SFS Americas Learning Academy

Know Your Business Series

Controlling and Finance, Tax US
(CF T)

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Housekeeping Items

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Meet Our ‘Know Your Business’ Guests

Randi Rosenberg

Head, CF T US

Daniel Considine

Lead Counsel, CF T US

David Miller

Tax Professional, CF T US

Joe Sebik

Tax Professional, CF T US

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SIEMENS FINANCIAL SERVICES

SIEMENS CORP TAX TEAM

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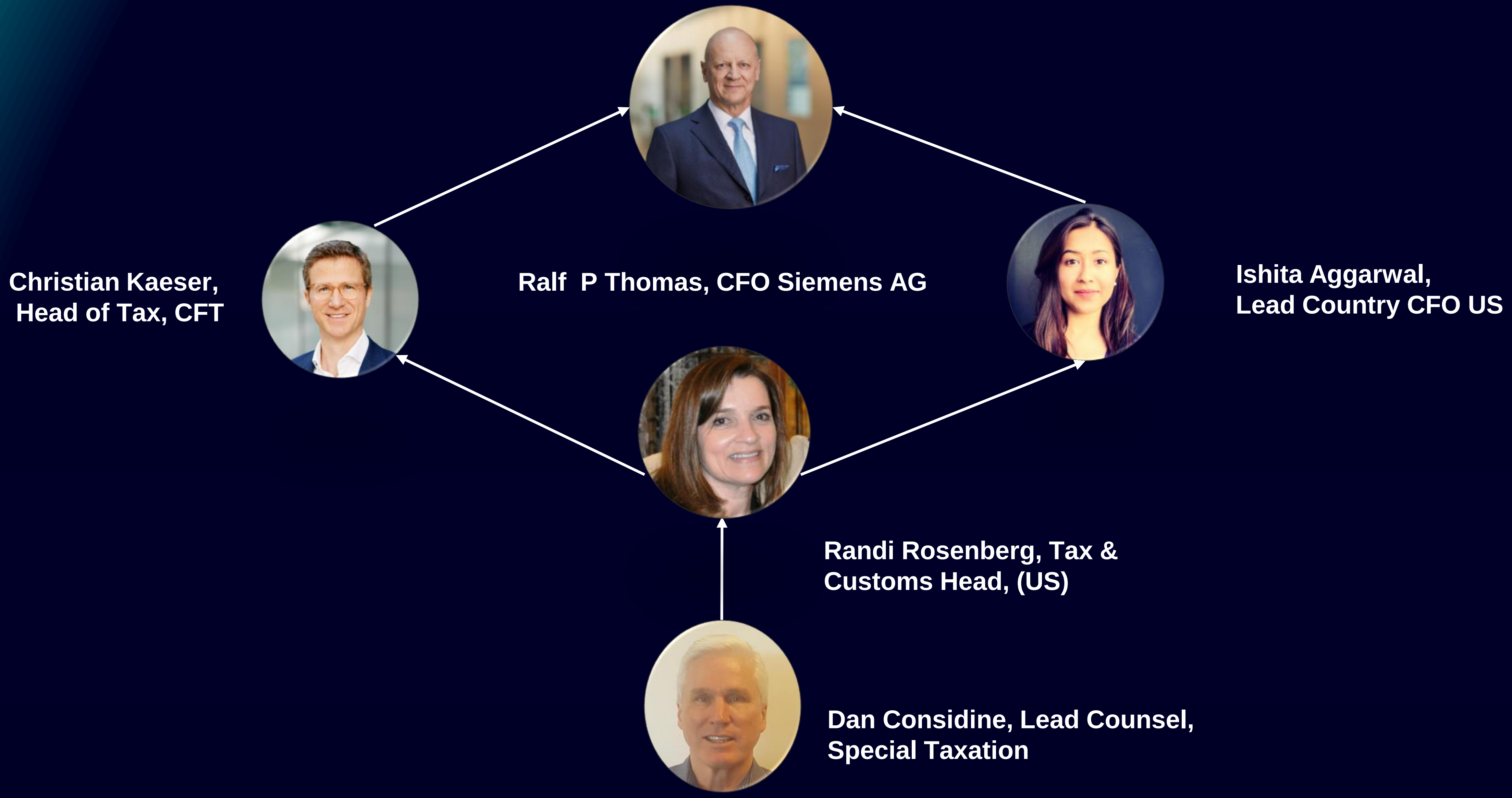
Global Tax Reporting Organization Chart



Siemens Corporation Tax Organization

- **Ellis, L.** — Customs, Canada, DISW Global BP, IRS §245A Litigation
  - **Matthews, V.** — Customs
  - Cortez, K.
  - **Customs Advisory**
    - Reno, Alex
    - Marangio, K.
    - Santiago, B.
    - Tao, A.
    - Webb, A.
  - **Customs Governance**
    - Bintemire, T.
    - Davis, M.
    - Durio, C
    - Sharp, R.
  - **Siemens AG**
    - Kasten, M.

- **Rosenberg, R.** — U.S. Tax Organization
  - **Caldevilla, L.**
    - **SC Temps**
      - Barresi, A.
      - Robert Seip
      - Christian Parsi
      - Moss, M (SII)
  - **Hirsch, I.** — Advisory, M&A, Tech
    - Absy, F.
    - **Tax Tech Lab**
      - Del Solar, A.
      - Becerra, J.
      - Hashim, H
      - Watkins, A.
      - Farquharson, J.
      - Ishak, A.
  - **Georgiev, G.** — Transfer Pricing
    - Kwan, D.
  - **Considine, D.** — Financial Services
    - Herndon, J.
    - Krajewska, D.
    - Miller, D.
    - Sebik, J.
  - **Sengelieva, D.** — Financial Reporting
    - Biddulph, R.
    - Medina, M.
  - **Kaiser-Brodsky, J.** — State Tax and Tax Controversy
    - **Tax Controversy**
      - Gonzales, G.
      - Manzon, C.
      - Maher, R
  - **Van Meter, T.** — Special Projects & SII
    - **Modeling & Special Projects**
      - Calandra, C.
      - Cherry, L.
      - Woerner, T.
      - Open Requis
    - **SII and Other SI Entities**
      - Goldstein, M. (Interim)
      - Mathew, F.
      - McIntire, P.
      - Ravede, E.
      - Open Requis
    - **Tax Tech on Assign to DE**
      - Lenius, R.
  - **Kang, R.** — Tax Compliance
    - **Mobility and Other Tax Compliance**
      - Szakacs, D.
      - Wong, H.
    - **SC & SUSA Consolidation**
      - Xu, T.
      - Filja, A.
      - Martorano, C.
      - Talkington, T.
  - **Sevcik, J.** — International & DISW US
    - **DISW**
      - Du J.
      - Chen, J.
      - Laxton, S.
      - Lun, G
      - Tsao, E.
    - **International & Project Bus.**
      - Sheremetyeva, I.
      - Carl, K
      - Yang, C.
      - Zang, S.
    - Hoch, M.

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SFS' Siemens Corp

Tax Team Members

Based in Iselin, NJ

Dan Considine
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Based in Alpharetta, GA

Jared Herndon
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SFS' SIEMENS CORP TAX TEAM – RESPONSIBILITIES - OVERVIEW

DEBT & EQUITY INVESTMENTS: review tax consequences associated with transactions entered into by PSAM, COF, EQ FIN; SOFOM.

LEASE PRICING: Super Trump pricing runs for COF lease transactions are reviewed. Pricing depends on the tax lease classification which depends on who is considered to be the "tax owner" of the equipment. The proper tax depreciation method also needs to be determined.

MANAGE DELOITTE RELATIONSHIP "DLAS" support for the tax reporting of leasing transactions (Deloitte is provided with SFS CMS data from SC Tax for various lease classifications which then calculates revenue and depreciation;

TAX REPORTING: Each BU provides an income forecast from which taxable income is then determined and used to record tax provision entries for US ARE's

MANAGE PWC RELATIONSHIP pertaining to SFS's financial statement tax reporting

TAX COMPLIANCE prepare US federal, state and local tax returns and respond to Tax Audit inquiries

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What's the Big Deal with Taxes?

- Books follow Siemens Financial Reporting Guidelines (FRGs) which incorporates IFRS principles.
- Tax reporting follows the applicable tax rules; (US AREs Internal Revenue Code & US State tax laws, 403N – Canadian tax law, SOFOM – Mexican tax law)
- Tax provision entries = book income x statutory blended tax rate (i.e. US AREs Fed & State = 25.424%)
- Current taxes due on the Tax Returns follow taxable income according to applicable rules (IRC/state rules) x applicable tax rates
- US AREs (5638, 4490 & 487d) consolidate into the Siemens US Consolidated Tax Group for both book and tax purposes.
- Differences between Book and Taxable income may either be permanent or temporary in nature.
- Permanent differences give rise to differences between the statutory rate and the effective Tax Rate.
- Temporary differences between book and current taxable income are tax effected at 25.424% and recorded on the Balance Sheet as either a deferred tax asset or liability depending on whether the temporary difference increases or decreases taxable income.

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SFS Siemens Corp Tax Team – Fiscal Close Process

For the SFS US Companies, the Tax Team records tax provision entries in the following periods:

- P2 – November
- P3 – December
- P6 – March
- P8 – May
- P9 – June
- P12 - September, Year End.

This applies to ARE's 5638 (Siemens Financial Services, Inc.), 487D (Siemens Financial, Inc.), and 4490 (Siemens Public, Inc.)

SFS Siemens Corp Tax Team – Fiscal Close Process (Continued)

The SFS Siemens Corp Tax Team works with the planners from each of SFS' business units to develop annualized forecasts of taxable income.

- **During the course of the year, revisions are made to the forecasted taxable income as needed.**
- **The SFS Siemens Corp Tax Team will advise SFS management of any significant changes to the forecasted taxable income when they occur**.

The forecasted taxable income is recorded in the Corp Tax Database - U.S. ARE's Only

- **This is a database that is managed by the Siemens U.S. Corporate Tax Department for the purpose of recording interim and year end tax provision entries.**
- **The Corp Tax Database is also used by the Siemens U.S. Corporate Tax Department for the preparation of corporate income tax returns for the Siemens U.S. entities.**
- **Corp Tax is not used for ARE's outside of the United States – i.e., ARE 403N.**

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SFS U.S. Companies – Overview of Tax Positions (Continued)

Siemens Financial Services, Inc. (SFS – ARE 5638) (Continued)

SFS, Inc. also receives Production Tax Credits (PTC's) from the Wind Tax Equity Partnership Investments (Profit Center TE00),

- ***With the sale of the Kinderwood Partnership investment, only Canadian Breaks will continue to generate PTC's.***

Siemens Public, Inc. (SPI – ARE 4490)

SPI's portfolio of tax exempt investments generates a stream of interest income that is not subject to tax at the federal level.

- ***This results in a permanent and favorable book-tax difference, which lowers the effective tax rate for ARE 4490.***

4 Different Tax Regimes

- **US Federal Corporate Income Tax rate of 21%** ("Regular" tax) and a blended state tax rate of 4.24% is based on the income generated in the 50 states in which Siemens operates multiplied by the various different state tax rates.
- **Base Erosion Anti-Avoidance Tax (BEAT)** was introduced in 2017 as part of the Tax Cuts Jobs Act. Creates an alternative tax calculation by starting with Regular taxable income and adding back payments such as interest and royalties to foreign related parties then multiplying the modified taxable income by 10%. If a taxpayer is subject to "BEAT" in a given year then **PTCs** and foreign tax credits may also be disallowed.
- **Pillar II** – Is not a US tax but rather was introduced by the OECD as a quasi-corporate minimum tax. The US did not sign onto Pillar II but the impact may nevertheless be imposed by an additional tax imposed on SAG in Germany if its US subsidiaries effective tax rate is too low.
- **Corporate Alternative Minimum Tax (CAMT)** – The Inflation Reduction Act introduced a new tax regime applicable to large corporations. The policy goal is to impose a 15% minimum tax on adjusted book income. CAMT includes intricate rules for investments in partnerships, including tracking of tax basis for CAMT purposes.
- With the introduction of CAMT, there are now 4 tax regimes: Regular Corporate Tax, Base Erosion Anti-Avoidance Tax (BEAT), CAMT, and Pillar II.

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Partnership & Stock Investments

- SC Tax reviews Partnership Agreement including Tax Allocations and Distributions and their impact on SFS' tax basis in its partnership and equity investments for U.S. federal and state tax purposes. (Adjusted outside tax basis).
- The differences between the *adjusted outside tax basis* as compared to the balance sheet carrying value create deferred tax assets or liabilities.
- A key difference between the balance sheet carrying value vs. tax: federal/state tax basis may typically be due to bonus tax depreciation benefits allocated to SFS by the partnership.
- Other timing differences may arise due to *Tax Year Differences* whereby the partnership allocates income / loss to SFS based on a Calendar Tax Year while SFS has a fiscal tax year ending September 30th thereby leading to the deferral of income or loss.
- *Tax Equity Partnerships*– Production Tax Credits (PTC's) generated by Wind farms. In prior years, SFS had 4 such investments which generate in excess of $50m in annual PTCs.
- *Corporate Alternative Minimum Tax (CAMT)* – The Inflation Reduction Act introduced a new tax regime applicable to large corporations. The policy goal is to impose a 15% minimum tax on adjusted book income. Intricate rules for investments in partnerships, including tracking of tax basis for CAMT purposes.

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LATAM Lending & Equity Transactions

- Siemens formed the SOFOM in Mexico to act as a Latin American lending hub. Two key efficiencies: proximity to the market and the opportunity to reduce withholding taxes.

- Countries typically impose a withholding tax on interest payments made to a nonresident lender which can be reduced under certain tax treaties.

- The imposition of a withholding tax can affect the yield on the loan if the loan agreement does not have a tax gross-up clause especially if the tax withheld cannot be claimed as a foreign tax credit.

- The US does not have an extensive tax treaty network in LATAM whereas Mexico has a more extensive tax treaty network.

- With respect to potential Equity Investments: SC Tax reviews potential Siemens entities to “book” the transaction to determine which entity would be the most tax efficient. Potential entities include SFS, SFL, SOFOM and Siemens Participaciones.

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Other SFS Business Activities Requiring CF Tax Review

- Cross-border Lending: determine most tax efficient entity to act as lender taking into consideration: withholding taxes, PE risk, availability to claim a foreign tax credit.

- New Product Approvals: recent example includes credit derivatives and private credit insurance.

- P-Approvals and I-Approvals in connection with Potential Equity Investments. Tax Due Diligence and Determination of optimal booking entity from a tax perspective.

- Troubled Debt Work-Outs: tax consequences associated with debt for equity swaps.

- Funding Issues related to SPI since it earns tax-exempt interest income. Periodic review of Tax-Exempt trust structures. Periodic revisiting of SFS's matched funding policy.

- Review SLAs between SFS and SFL and SFS and the SOFOM.

- Managing tax risk associated with travels by SFS employees to Canada.

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Leasing: Taxable income and depreciation calculations

- Cassiopae’s contract management system (CMS) does not provide income tax data module to enable SC Tax to calculate the tax reporting data needed for tax reporting and tax return calculation purposes. Book and tax will differ depending on the various different lease classifications (OL CS, FL OL & tax depreciation).

- SFS previously engaged PwC (now Deloitte) to provide income tax calculations utilizing their Lease Accounting System (LAS). Once PWC became our auditor, we needed to switch to Deloitte due to independence constraints

- SC Tax checks for data entry validity and provides additional manual information not otherwise available from CMS ($1 out sales and all disposition values), SFS Asset Reports, Rent Reports and SC Tax manually-prepared data is provided to Deloitte to calculate tax rental income, tax finance income and tax depreciation for those leases where a book tax timing difference exists (approx. $200 million)

- SC Tax then compares book and tax contract-to-date income positions and book and tax balance sheet positions to enter book to tax adjustments and prove out deferred tax positions

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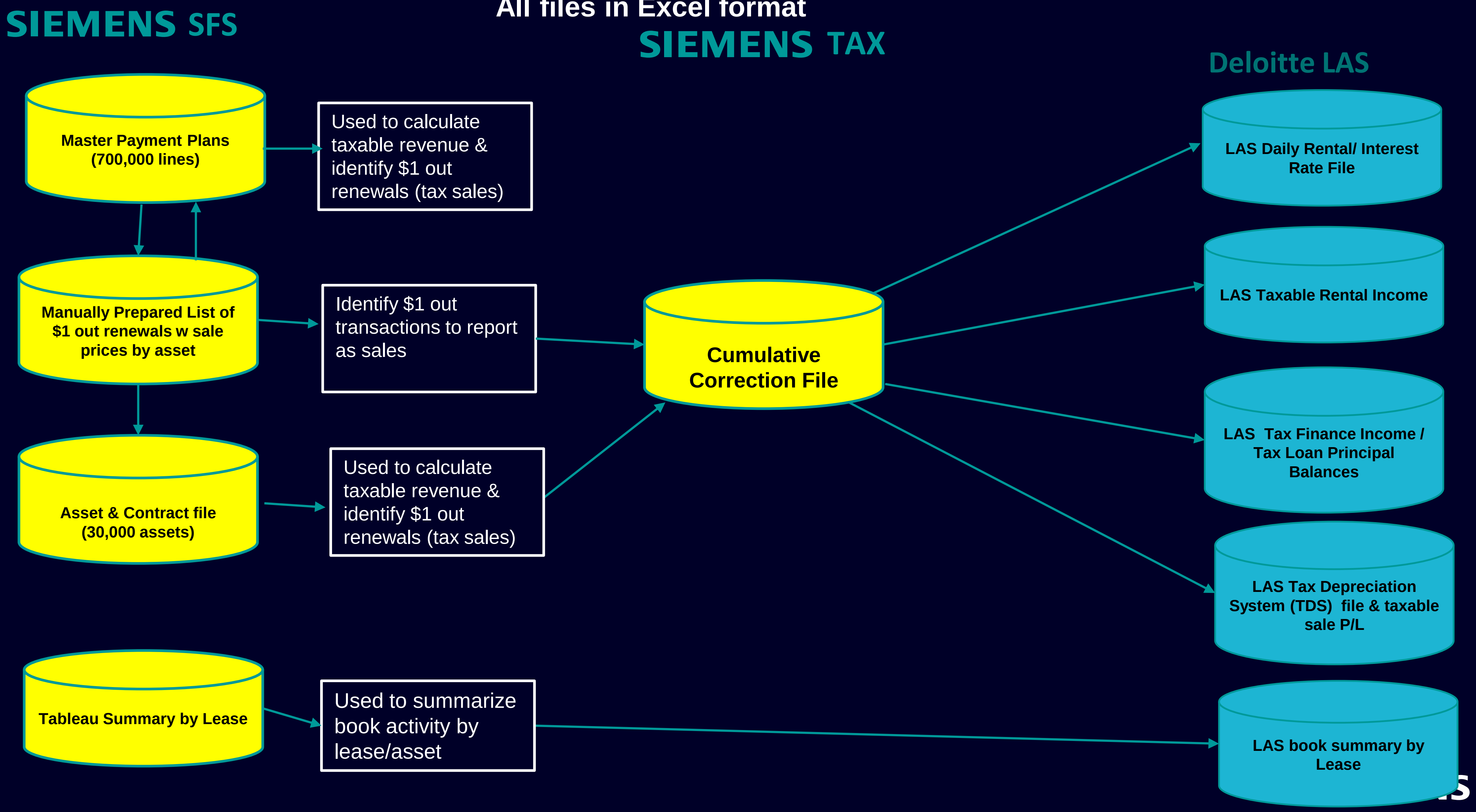
Example of Data Files Created by Deloitte LAS

All files in Excel format



Leasing Example: Book /Tax Temporary Difference due to Depreciation

Depreciation Calculation:

Tax

Effect

Book depreciation year 1= ($1 million / 5 years) $ 200,000 x 21.0% = $ 42,000

Fed Tax depreciation = (assume 100% bonus) $1,000,000 x 21.0% = $210,000 (refund)

Timing difference $ 800,000 x 21.0% = $168,000

Journal entry	Debit	Credit
Book Depreciation expense	$200,000	
Accumulated book depreciation		$200,000
Tax refund receivable ($1m x 21%)	$210,000	
Tax Provision (expense) current		$210,000
Tax Provision (expense) deferred	$168,000	
Taxes payable (deferred)		$168,000

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Profit/Loss	1	2	3	4	5	Totals
Book Depreciation	200,000	200,000	200,000	200,000	200,000	1,000,000
Tax Depreciation	1,000,000	0	0	0	0	1,000,000
Book/Tax Difference	-800,000	200,000	200,000	200,000	200,000	0
Cumulative Differ.	-800,000	-600,000	-400,000	-200,000	0	0
Balance Sheet						
Book cost	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	
Accumulated Dep	-200,000	-400,000	-600,000	-800,000	-1,000,000	
Net	800,000	600,000	400,000	200,000	0	
Tax Cost	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Accumulated Dep	-1,000,000	-1,000,000	-1,000,000	-1,000,000	-1,000,000	-1,000,000
Net	0	0	0	0	0	0
Book/Tax Difference	**-800,000**	**-600,000**	**-400,000**	**-200,000**	**0**	
Deferred Tax @21%	-168,000	-126,000	-84,000	-42,000	0	
Entries						
Current Provision	-210,000	0	0	0	0	
Taxes Receivable	210,000	0	0	0	0	
Deferred Provision	168,000	-42,000	-42,000	-42,000	-42,000	0
Deferred Taxes Pay	-168,000	42,000	42,000	42,000	42,000	0
Cumulative Deferred	-168,000	-126,000	-84,000	-42,000	0	
Net Provision	**42,000**	**42,000**	**42,000**	**42,000**	**42,000**	**210,000**

By the end of the lease: The tax and book income are the same.

Deferred taxes payable ultimately is reversed until it is gone.

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GENERAL ALLOWANCE AND SPECIFIC ALLOWANCE RESERVE EXAMPLE

FACT PATTERN:

YEAR 1:
SFS FUNDS A $10 MILLION LOAN TO ABC, CORPORATION. ABC REPAYS $500,000 OF PRINCIPAL, AND SFS RECORDS $750,000 OF INTEREST INCOME.
SFS RECORDS A GENERAL ALLOWANCE OF $500,000 CREDIT RISK RATING: 7

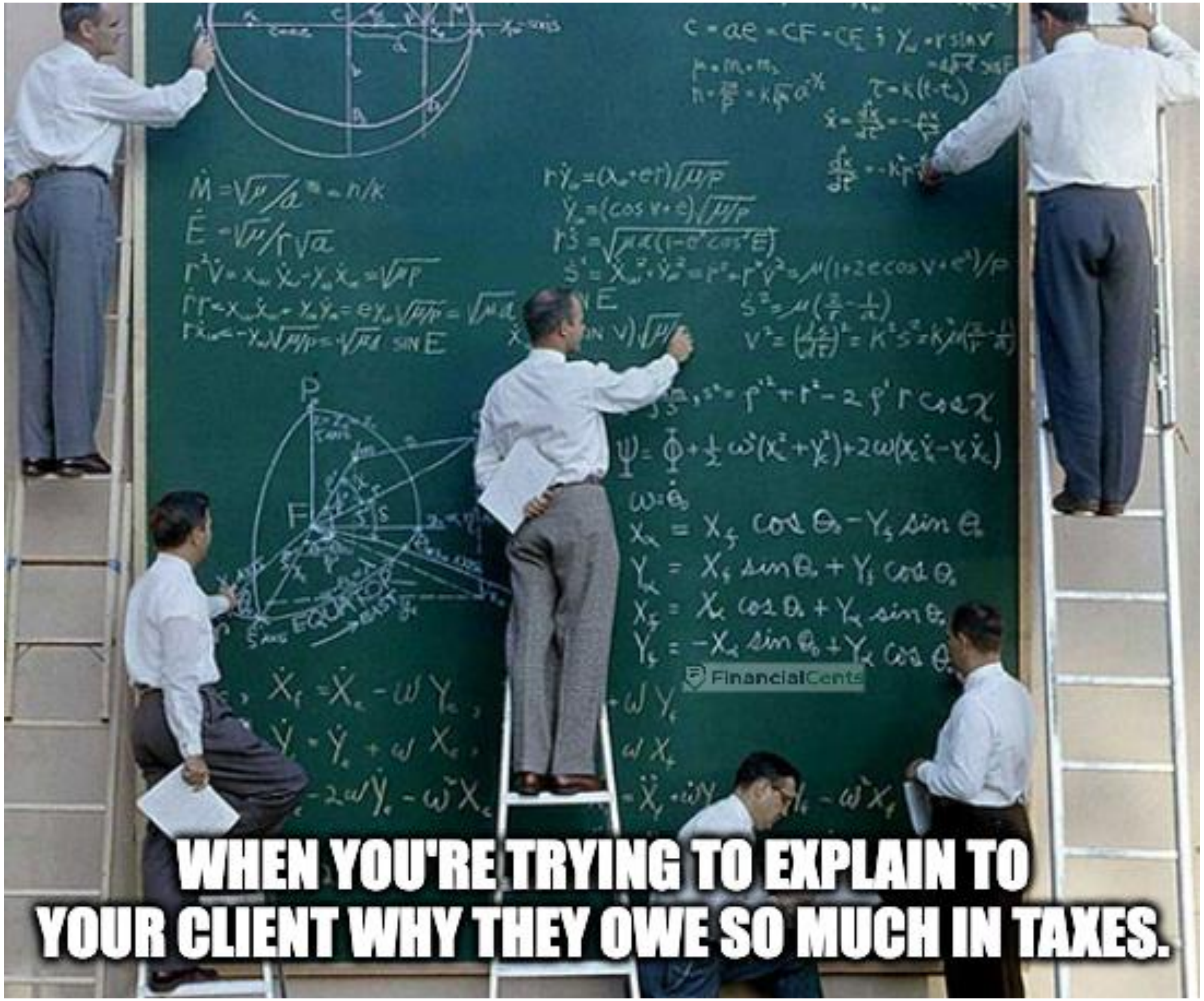
YEAR 2:
ABC REPAYS $600,000 OF PRINCIPAL, AND SFS RECORDS $650,000 OF INTEREST INCOME. SFS RECORDS AN ADDITIONAL GENERAL ALLOWANCE OF $250,000.
CREDIT RISK RATING: 8

YEAR 3:
ABC DECLARES BANKRUPTCY. SFS REVERSES GENERAL ALLOWANCES RECORDED IN YEARS 1 AND 2 AND RECORDS A SPECIFIC RESERVE OF $4 MILLION.
CREDIT RISK RATING : 10

ENTRIES	YEAR 1	YEAR 2	YEAR 3	ENDING BALANCES YEAR 3
LOANS RECEIVABLE	9,500,000.00	(600,000.00)		8,900,000.00
INTEREST INCOME	(750,000.00)	(650,000.00)		(1,400,000.00)
FUNDING ACCOUNT/CASH	(8,750,000.00)	1,250,000.00		(7,500,000.00)
Initial funding of loan, payments received and interest income				
GENERAL VALUATION ALLOWANCE	(500,000.00)	(250,000.00)	750,000.00	-
GENERAL ALLOWANCE EXPENSE	500,000.00	250,000.00	(750,000.00)	-
INDIVIDUAL VALUATION ALLOWANCE			(4,000,000.00)	(4,000,000.00)
INDIVIDUAL ALLOWANCE EXPENSE			4,000,000.00	4,000,000.00
Recording of General and Individual Allowances				
CURRENT TAX EXPENSE	190,680.00	165,256.00	(1,016,960.00)	(661,024.00)
CURRENT TAX PAYABLE	(190,680.00)	(165,256.00)	1,016,960.00	661,024.00
DEFERRED TAX EXPENSE/(BENEFIT)	(127,120.00)	(63,560.00)	190,680.00	-
DEFERRED TAX ASSET/(LIABIILITY)	127,120.00	63,560.00	(190,680.00)	-
Recording of Tax Provision Entries				

WORKSHEET FOR TAX ENTRIES	YEAR 1	YEAR 2	YEAR 3	TOTALS
PRE-TAX BOOK (INCOME)/LOSS				
INTEREST INCOME	(750,000.00)	(650,000.00)		(1,400,000.00)
GENERAL ALLOWANCE	500,000.00	250,000.00	(750,000.00)	-
INDIVIDUAL ALLOWANCE			4,000,000.00	4,000,000.00
PRE-TAX BOOK (INCOME)/LOSS	**(250,000.00)**	**(400,000.00)**	**3,250,000.00**	**2,600,000.00**
CALCULATION OF TAXABLE INCOME				
REVERSE: GENERAL ALLOWANCE	(500,000.00)	(250,000.00)	750,000.00	-
CURRENT TAXABLE (INCOME)/LOSS	**(750,000.00)**	**(650,000.00)**	**4,000,000.00**	**2,600,000.00**
TAX PROVISION ENTRIES				
CURRENT TAX EXPENSE(BENEFIT) - 25.424%	190,680.00	165,256.00	(1,016,960.00)	(661,024.00)
DEFERRED TAX EXPENSE /(BENEFIT) - GENERAL ALLOWANCE - 25.424%	(127,120.00)	(63,560.00)	190,680.00	-
TAX PROVISION	**63,560.00**	**101,696.00**	**(826,280.00)**	**(661,024.00)**

“It’s Not Complicated Let Me Show You Real Quick”



Questions?

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