

Powerpoint = Security 2



# Security Payments

Proposal for 2003

CBI-V1-001-001037

NSD CHIQUITA 2708



# Objectives

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- Reduce incremental costs due to income tax rate increase in 2003 (from 38% to 39%).
- Reduce total income reported by the GM given security issues.
- Differentiate GM's salary to that of his direct reports (managers).
- Keep compliance with FCPA rules even when the payments will not be done to a Governmental agency???



## Present situation

- All security payments are taken from GM's representation expenses.
- Those expenses are considered part of the GM's remuneration and file as such to local tax authorities. Therefore income tax and any other related payroll expenses are paid, as required by law. This increments the total costs of the security payments.
- In the accounting records, this amounts are described as security payments.

CBI-V1-001-001039

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## Present situation - cost

■ Projected boxes for 2003	2,850,000
■ Cost per box	\$ 0.03
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■ Expected security cost for 2003	\$ 85,500
■ Tax cost based on previous tax rates	27,745
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Cost per prior rate tax	\$ 113,245
■ Tax incremental cost	25,779
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Total cost expected for 2003	\$ 139,024



# Options

1. Use the amount of salary been paid to the GM offshore (is reported locally for tax purposes) as cash flow for the security payments.
2. Bring required cash into the country.
3. A mix of the two options above and representation expenses.
4. A combination of:
  1. Increment salary base locally and reduce it in US.
  2. Transfer part of the payment to the US bank account of the GM, who will transfer to one of his local accounts.
  3. Pay a part as representation expense.
5. Do not change present method.

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## Option 1 - Use GM salary structure - Description



- From the total GM salary reported locally, \$18,514 are paid offshore (after local tax increment).
- This amount is filed, however is not shown in the local accounting records.
- Local taxes are already paid for this amount.
- Pay this amount locally and use the cash for security payments.
- The outstanding payments will still be obtained from GM's representation expenses.

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# Option 1 - Use GM salary structure - Cost

	Proposed	Actual	Savings
Payroll	\$ 12,514		
Rep. expenses	72,986	\$ 85,500	
Taxes	45,691	53,524	\$ 7,833
Total	\$ 131,191	\$ 139,024	\$ 7,833

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## Option 1 - Use GM salary structure - Accounting

- Representation expenses will be recorded as they are actually done.
- Additional salary payments will be recorded as such in the local books, but will need to be reclassified to security expenses in the G.O. books or as a Corporate reclassification.



# Option 1 - Use GM salary structure – Pro's and Con's



## Pro's

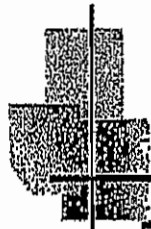
1. Salaries reported locally match accounting records.
2. Estimated savings of \$11,590.
3. No additional cash is required.
4. GM's total local remuneration is higher than that of his direct reports

## Con's

1. GM's salary is still very high which rises security issues
2. Incremental costs due to taxes are still very high.

## Option 2- Bring required cash into the country - Description

- Bring full amount of required payments from outside the country.



## Option 2- Cost

	Proposed	Actual	Savings
Security/Cash	\$ 85,500		
Rep. expenses		\$ 85,500	
Taxes		53,524	\$ 53,524
Total	\$ 85,500	\$ 139,024	\$ 53,524

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## Option 2 – Bring cash flow - Accounting

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- Cash disbursements will be recorded in (CBI, CIL??) as security payments.

## Option 2 - Bring cash flow – Pro's and Con's



### Pro's

1. Estimated savings of \$53,524.
2. GM's salary is significantly reduced, therefore security risk is lower.

### Con's

1. Even when it is not required to be reported, bringing that amount (aprox \$7K per month) of cash could give the wrong idea to local authorities, if detected.
2. GM's total local remuneration is not higher than that of his direct reports.
3. Remuneration reported for 2003 is lower than that of 2002-even when there are ways to explain this decrease, it could rise questions from authorities.
4. GM locally reported salary does not match accounting records.



## Option 3 – Mix of Options 1 and 2 and Representation Expenses - Description

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- Pay \$18,514 from the total GM salary reported local but paid offshore (after local tax increment) – Option 1.
- Bring \$36,000 from outside the country (\$3,000 p/ month aprox.) Option 2.
- The outstanding payments will still be obtained from GM's representation expenses.

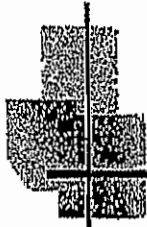
# Option 3 - Mix of Options 1 and 2 and Representation Expenses - Cost

	<b>Proposed</b>	<b>Actual</b>	<b>Savings</b>
Payroll	\$ 12,514		
Security/Cash	36,000		
Rep. expenses	36,986	\$ 85,500	
Taxes	23,154	53,524	\$ 30,370
<b>Total</b>	<b>\$ 108,654</b>	<b>\$ 139,024</b>	<b>\$ 30,370</b>

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## Option 3 - Mix of Options 1 and 2 and Representation Expenses – Pro's and Con's



### Pro's

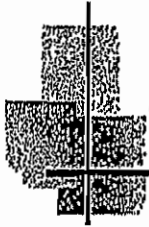
1. Salaries reported locally match accounting records.
2. Estimated savings of \$34,126.
3. GM's total local remuneration is higher than that of his direct reports and even though it is still high, it is lower than last year's.

### Con's

1. Incremental costs due to taxes are still very high.
2. Though it is a smaller amount and it is not required to be reported, bringing in cash (aprox \$3K per month) could give the wrong idea to local authorities, if detected.



## Option 3 - Use GM salary structure - Accounting



- Representation expenses will be recorded as they are actually done.
- Additional salary payments will be recorded as such in the local books. Such amounts will be reduced from the US salary base in Corporate books and will be correctly accounted for as security expenses.
- Cash transferred to the GM's US bank account by Corporate will also be recorded as security payments.



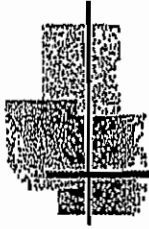
# GM's reported Remuneration

	<b>Actual</b>	<b>#1</b>	<b>#2</b>	<b>#3</b>	<b>#4</b>
Salary	\$ 85,000	\$ 85,000	\$85,000	\$ 85,000	\$ 130,000
Rep Expense	139,024	108,920		50,384	43,415
<b>Total</b>	<b>\$ 224,024</b>	<b>\$ 193,920</b>	<b>\$85,000</b>	<b>\$ 135,384</b>	<b>\$ 173,415</b>

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## Option 3 - Use GM salary structure - Accounting

- Representation expenses will be recorded as they are actually done.
- Additional salary payments will be recorded as such in the local books, but will need to be reclassified to security expenses in the G.O. books or as a Corporate reclassification.
- Cash brought from out of the country will be recorded in (CBI, CIL??) as security payments.



## Option 4 – Combination

- Increase local base salary from \$85,000 to \$130,000. This will allow to pay \$46,800 once required local payment by GM is met.
- Transfer \$12,000 (2 payments per year) of security payments from headquarters to GM's US bank account. This amount will be transfer by the GM to one of his local bank accounts.
- The outstanding payments will still be obtained from GM's representation expenses.

# Option 4 - Combination - Cost

	Proposed	Actual	Savings
Payroll	\$ 46,800		
Security/Cash	12,000		
Rep. expenses	26,700	\$ 85,500	
Taxes	27,429	53,524	\$ 26,095
Total	\$ 112,929	\$ 139,024	\$ 26,095

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# Option 4 – Combination

## – Pro's and Con's



### Pro's

1. Salaries reported locally match. accounting records.
2. Estimated savings of \$26,095.
3. GM's total local remuneration is higher than that of his direct reports and even though it is still high, it is lower than last year's.
4. There is no need to physically bring cash t cash from out of the country.

### Con's

1. Incremental costs due to taxes are still very high.
2. GM's total remuneration is very high, increasing security risk.
3. Accounting is neater (FCPA).

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# Pending

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- If Option 3, is there any additional costs to bring money or could it be part of normal traveling?
- Review of the tax numbers, mainly of the Option for by local.
- Legal review.

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