportunity and challenge for corporate restructuring teams.

The Risks of Complexity in Entity Structures

Choosing not to simplify your organization's corporate structure may come with its own significant risks over the next few years. Historically, as companies grow, they evolve in complex ways designed to achieve the best tax results. These tax constructions are expensive but continue to exist because they cost the company less to maintain than it would cost to pay higher tax rates in countries of operation. Once tax codes change, be it internationally or just in a single country, experts agree that these internal tax structures must be removed, to streamline processes and eliminate corporate bloat.

As we quickly move toward a revolutionary new international tax structure, organizations will begin rushing to eliminate obsolete tax-routing entities within their corporate structure. Failing to restructure may result in extraneous corporate appendages that no longer serve a real purpose draining resources from an organization's profit margin. Organizations also often fail to realize that cutting out corporate bloat gets harder over time if not done as soon as regulations change. Because employees are in a constant state of motion throughout a given organization, institutional knowledge is not locked into a branch of the organization.

For example, a manager who runs an entity designed to change an organization's tax status may eventually move on to a higher position in the organization, leaving the entity in the hands of new management. Other employees may not have the full perspective necessary to determine if this particular entity serves the same purpose that it did when created. By the time the tax code that served as the original reason for the creation of the entity is changed, the institutional knowledge that linked the entity to its original purpose may have moved up the corporate ladder with the original manager. Problems like this demand tools that build trust in the essential data of an organization.

4 Benefits of Corporate Simplification

Corporate simplification is not just a necessary task to deal with corporate bloat; it can also be used as an opportunity to streamline, and therefore simplify, organizational processes and data. Organizations with a sprawling entity structure can use this G20 tax change as an opportunity to get on top of their organizational structure.

There are four primary benefits of simplifying your organization now:

1. Transparency: Simplification unilaterally increases transparency in an organization, allowing managers to make good decisions more easily. Proxy organizations often make it more difficult for management to glance at a situation and make an educated decision.

2. Efficiency: Simplification increases efficiency while decreasing risk. The more entities within a corporate structure, the more regulatory reporting an organization will have to do on them. In turn, more reporting increases the risk of expensive errors, routinely costing companies millions of dollars.

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3. Risk Reduction: With excess complexity comes additional risk to the organization. An overly broad structure not only requires more management resources and oversight, but it also introduces the potential for work duplication and unnecessary spending. A less complex structure can reduce redundancies, help avoid potential tax and regulatory penalties, and cut down on costly back-office errors.

4. Valuation: Much like traditional investments, organizations carry value within the entities of which they are composed. If some of these entities are obsolete, that value is lessened. Cutting away those now-defunct entities allows managers to reinvest this value into new entities or investments that will bring future value to the organization. Likewise, if you can quickly see and then demonstrate the operational relevancy of all your entities, that can increase the value of the total organization, especially when deals are concerned.

While this may seem like a lot of work, technology can help organizations to start this process.

Using Technology to Facilitate Corporate Simplification

Making the transition to a simpler, more streamlined corporate structure doesn't have to be a chore. With the right technology in place, critical functions like information sharing, compliance and risk management can be trimmed down and made more efficient. There are digital solutions to each of those pain points, which can also benefit different departments and business units in many ways.

Ultimately, corporate simplification is about transparency. Management teams and directors need visibility into the health of the enterprise, risk management needs to be able to streamline processes and reduce redundancies to ensure compliance, growth leaders need timely access to diligence data when considering acquisition or divestiture opportunities, and more.

Who Benefits from Corporate Simplification?

Entity management technology can ease the workload of specific roles within the organization through increased visibility and self-service access to up-to-date corporate records. Here are a few examples of how centralizing and simplifying entity and subsidiary management empowers multiple functions:

- **General Counsel/Chief Legal Officer:** General counsels, paralegals and legal operations teams need visibility to ensure compliance across all entities and to perform due diligence quickly and nimbly.
- **CFO/Financial Management:** CFOs need to view compliance-related data and make sure the organization is in a healthy position. They can leverage entity data to assist with tax reporting and financial modeling.
- **Head of Tax:** Tax managers need to be able to easily access tax ID and jurisdiction information to simplify tax clearances, streamline ID changes and adjust to new regulations.
- **Corporate Secretary:** Centralized record-keeping software streamlines corporate secretaries' responsibilities, while ensuring that they can quickly respond to requests from other internal and external stakeholders.
- **Paralegal/Legal Ops:** A centralized corporate record can help people in these roles find answers to entity-related questions from key stakeholders faster, and with more accurate and up-to-date data.

That's why creating accessible and centralized digital records can be so powerful. When the entire organization is working from a single source of truth, every team has access to the data they need — when they need it — without having to worry about it being out of date.

- Legal and regulatory officers can surface operational data and performance metrics to ensure organization-wide compliance.
- The CFO can access the latest financials to monitor the health of the overall business as well as assist with tax planning and financial modeling.
- Board directors can stay abreast of the latest corporate developments and gain a bird's-eye view of the entire organization.

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But those are not the only use cases for technology as part of a corporate simplification effort:

1. Speed and efficiency: The right platform can bring disparate datasets from across the organization together in one place, easily searchable and discoverable by the entire team. That access can speed up due diligence efforts and better position the company for strategic growth, allow management to act quickly and confidently when opportunities arise, and even help the organization remain compliant with changes in tax law and other regulations.

2. Alignment: A large organization is difficult for any one person or department to oversee. Centralizing your simplification efforts on a shared technology platform can bring new transparency to sprawling corporate operations and uncover potential opportunities for departmental alignment and streamlining that may not have been considered yet.

3. Process and Operations: Every aspect of the business can benefit from the easier access to data and information that a shared technology platform can provide. For instance, corporate record keeping can help keep companies up to date with changing regulatory requirements, while ensuring that they can respond to requests from other internal and external stakeholders. And tax managers can more easily access tax ID and jurisdiction information to simplify tax clearances, streamline ID changes and adjust to new regulations.

Corporate Simplification With Entity & Subsidiary Management

The G20 tax decision is a perfect example of an extra-organizational change that will require a paradigm shift in structure for most multinational organizations. It's an opportunity to not only evaluate corporate structures and determine whether it is time for a simpler approach, but also to leverage the power of technology in helping your organization make this transition. With the right platform — and consequently the right structure — in place, your organization's most valuable employees will be freed up to make important operational and strategic decisions, with the data they need to support informed growth in the months and years ahead.

Entity & Subsidiary Management from Diligent allow organizations to store essential corporate structure data in a single system that privileged users across the organization can use to make informed decisions based on holistic, up-to-date information.

With Entity & Subsidiary Management, organizations can:

1. Support strategic growth by offering leaders a clear view of the bigger picture, facilitating the elimination of redundant or no-longer-relevant entities. Centralized record keeping also empowers rapid due diligence in the event of a merger, acquisition or divestiture.

2. Create a culture of self-sufficiency by allowing privileged users across the organization to access the data they need — when they need it — confident that the data is accurate and up-to-date.

3. Identify and mitigate noncompliance risks that may have been difficult to address or even spot if data were stored across multiple different systems.

4. Do more with less by automating entity tasks and workflows, and integrating with HR programs, data visualization tools like Tableau or Power BI, registered agents' systems and ERP/ERM (Enterprise Resource Planning) programs — freeing up legal personnel to focus on more strategic initiatives.

Take advantage of the benefits of corporate simplification today.

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Diligent is the leading governance, risk and compliance (GRC) SaaS provider, serving more than one million users from over 25,000 organizations around the globe. Our modern GRC platform ensures boards, executives and other leaders have a holistic, integrated view of audit, risk, information security, ethics and compliance across the organization. Diligent brings technology, insights and confidence to leaders so they can build more effective, equitable and successful organizations.

Ready to see Diligent in action? Schedule a demo today.

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