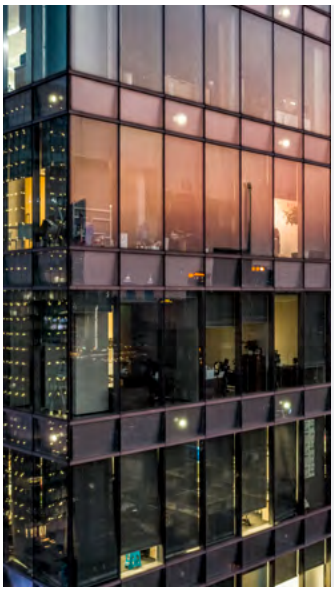
Treasury centres: Tax domicile decoded

Unveiling the treasury centre advantage

Treasury centres are essential for multinational corporations. They act as centralised hubs to manage cash, optimise liquidity and reduce financial risks. They also streamline risk monitoring, ensure compliance and support precise forecasting for strategic decisions. Choosing the right domicile can markedly affect operational efficiency, overall profitability and in particular tax efficiency.

By consolidating cash and financing activities, treasury centres achieve economies of scale and significantly enhance operational efficiency. Cash pooling brings together funds from various group entities to optimise utilisation and lower borrowing costs. Intra-group financing allocates capital internally, ensuring access to needed funds while reducing external debt. External financing manages relationships with banks and other institutions to secure access to capital markets on favourable terms.



When selecting a domicile for your treasury centre, several tax factors must be taken into account:

- **Double tax treaties (DTTs):** extensive DTT networks lower or eliminate withholding on interest, dividends and royalties.
- **Transfer pricing:** ensure intercompany loans meet arm's-length standards and documentation.
- **Thin capitalisation:** align debt-to-equity with local limits to preserve interest deductibility.
- **Withholding tax:** exploit withholding tax free interest payments on cash pooling and cross border loans.
- **Repatriation:** tax efficient group structure to minimise withholding taxes on profit distributions.
- **Interest deductions:** plan around jurisdictional limits to deduct interest for tax purposes.
- **Pillar 2 minimum tax:** anticipate OECD global minimum-tax effects on group financing.

Overview of jurisdictions attractive for tax efficient treasury centres

Jurisdiction	Cash pooling	Intra-group and external financing	Taxation of investment income
Switzerland	• Interest income is generally taxed at 35% and interest paid is deductible. • Interest on pool balances is typically exempt from Swiss WHT if the relevant conditions are met. • It is advisable to obtain tax rulings to confirm arm's-length interest rates.	• No WHT applies to intra-group financing; interest paid is deductible where it is at arm's length and not treated as hidden equity. • Safe-harbour rates are available. • Interest on loans is exempt from WHT unless classified as bonds or bond-like instruments; bond interest is subject to 35% WHT. WHT may be reduced under DTTs.	• Investment income is taxed at the ordinary corporate tax rate (e.g. approximately 12% in Zug/Lucerne). • A network of over 100 treaties normally allows a partial or full WHT reclaim. • Participation relief applies to qualifying participations of at least 10%.
United Kingdom	• Interest is taxed and deducted on an accruals basis. • No WHT applies to short-term balances. • DTT relief may be available for longer-term balances. • Interest must be at arm's length.	• Income and expenses are taxed on an accruals basis. • Various hedging regimes can be used to manage FX taxation or to elect a different functional currency for tax purposes. • Quoted bonds, discounted notes and private placement third-party debt are normally WHT-exempt; otherwise, WHT may be reduced under DTTs.	• Investment income is taxed as it arises in the accounts. • Treaties generally provide relief from overseas WHT. • Where no relief is available, foreign WHT can be credited against UK tax. • FX exposure can be managed via hedging regimes or a functional currency election. • The participation exemption applies to holdings of at least 10% in a trading company or group.
Luxembourg	• Interest income is taxed at 23.87% (FY 2026). • Interest payments are generally tax-deductible, provided they comply with the arm's-length principle. • Cash-pool interest paid is generally exempt from Luxembourg WHT. • Arm's-length equity and interest rates must be applied.	• Interest payments are fully deductible and WHT-free if thin-cap rules are met, no hybrid mismatches arise and the interest is at arm's length. • Interest or royalties due to related parties as of 1 March 2021 are not tax-deductible if the recipients are corporate entities established in countries that are blacklisted as non-cooperative for tax purposes.	• Investment income is taxed at 23.87% (FY 2026). • 88 treaties allow WHT reclaim. • The EU Interest & Royalties Directive eliminates source-state WHT on cross-border interest and royalty payments within the EU. • Full participation relief applies to qualifying participations.
Ireland	• Pool interest is taxed at 12.5% and interest paid is usually deductible if it is at arm's length. • Generally, no WHT applies to interest paid on pool balances.	• Interest expense is deductible if it is at arm's length. • The general WHT rate is 20%. • Various automatic WHT exemptions apply to interest paid intra-group or to third parties in EU/DTT countries and banks. • An election can be made to match assets and liabilities in other currencies in order to manage FX exposures. • Listed debt is exempt.	• Interest income is taxed at 12.5%. • Over 75 DTTs often reduce or eliminate WHT where a domestic exemption is not immediately available. Where WHT is suffered, it can be credited against Irish tax on that income. • Access to the EU Interest & Royalties Directive is available. • The participation exemption may apply to dividend income from foreign subsidiaries; portfolio dividends are typically exempt if received from listed companies.

Ready to unlock your treasury centre's full potential?

Maximise tax efficiency and streamline your cash management operations by partnering with our expert team. From domicile selection and tax planning to implementation and ongoing compliance, we'll guide you every step of the way.

Get in touch today to discover how we can help you establish a best-in-class treasury centre.

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