



Real World Recharges TripAdvisor's Quest for Repatriation

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Overview

- TripAdvisor: At a Glance
- Repatriation 101
- Recharge 101
- The Challenges
 - IRC Section 1032
 - Treasury Shares
 - Retroactivity
 - Local Tax Authorities
- Tips for Recharge Roll-Out Success

TripAdvisor: At a Glance



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Stock Ticker:	Nasdaq: TRIP
Market Cap:	\$12.88 billion
2012 Revenue:	\$944 million
Index Membership:	S&P 500, Nasdaq 100
Founded:	2000
Headquarters:	Newton, MA
Employees:	~2,000 worldwide
Global Presence:	~15 countries
Acquired:	IAC (2004)
Spin #1:	Together w/ all other travel businesses under EXPE (2005)
Spin #2 / IPO:	December 2011



TripAdvisor® is the world's largest travel site, enabling travelers to plan and have the perfect trip. TripAdvisor offers trusted advice from real travelers and a wide variety of travel choices and planning features with seamless links to booking tools. TripAdvisor branded sites make up the largest travel community in the world,

with more than 200 million unique monthly visitors, and over 100 million reviews and opinions covering more than 2.5 million accommodations, restaurants, and attractions. The sites operate in 30 countries worldwide, including China under daodao.com. TripAdvisor also includes TripAdvisor for Business, a dedicated division that provides the tourism industry access to millions of monthly TripAdvisor visitors.

TripAdvisor:
At a Glance



The genesis

Lot's o' cash abroad

TripAdvisor:
At a Glance



Primary goal

Get the cash back to
the mother ship w/o
incurring a significant
US tax liability

TripAdvisor: At a Glance



Additional objectives

Create a local deduction

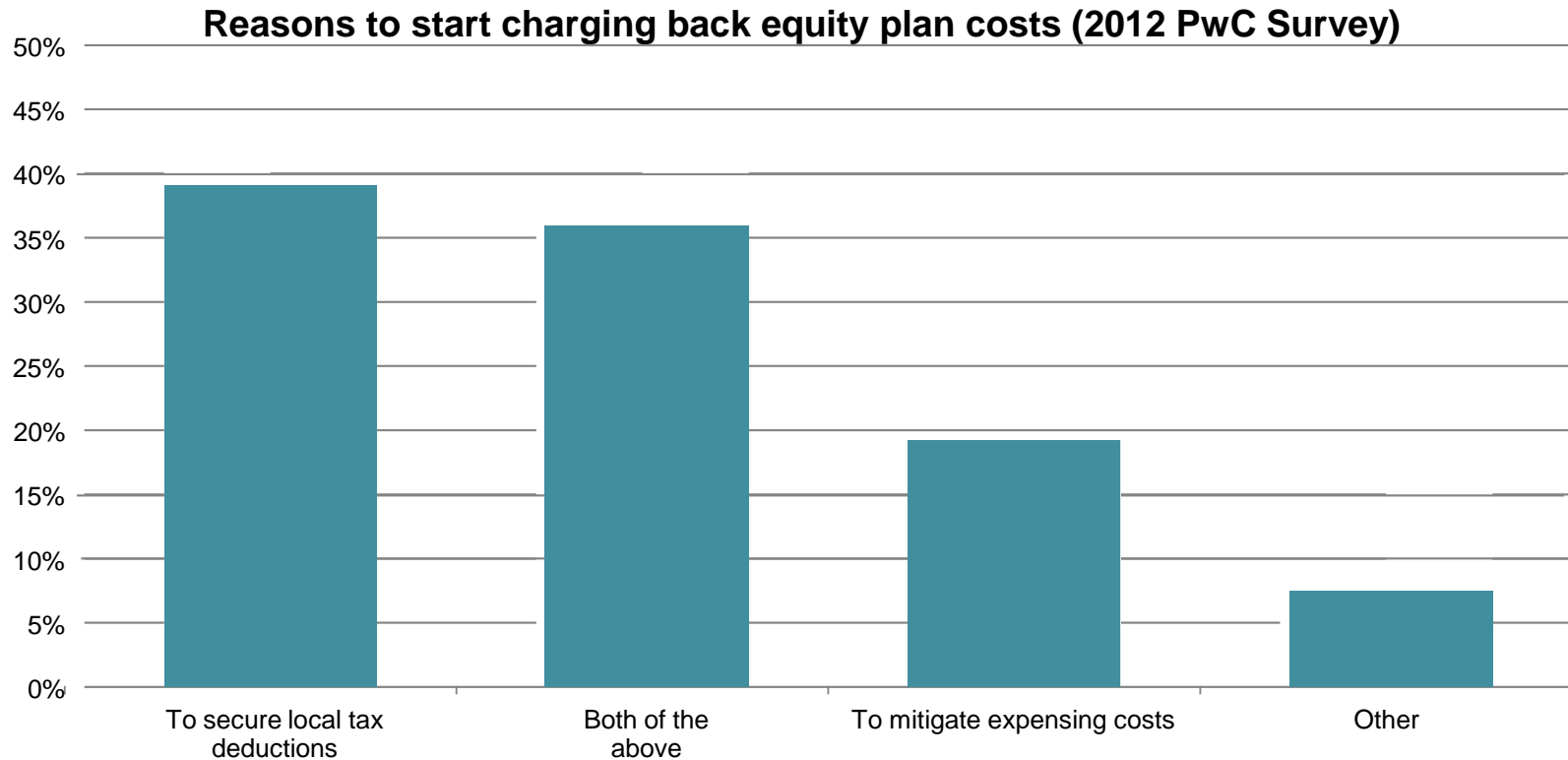
Reduce US GAAP expense

Minimal payroll disruption

TripAdvisor: At a Glance



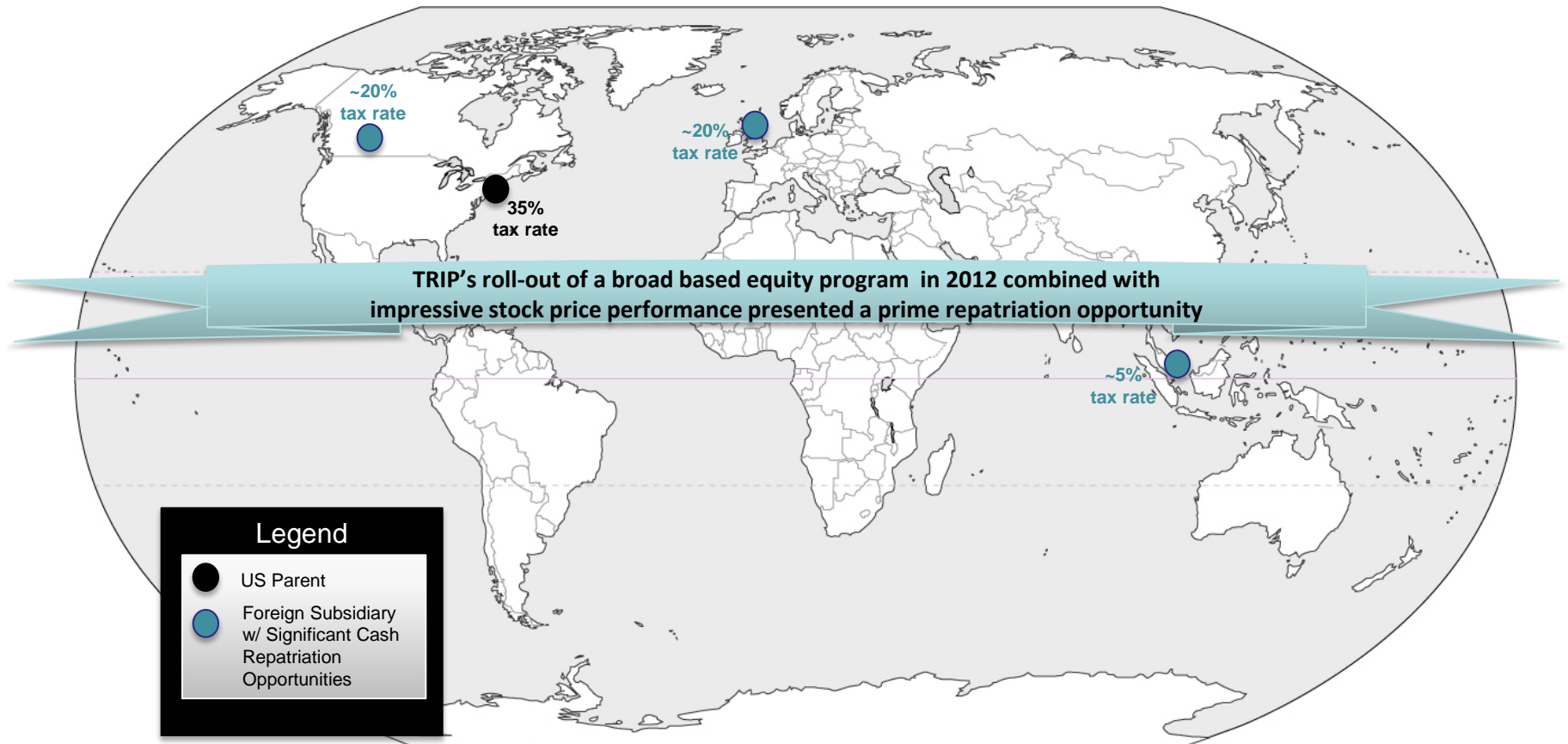
- How do these drivers compare?



TripAdvisor: At a Glance



The World According to TRIP



Repatriation 101

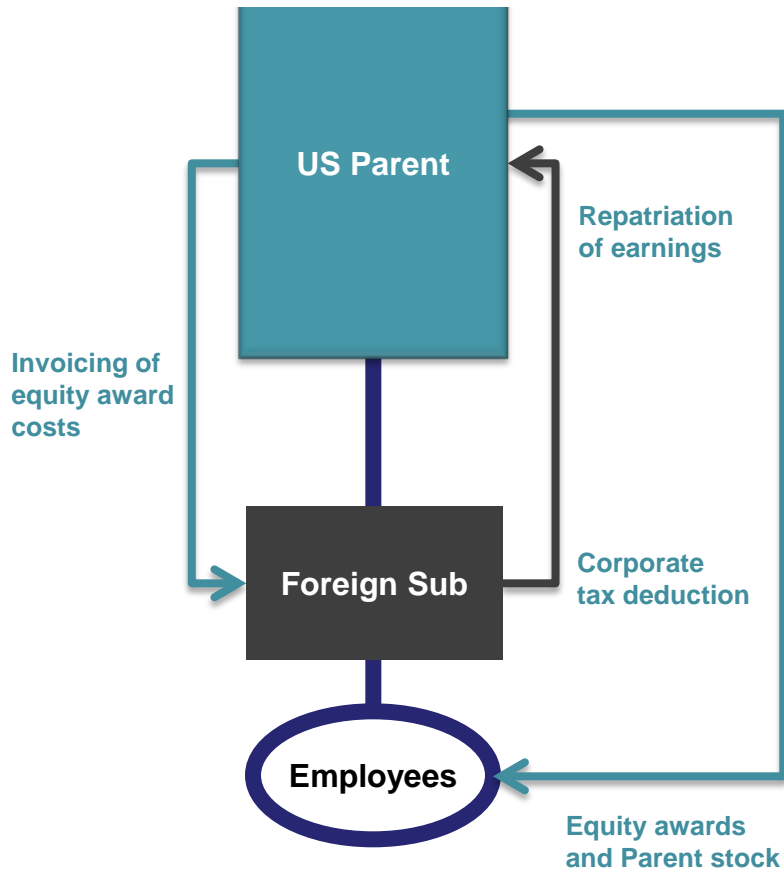


- Why repatriate?
 - When the \$ comes back to the US it can be
 - Invested by the companies or
 - Spent on providing dividends to shareholders
- Why not repatriate (a vast oversimplification)?
 - US Corporations only pay US corporate income tax on
 - Profits made inside the US or
 - Foreign profits brought back to the US
 - Since the US rate is 35% - one of the highest in the world - there's a reluctance to bring foreign profits back
 - The conclusion of many US-based multinationals is therefore to
 - Park the profits offshore and don't take the 35% tax hit

Recharge 101



The Global Equity Recharge



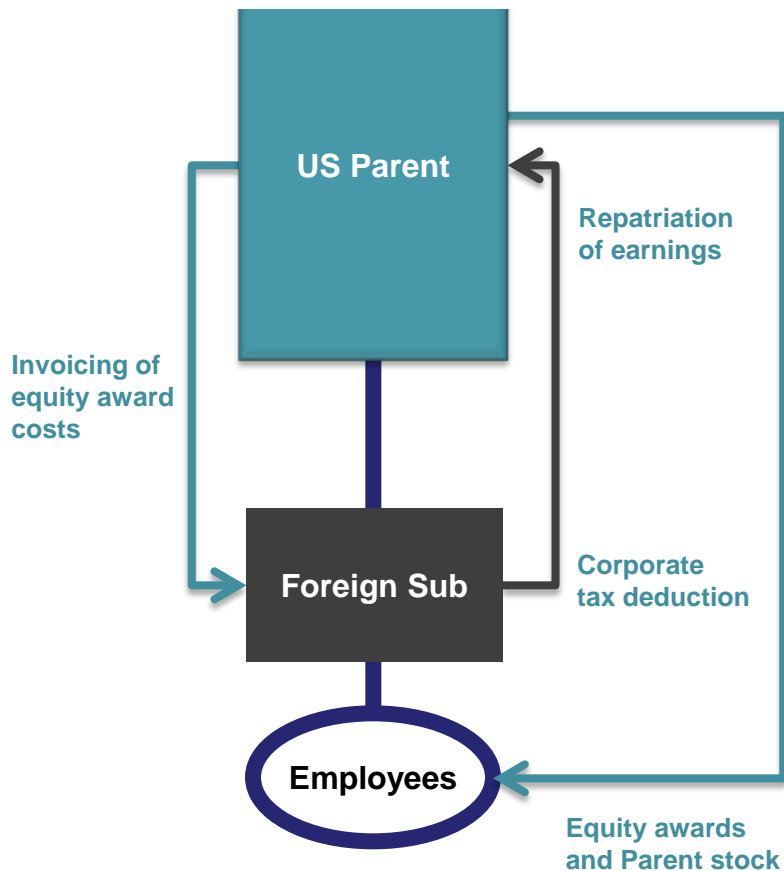
Strategy

- A strategy exists that will allow US companies to **repatriate foreign earnings tax-free** and **achieve a local tax deduction** via the implementation of global stock award chargebacks. This is also potentially a significant accounting benefit associated with this technique.
- A chargeback agreement is an agreement between the US Parent and its foreign subsidiaries which provides that the foreign subsidiary will reimburse the US Parent for the amount of the taxable benefit received by the local employee
- This agreement provides that the foreign subsidiary will incur a cost associated with the equity plan and, in many cases, be entitled to a corporate tax deduction.

Recharge 101



The Global Equity Recharge



Benefits

- Reduce global effective tax rate
- Corporate tax benefit for foreign subsidiaries
- Tax-free repatriation of foreign earnings (Treas. Reg. Sec. 1.1032-3)
- Creates a deferred tax asset to offset US GAAP expense

Considerations

- Is a corporate tax deduction permitted?
- Are there requirements to use a specific share type?
- Is cash repatriation desirable?
- What is impact on local withholding and reporting?
- Will the local subsidiary be subject to increase scrutiny for past non-compliance?
- Will the local subsidiaries be resistance to change in procedure?

The Challenges: IRC 1032



- The Code

§ 1032. Exchange of stock for property

(a) Nonrecognition of gain or loss

No gain or loss shall be recognized to a corporation on the receipt of money or other property in exchange for stock (including treasury stock) of such corporation. No gain or loss shall be recognized by a corporation with respect to any lapse or acquisition of an option, or with respect to a securities futures contract (as defined in section 1234B), to buy or sell its stock (including treasury stock).

(b) Basis

For basis of property acquired by a corporation in certain exchanges for its stock, see section 362.

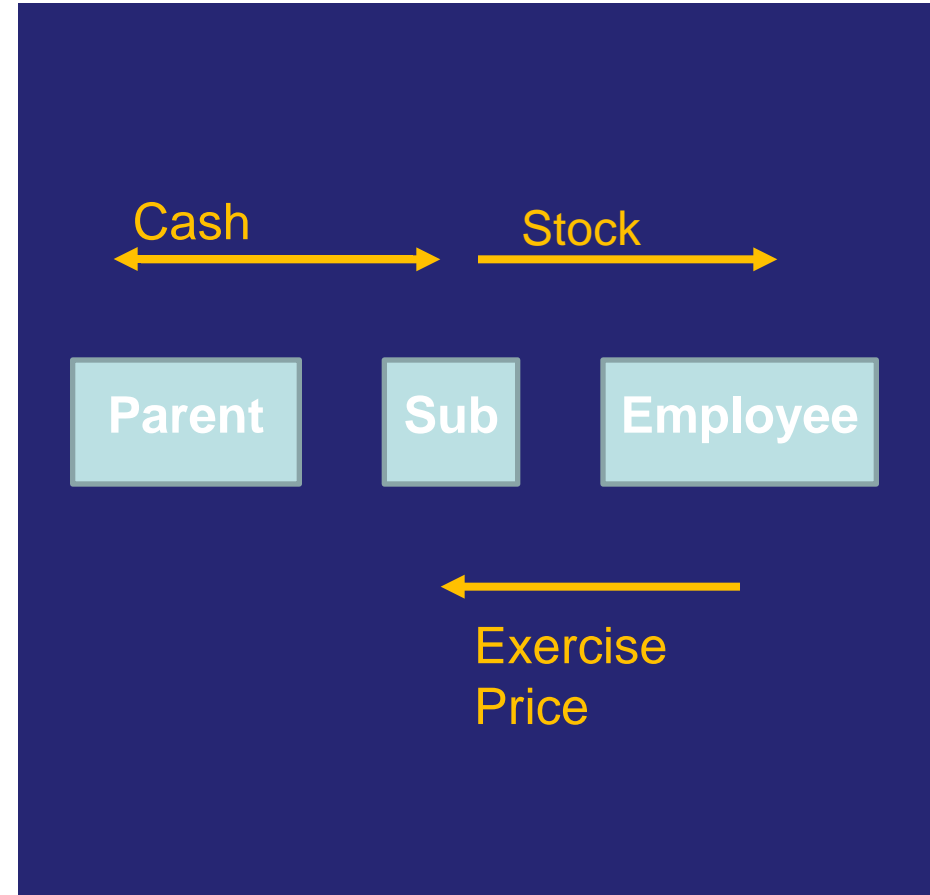
The Challenges: IRC 1032



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▪ The Regs

- Under 1.1032-3, IRS uses cash purchase model:
 - Parent deemed to contribute cash to Subsidiary
 - Subsidiary deemed to purchase stock at FMV from Parent
 - Requires IMMEDIATE transfer of the stock by Subsidiary to Employee



The Challenges: IRC 1032



- Effect on Subsidiary
 - Subsidiary deemed to have purchased the stock immediately before the transfer to Employee: recognized no gain or loss
 - Subsidiary gets corporate tax deduction without offset
- Effect on Parent:
 - Basis in Subsidiary will be increased by the deemed contribution of cash - Section 358

The Challenges: IRC 1032



- The Benefit

- Repatriate cash without dividend taint
 - A payment in return for shares is specifically protected from taxation under Section 1032
 - **Comment:** payment of accounting value may not be Section 1032 protected
- Difficult for IRS to challenge foreign tax credit utilization because company has taken steps to reduce non-US corporate income tax
 - Otherwise, foreign tax payments could be viewed as “voluntary”

The Challenges: Treasury Shares



▪ Treasury Shares

- Definition
 - Shares repurchased by the company on the open market
- Recommended in some locations to secure a corporate tax deduction abroad because such shares demonstrate that an actual “cost” was incurred
- Required and/or strongly recommended countries include:
 - France
 - Japan
 - Germany
 - Singapore

The Challenges: Treasury Shares



▪ TRIP's Treasury Share Dilemma

- Was securing a 5% deduction in Singapore an efficient use of shares purchased at \$70?

Plan Design

1. Confirm that equity plan permits use of treasury stock

1a. If Task = No, draft amendment to plan document

1b. If Task = Yes, submit amended plan document to shareholders for approval

Tax and Regulatory Compliance

2. Determine share tracking requirements in foreign locations

3. Determine how to manage share tracking requirements

4. Discuss ability to move shares from Treasury to settle equity awards

5. Coordinate conference call between Finance, Treasury, Legal and SEC reporting to discuss treasury share requirements

The Challenges: Retroactivity



▪ Recharge Timing

- Should be in place at time of grant – but agreements executed after the grant date of awards may be respected
 - Some jurisdictions more forgiving than others
- Requires periodic cash settlement via inter-company accounts
- Requires proper accounting at foreign subsidiary level in statutory books and records

The Challenges: Local Tax Authorities



- Audit Activity

- Deduction generally allowed upon audit if documentation is in place
- Treasury shares/cost of shares usually questioned
- Need to show employees recognized ordinary income at stock transfer date, where applicable
- Need to show wage withholding and/or information reporting at employee level, where applicable
- Special consideration for employees who relocate internationally between grant and vesting/exercise date of the awards
- Recent tax authority guidance in Hong Kong, India and Spain

Tips for Rollout Success



- The “Tools” of the Trade
 - Recharge agreement
 - Invoice
 - Should include adequate back-up documentation
 - Journal entries

Tips for Rollout Success



- As with any change management exercise
 - Communication of new responsibilities and procedures is key
- TRIP embraced the recharge rollout as an opportunity to optimize other stock plan compliance practices
 - Developed administrative manual detailing
 - Operational procedures, including clear delineation of new roles
 - Local tax withholding and reporting requirements
 - Links to documentation / information sources
 - Mobility exception procedures
 - Sample recharge journal entries

Thank You



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