Communication among Subsidiaries

Background

During late 2010, a Brink's ground operations subsidiary began doing business with a new customer using the ground services of a Brink's Global Services subsidiary. BGS subsidiary periodically invoiced Brink's ground operations subsidiary for the services provided by them. During 2010 and 2011, Brink's ground operations subsidiary withheld and remitted withholding taxes (at a 15% rate) on the payments to BGS subsidiary based on their understanding of the local tax law as applied to the services provided. However, upon further discussion in 2012 concerning the true nature of the services provided, it was determined that withholding taxes did not apply under the applicable laws, including an international agreement between the two countries.

During 2012, Brink's ground operations subsidiary determined that a separate non-income tax was owed (9.25%) for these service transactions. The additional tax was paid with respect to the transactions through Q2 2012, and was communicated to BGS subsidiary as part of the Q2 closing process. During the closing period, the two Subsidiaries continued to consult with outside tax counsel to verify whether the 9.25% tax should be imposed on the entire transaction since the law with respect to these transactions was uncertain. The final conclusion of outside tax counsel was that the Company had a supportable position that only a part of the transactions was subject to the 9.25% tax. Accordingly, a calculation was made of the contingent tax amounts for 2010 and 2011, and an out-of-period adjustment was recorded topside so that the Company could timely report its Q2 earnings.

In summary, the Company paid much higher taxes on these transactions than was required by law and was unable to recover the overpayment given the practical difficulties of seeking refunds, and an out-of-period adjustment was required to be recorded topside very late in the closing process.

Lesson Learned

Country ground operations and BGS operations work together to provide services to customers. Brink's and BGS Finance members should review the details of any new cross-border business arrangements as early as possible. If the transaction presents any tax uncertainty, the Finance teams should consult with BCO Tax and outside local tax counsel, if necessary. These communications should occur as early as possible to ensure that the transactions are arranged in the most tax-effective manner possible so that we do not overpay taxes, we comply with all tax laws, and we record all tax liabilities in the appropriate accounting period. Brink's ground operations subsidiary initially misinterpreted the nature of the services being invoiced by BGS subsidiary, resulting in incorrect judgment on which taxes were applicable. Once this error was identified, the Finance members did not communicate early enough to ensure that the issues could be fully analyzed with outside tax counsel in light of the uncertainties presented by local law. Accounting issues should be discussed and analyzed amongst all involved Finance members before the closing period so that Finance members can timely record the accounting impact of the fully-vetted issues.