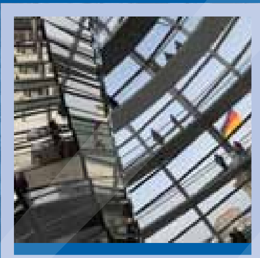

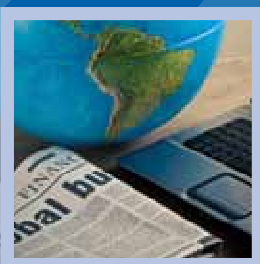

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Business World

News, views and analysis from the **Russell Bedford** accounting network

Spring 2013

Germany: still the strong man of Europe?

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WTO reform – an agenda for change

Doing Business 2013: smarter regulations for small and medium-size enterprises

UK immigration – a guide for non-EU nationals

Double-taxation treaties – helping businesses invest overseas

Selling your business to private equity

Tax planning – the future

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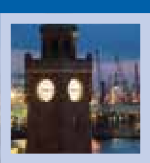

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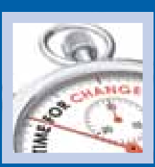

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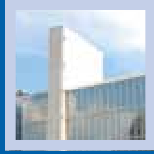

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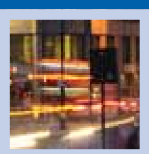

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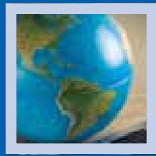

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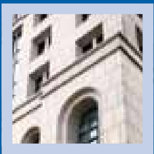

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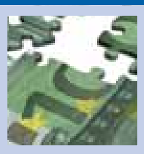

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Germany – still the strong man of Europe?

About the author

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At the beginning of the global financial crisis Germany suffered like most other developed economies. In fact, in 2009 German GDP shrank by 5%.

However, unlike many other countries Germany recovered fairly quickly: GDP grew by 3.6% in 2010 and 3.0% in 2011. Much of this recovery was due to the way the German economy developed during the previous ten years. And a little bit of good fortune.

Let's examine some areas of German strength.

Co-operative working conditions

This isn't only about trade unions but also, and more important, the work councils – shop-floor organisations that represent employees; they function at a local level and complement national labour negotiations.

While business people aren't their greatest fans, work councils enable constructive discussion where the well-being of the business is a common goal. Even small and medium-sized businesses without work councils often embrace this culture. Employees feel responsible and are flexible in their demands, keeping the good of the business in mind.

Short-time work

The German Kurzarbeitergeld scheme has proved very successful. Some of the most important industries to the German economy, such as motor and manufacturing, suffered during the downturn; the Kurzarbeitergeld scheme meant employers could place employees on short-time working, rather than lay them off, while the German government subsidised the shortfall in earnings for up to twenty-four months.

In highly technical industries it costs a lot to train employees; the Kurzarbeitergeld scheme helps struggling industries to weather the storm and keeps highly skilled employees in work.

Maintaining an industrial core

At the beginning of the new millennium Germany was known as the sick man of Europe because of its poor economic growth – Germany had missed out on much of the structural shift to service economies. However, its industrial core, containing well-known names like BMW, Bosch, and Siemens, as well as lesser known but successful businesses, survived. Germany is also in the enviable position that many of its products are in demand and sell heavily in the emerging foreign markets; so Germany doesn't depend solely on the European and North American markets.

Hidden champions

These are often small to medium-sized businesses, highly successful, employing lots of people, contributing much to the economy, but virtually unknown.

A client of ours, Biagosch and Brandau, exports can-making machines to China and has been doing so for thirty years. Biagosch and Brandau also exports to Brazil, the Middle East, and Russia. Ask people on the high street and you will struggle to find someone who knows them; in the world of can manufacturing Biagosch and Brandau is famous.

Chancellor Schroeder's government reforms

At the beginning of the millennium Chancellor Gerhard Schroeder introduced many reforms. Although unpopular at the time, these reforms paved the way for Germany to recover, and reduce unemployment. Schroeder failed to gain re-election in 2005 and Angela Merkel became Chancellor; her government is now reaping the rewards of Schroeder's reforms.

Absence of a property bubble

Germany does not have a culture of home ownership; the majority of people rent their homes. Although in 2011 and 2012 spots like Berlin, Hamburg and Munich witnessed an upsurge in property buying, with the resultant rise in prices, Germany has never experienced the kind of property bubble that the UK and US experienced. This may partly be explained by the German banks' more cautious outlook on granting mortgages; contrast this with the easy credit available in the UK and US prior to the credit crunch.

Attitude to paying taxes

The German people, much like the Scandinavians, have a culture of willingly paying their taxes. Although German debt stands at 80% of GDP, the government can be confident of its tax take and manage the budget effectively. This somewhat differs from the situation in Greece where it seems many viewed paying tax as voluntary, meaning the Greek government had no accurate idea of how much tax they would collect.

Of course, Germany has weaknesses too. Some of them are:

Ageing population

Like most other developed countries, Germany has an issue with improving longevity of its population. What's more, despite government subsidies to encourage otherwise, Germany has a worryingly low birth rate, and many young people are leaving Germany for other countries. Put all these factors together and Germany may face problems in the future.

Hidden debt

Germany has a well-established social security and pension system. However, this comes at a price and shortfalls in funding suggest the true German debt is closer to 200% of GDP. The aforementioned longevity and low-birth-rate issues can only exacerbate this problem.

Germany's role in Europe

All members of the Eurozone are responsible for paying the cost of the debt crisis by contributing to the European Stability Mechanism but Germany is paying more than any other country. There is a feeling that many Germans are growing tired of bailing out insolvent members of the Eurozone but if the euro is to be saved this is how it must be. It will be interesting to see how strongly the current government forces this message home during the run up to this year's federal elections.

In summary

Although it is the emerging economies in Asia and Latin America that are stealing the headlines at the moment, Germany as an economy and a home for foreign investment is still a force to be reckoned with.

Germany is also in the enviable position that many of its products are in demand and sell heavily in the emerging foreign markets; so Germany doesn't depend solely on the European and North American markets.

WTO reform – **an agenda for change**

The World Trade Organisation (WTO) was formed in 1995. Its website describes the WTO as: *the international organisation whose primary purpose is to open trade for the benefit of all.*

I have a fundamental instinct for free trade; it helps people reach their economic potential. This instinct makes me a fan of the WTO. Its mission to help nations big or small, rich or poor, emerged or emerging, is fundamentally sound. How could anyone not be a supporter of this?

However, the WTO is far from perfect. To sustain its effectiveness it must change. If the WTO doesn't find a way to reinvent itself I fear for its future relevance. This is why I published my report: *WTO at the crossroads – a report on the imperative of a WTO reform agenda.*

In my report I have made twenty-two recommendations, concentrated on four areas: promoting trade, streamlining and strengthening decision-making, enhancing governance, and creating a credible process.

Why reform the WTO?

The issue of international trade has become both political and topical. It has both supporters and critics yet the one area where common ground exists is the belief that the multilateral system needs reforming – the WTO needs to change and evolve.

A reinvigorated trading regime will also help determine whether some or all developing countries will participate successfully in global trade.

The WTO today

Let's start from the premise that the WTO plays a valuable role in international trade. When you consider the growth in, and global nature of, international trade it is easy to make the case that the role of the WTO is more important than ever. If the WTO did not exist, we would need to invent it. However, the fact it does exist does not mean we can sit back; we need to ensure the WTO's political and economic governance responds to today's needs.

The WTO can and should be better and stronger; it cannot ignore the fact the world has changed.

Over time there have been many suggestions for improvement. Sadly, these suggestions have largely been ignored and the WTO has continued to resist change. The sooner this attitude changes, the better.

Can the WTO do two things at once?

There are people inside the WTO who acknowledge the WTO needs work; but not right now.

Many believe the priority should be to implement the agreements in the Doha Development Agenda (DDA), already years past its intended deadline. I agree the DDA measures are important. I do not agree the WTO cannot reform simultaneously. It cannot choose between a work agenda and a reform agenda; the WTO must do both. It must adapt to today's realities.

What next?

The next ministerial meeting in Bali and the forthcoming campaign to elect a new Director General offer an ideal opportunity to discuss institutional reform of the WTO. These events bring a rare and valuable double window of opportunity; it is important the WTO leadership doesn't waste them.

If you wish to study my report and recommendations in more detail, you can download it here: **http://tagorg.com//Download_File.aspx?filename=/uploadfiles/WTO_Report13-1-2013R.pdf.**

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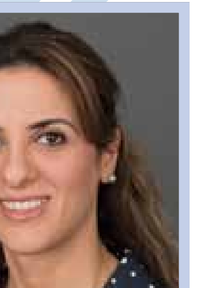
Doing Business 2013: smarter regulations for small and medium-sized enterprises



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Joyce Antone Ibrahim is a co-author of the World Bank and IFC annual Doing Business reports. She currently leads the work on the dealing-with-construction-permits indicator within the Doing Business project. Joyce holds an MA in international relations and international economics.

www.doingbusiness.org

Striking the right balance between good business regulations that protect the public interest yet are not overly burdensome for businesses and allow the private sector to thrive can be challenging. It becomes more challenging in a changing world, where regulations must continually adapt to realities such as new market demands and changes in technology. Doing Business 2013 – the tenth in a series of annual reports jointly published by the World Bank and IFC – looks at regulations that enhance business activity and those that constrain it around the world.

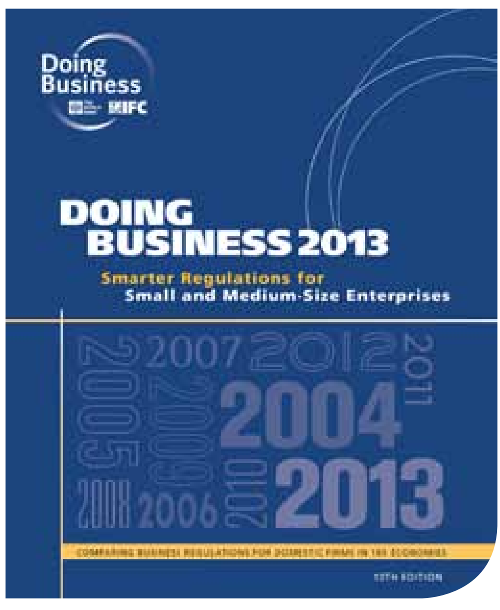
Through indicators benchmarking 185 economies, Doing Business measures and tracks changes in the regulations applied to domestic small and medium-size companies in eleven areas in their life cycle. This year's aggregate ranking on the ease of doing business is based on indicator sets that measure and benchmark regulations affecting ten of those areas:

- starting a business
- dealing with construction permits
- getting electricity
- registering property
- getting credit
- protecting investors
- paying taxes
- trading across borders
- enforcing contracts
- resolving insolvency

What have ten years of Doing Business data shown? The findings are promising. Over the past ten years, business regulatory practices in developing economies have been gradually but noticeably improving. And during this time period, 180 economies implemented close to 2,000 business regulatory reforms making it easier to do business as measured by Doing Business. How have these reforms improved the business environment overall? Doing Business data over time have shown that simpler business registration promotes greater entrepreneurship and firm productivity. Lower-cost registration improves formal employment opportunities, while an effective regulatory environment boosts trade performance. And a sound financial market infrastructure—courts, creditor and insolvency laws, and credit and collateral registries—improves access to credit.

In 2011/12, 108 economies implemented 201 reforms. Eastern Europe and Central Asia had the largest share of economies registering improvements – 88% of economies in that region implemented at least one institutional or regulatory reform making it easier to do business. Almost half of the 201 reforms focused on easing the start-up process, increasing the efficiency of tax administration and facilitating trade. In fact, policy-makers' efforts to ease the start-up process reduced the average time to start a business from fifty to thirty days over the past eight

Over the past ten years, business regulatory practices in developing economies have been gradually but noticeably improving...180 economies implemented close to 2,000 business regulatory reforms making it easier to do business...



years – and the average cost from 89% of income per capita to 31%. And because of these efforts, many of these economies saw noticeable increases in new-firm registrations.

Poland improved the most in the ease of doing business, making it easier to register property, pay taxes, enforce contracts and resolve insolvency. It increased efficiency in processing property-registration applications through a series of initiatives in recent years, promoted the use of electronic filing and payment systems when paying taxes, introduced a civil procedure code that reduced the time required to enforce a commercial contract, and updated the documentation requirements for bankruptcy filings.

One of the eleven indicators of the Doing Business report is paying taxes, which measures the number of payments, the time and the total tax rate borne in a given year by a firm with sixty employees. From June 2011 to June 2012, thirty-one economies made it easier and less costly for companies to comply with taxes. Liberia made the biggest improvement, reducing the corporate income tax rate from 35% to 25% and abolishing the turnover tax. As a result, its total tax rate fell from 42.7% of profit to 27.4%.

In the past eight years most economies focused on reducing profit tax rates, but the trend has shifted in the past two years. More economies are now focusing on introducing electronic systems. Sixteen economies committed to or enhanced electronic filing, eliminating the need for 196 separate tax payments and reducing compliance time by 134 days (1,070 hours) in total. In Uruguay small and medium-size companies can now file and pay corporate income tax, value added tax and capital tax online. This option was available only for large taxpayers until 2011. Seven other economies implemented electronic filing for the first time in the past year.

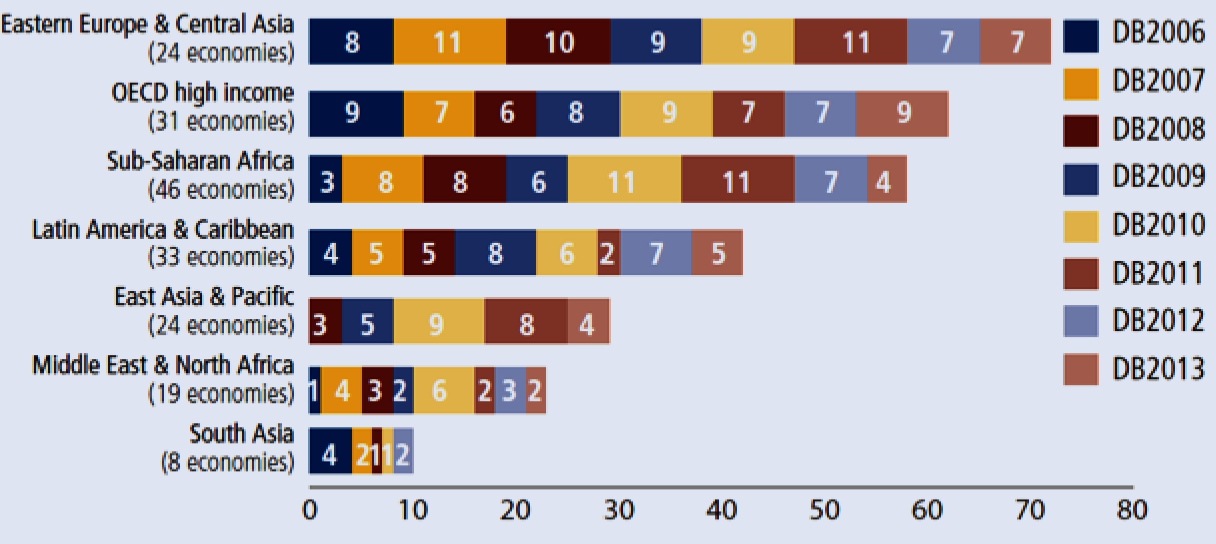
Collecting the more than 57,000 unique Doing Business data points each year and placing them in a broader context of economic policy and development is a major undertaking. The team is in direct communication with a network of 9,600 lawyers and other professionals who deal with business regulation every day. They have generously donated their time to provide the legal assessments that underpin the data.

Russell Bedford International acted as one of the report's global contributors.

For more information on the Doing Business project, please visit **www.doingbusiness.org.**

Tax reforms implemented by more than 75% of economies in the past 8 years

Number of *Doing Business* reforms making it easier to pay taxes by *Doing Business* report year



UK immigration – a guide for non-EU nationals

About the author

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Mark Barnett is a senior consultant with Cavendish Legal Group and heads the firm's specialist UK immigration team. Mark has been practising as an immigration lawyer for well over twenty years and is a long-standing member of the Immigration Lawyers Practitioners Association.

Mark has represented many companies and individuals with their immigration issues including FTSE 100 and FTSE 250 companies.

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The rules on UK immigration fundamentally changed in 2008 when the old system of visas and work permits was predominantly replaced by the current five-tier points based system. In this article we examine some of the current work immigration categories.

Who needs a visa?

It is worth clarifying who does and does not need a visa to live and work in the UK. Generally speaking, nationals (and members of their families) of countries in the European Economic Area (EEA) and Switzerland are free to live and work in the UK without a visa. Unless it's just for a short business visit, most other people will need formal permission.

The UK Border Agency will check an individual's immigration status at the point of entry to the UK. A border force officer can refuse entry to anyone who does not comply with the relevant immigration restrictions. So if you are from a country outside the EEA and Switzerland, be sure to find out about the immigration restrictions before you travel to the UK on business.

It is also worth mentioning that if you are from a country on the 'visa national' list, you will need a visa regardless of whether you are travelling on business or as a general visitor.

Business visitors

If you are travelling on business to the UK for a short time you may be able to do so under the business visitor category. However, this category is restrictive. If you intend staying in the UK for a long time doing any business or productive work you will normally need to obtain formal permission in one

of the work immigration categories from your local British diplomatic post.

As it's not generally possible to switch your immigration category, from that of visitor, once you are in the UK, it is important you choose carefully before you travel. If you do not, and need to change category, you will normally need to leave the UK and reapply.

Work immigration categories

There are several work immigration categories, and it is worth you seeking advice early to decide which category is most appropriate to you.

Categories such as Tier 1 (Investor) and Tier 1 (Entrepreneur) require you to have access to significant amounts of money either in your own name or, in the case of Tier 1 (Entrepreneur), in a third-party's name, as long as it is available to invest in a UK business.

Given the general aim of the current UK government is to reduce net migration, Tier 1 (Investor) and Tier 1 (Entrepreneur) are two of the few categories where the UK government is encouraging applications.

Tier 1 (Investor)

To qualify you need to have access to personal funds of at least £1 million. Once your initial application has been approved, you will need to transfer this sum to the UK and invest at least three-quarters in qualifying investments. this would usually involve UK government bonds although you can also invest in the share capital or loan capital of any actively trading UK company, except property development companies.

You can hold the rest of the money in a UK bank account or unmortgaged UK residential property in your name. Satisfy these requirements and you can work in the UK without restriction for an initial period of two or three years.

Tier 1 (Entrepreneur)

To qualify you need £200,000 either in your name or a third-party's. This money must be available to invest in one or more UK businesses.

Applying through this category restricts you to working only in the business or businesses in which you invest.

New restrictions have recently been introduced regarding this category whereby the applicant will have to satisfy the entry clearance officer that they are a 'genuine' entrepreneur.

European Union, British, or settled spouse or partner

If you are a non-EEA and Switzerland foreign national but have a spouse or partner who is an EU national you may be able to apply to enter the UK using the European regulations. For the application to be successful, your EU spouse or partner must live in the UK at the same time as you. Similar provisions apply for partners of settled persons in the UK or of British nationals.

Overseas representative

This category falls outside the points based system and is available to companies looking to set up, for the first time, a branch or subsidiary in the UK. A company can appoint someone as its overseas representative allowing that person to enter the UK. There is no minimum investment required.

In summary

The UK immigration regulations are complex. If you are considering investing or working in the UK and you are a non-EEA and Switzerland foreign national, it is important that you seek the advice of a specialist. That specialist can also represent you with your application to give it every chance of success.

Double-taxation treaties
– helping businesses invest overseas

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If you are thinking about foreign investment for your business, something you will need to consider carefully is taxation and its impact on your business.

Double-taxation treaties ease foreign investment by preventing businesses from being taxed twice: once in their country of residence and again in a foreign country that is a source of income. There are two double-taxation conventions: the United Nations (UN) model and the Organisation for Economic Co-operation and Development (OECD) model. In recent years investment has poured into emerging economies such as Latin American countries and this trend is continuing. Emerging economies tend to use the UN model.

We will examine the double-taxation environment by looking at two case studies.

Case study 1

The Acme Manufacturing Company (AMC) is resident in Country A – a high-tax jurisdiction.

AMC sells finished goods in Country A and exports to Countries B and C. AMC decides it can make efficiency gains by outsourcing the manufacturing process and splitting the company into two entities: Acme Manufacturing and Acme Holdings (the parent). Acme Holdings bases itself in Country B and supplies goods to Countries B and C. The parent company's country of residence will usually be a low-tax environment such as Switzerland or Uruguay's Free Zone.

Acme Manufacturing continues to supply goods in Country A.

This structure poses the question: should Acme Holdings contract Acme Manufacturing as a contract manufacturer or as a toll manufacturer?

Contract manufacturer

Acme Manufacturing owns the fixed assets and raw materials, and manufactures goods to order from Acme Holdings. This means Acme Holdings does not carry the responsibility for stock handling, storage, logistics, obsolescence, and loss and devaluation; these risks belong to Acme Manufacturing.

Acme Manufacturing guarantees quality and capacity to Acme Holdings, which in turn guarantees to buy the product. On completion of the order, Acme Manufacturing transfers the property title to Acme Holdings.

Toll manufacturer

Acme Holdings provides the fixed assets and raw materials to Acme Manufacturing, which manufactures goods to specification.

In this scenario Acme Holdings maintains ownership of the responsibility for manufacturing and the risks and benefits that go with this.

Taxation

For double-taxation treaties the important test is one of permanent establishment.

In this example the UN model would not deem Acme Holdings to have a permanent establishment in Country A. In fact both the OECD and UN models state that merely maintaining a stock of goods for the sole purpose of manufacturing by another company does not create a permanent establishment.

However, exceptions apply. Acme Manufacturing may be considered a permanent establishment of Acme Holdings in the following situations:

- If Acme Holdings sends its own personnel to provide direction, supervision, or control over the manufacturing process.
- If Acme Manufacturing performs the bulk of the process but Acme Holdings receives the bulk of the profit. This may be deemed an artificial arrangement whose purpose is to avoid tax.
- If Acme Manufacturing fulfils orders and delivers direct to customers, in which case it may be seen as selling on behalf of Acme Holdings.

It is important that you take into account local tax rules as they can have a major bearing on your decision. For example, Argentina's double-taxation treaty states that delivering and exporting goods on behalf of a foreign company constitutes a permanent establishment in Argentina. So, in our example, the toll manufacturer option does not work, leaving contract manufacturer as the only option.

Case study 2

The Top Research Company (TRC) is a research and development company in Country B. It provides technical support services overseas as well as training, installation and assembly support, and technical expertise and consultancy.

The Big Manufacturing Company (BMC) hired TRC to support the installation, assembly and start-up of a new production line in Country A. TRC will provide the expertise and experience to enable BMC's engineers to operate the new equipment. The project will take more than six months.

Taxation

The tax implications depend on the service being provided.

Provision of know-how

Both the UN and OECD models deem payment for these services as royalties.

Under the OECD model, withholding tax is zero-rated; under the UN model both states negotiate the rate of withholding tax. Argentina generally caps withholding tax at 15%.

Recurring technical assistance services

Both UN and OECD models regard payments for these services as business profits. However, under the UN model, because the supply of services will continue for more than six months in a twelve month period, TRC will be deemed a permanent establishment in Country A.

Other double-taxation treaties, including Argentina's, subject the services to withholding tax, usually capped at 10% of gross income less direct costs.

Installation and assembly services

Under the OECD model, no withholding tax applies. The UN model will deem TRC a permanent establishment in Country A because the project continues for more than six months in a twelve month period.

Other double-taxation treaties, such as USA and India, subject any income to withholding tax.

Argentina follows the UN model so TRC would be treated as a permanent establishment. A more tax-efficient approach would be for TRC to incorporate a company in Argentina. The Argentinean company would provide the installation, assembly and supervision services and charge fees to BMC. In turn, TRC charges fees to BMC for technical support to the Argentinean company; this charge is tax-deductible and subject to 10% withholding tax.

Conclusion

While the approaches we have discussed here are similar they trigger different tax outcomes. Before you decide on an approach you should seek advice and carefully consider what choices you can make to give your business the most tax-efficient result.

Double-taxation treaties ease foreign investment by preventing businesses from being taxed twice: once in their country of residence and again in a foreign country that is a source of income.

Selling your business to **private equity**

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Private equity now owns about half of the market capitalisation of medium-sized businesses, those with between US$5 million and US$500 million in sales. Thirty years ago, it was about 10%. The growth of private equity has made a big difference to not only the opportunities to sell a business, but also how to run a business. Most business transition plans now include selling to private equity as an option.

Business exit strategies

When business owners think about selling a business the first place they look is often the family. This may work if there is someone in the family who is both capable and motivated to take over and lead the company. However, the opposite may also be true, in which case selling to family might not be wise.

Because private equity groups now own a larger part of the middle market, a company with weak leadership can often fall prey to a private-equity-owned competitor. These companies have greater access to capital, use technology efficiently, and strive for strategic growth and return on equity. Often such a competitor was a leader in the industry before being bought by a private equity group, and in a business down-turn it is the more likely company to survive. This is why selling your business to private equity could be an attractive option.

Private equity groups tend to look for a controlling interest. This gives them the flexibility to make the strategic changes they need to enhance value. If the selling company has been well-managed in the past, a private equity buyer will often be happy to keep the existing management, but with their equity stake reduced to perhaps 15% to 20%. For the buyer, this helps make the most of the company's intangible value through customer relationships and on-going development, and captures any strategic ideas from the owner's business experience.

By staying on, the seller can continue in a meaningful role, with a reduced commitment, while converting much of the risk into cash by selling a majority interest to the private equity group.

How private equity works

A private equity group will start a fund and then look for investors to invest until the fund is fully subscribed, perhaps a few hundred million dollars or more. A private equity fund will usually demand a high minimum investment, usually counted in hundreds of thousands, or even millions.

If the selling company has been well-managed in the past, a private equity buyer will often be happy to keep the existing management...

The private equity group will use its capital to buy companies. These purchases will often include one or more platform companies that may or may not manufacture goods and may only buy, market and distribute finished products. The group will then buy add-on companies that support the platform company by, for example, supplying products. The goal is to create a portfolio where the whole is worth more than the sum of its parts.

At the same time, the private equity group will look to make changes to improve efficiency. These could be people changes, systems changes or marketing initiatives. Typically the firms will cross-sell within the platform group and aim to achieve economies of scale. In its position of control, the private equity group will often look to sell the company within seven years of buying it to maintain a high return on its equity.

An investor in private equity has limited liability and limited control. The control sits with the general partners. The most common contract is for the private equity general partners to get 20% of any gains after returning the capital, together with a stated rate of return, to the limited partners. Typically, the general partners also receive a 2% yearly management fee on committed capital, regardless of performance.

Why sell to private equity?

As the industry matures, there are more and more private equity groups looking to buy middle-market companies, especially those with higher market capitalisation. The private equity industry has become more efficient and this benefits owners looking to sell their businesses – prices are higher now than they were before private equity groups. With a well-run company, a seller might also participate in some of the company's potential strategic value.

The returns to private equity

In the beginning private equity returns were often exceptional (Yale University's endowment, one of the early entrants into private equity, is a good example). However, as the industry has matured and become more competitive, returns have settled down; indeed many private equity groups have struggled during the recession. A more competitive industry helps the business seller – as more private equity groups look to buy, the price of well-run firms goes up.

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Tax Planning
– the future

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Jiří Nekovář, senior partner of Euro-Trend, the Russell Bedford member firm in Prague, was elected as President of the Confédération Fiscale Européenne (CFE) for a two-year term starting 1 January 2013. He was Vice-President of the CFE for the last four years and has been involved in its activities as a member of its general assembly, council and fiscal committee since 1994. He was also President of the Chamber of Tax Advisers of the Czech Republic (KDPCR) from 2008 to 2011.

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The role of the tax adviser used to be clear: to minimise the tax you pay using every lawful means possible. But have the lines become blurred? What was clear ten years ago – avoiding tax is good; evading tax is illegal – has become murky of late.

Just recently the UK witnessed public outcry over the cross-border tax-planning actions of Amazon, Google and Starbucks that reduced to minimal amounts the corporate taxes they paid in the UK, instead paying tax at a lower rate in another country. While these companies did nothing illegal, the UK public has decided their actions were immoral.

The European Commission is now against what it calls 'aggressive tax planning' and is looking at measures that will mitigate against cross-border tax planning. In December 2012 the Commission adopted two recommendations to Member States on aggressive tax planning and the promotion of good governance in tax matters globally. In this framework, it was suggested that the so-called 'general anti-abuse rule' be added into the double-taxation conventions of Member States. By these means, the EU also supports the Organisation for Economic Co-operation and Development (OECD) in its work against aggressive tax planning.

Mutual exchange of information is nothing new. The Council of Europe and the OECD began work on this in 1988 and the Global Forum on Transparency and Exchange of Information, consisting of 111 members,

has existed since 2000. However, it took a G20 decision in 2010 to give new impetus to mutual exchange of information. Since then there have been 495 recommendations on how to improve co-operation on tax matters. Further, this year the OECD has issued two reports, one of which discusses automatic exchange of information.

As for the Middle East and North Africa, the Global Forum has entered into a memorandum of understanding with the United Arab Emirates (UAE) agreeing to two seminars that confirm the UAE's commitment to the Global Forum's work. The first seminar took place in November 2012; the second will happen during the third quarter of 2013.

If the twentieth century was about Europe and the United States, the twenty-first century is about the emerging economies such as Brazil, Russia, India and China. But the BRIC countries are not members of the OECD and don't feel any need to observe its rules. An example is the rules on transfer pricing, an area where the Global Forum and OECD are currently focusing.

A big global issue is VAT. At a recent Global Forum seminar it was stated that more than 150 countries operate a VAT system – twice as many as in 1992 – and VAT now raises 20% of the global tax revenue. The Global Forum concluded there is a clear need for an internationally agreed set of principles and guidelines that ensure VAT is not a barrier to international trade.

With global taxation boundaries becoming more blurred, what is the future role for tax advisers? As business has gone global and taxation issues become global issues, tax advice needs to assume a more global perspective. Although umbrella organisations already exist within continents – the Conféderation Fiscale Européene (CFE) represents 180,000 advisers around Europe; the Asia-Oceania Tax Consultants Association (AOTCA) represents tax advisers from nineteen countries and the West African Union of Tax Institutes (WAUTI) represents seven countries – in future tax administrations must organise themselves globally.

Tax planning is already a complex area; it is set to become more complex. Your tax advisers will play an increasingly important role in helping you to run your business efficiently. But to do this, tax advice will need to pay heed to global tax rules; this means the tax planning industry will need to reorganise itself to deliver.

News in brief

- Cyprus and Spain have signed a Double Tax Treaty (DTT), effectively removing Cyprus from the Spanish 'blacklist'. The bilateral agreement was signed in February 2013 and is due to come into force three months after its ratification. The treaty will apply for taxes on income and capital, at the beginning of the year following the date the treaty enters into force. The agreement is in line with the OECD model tax convention of 2010 on all aspects, e.g. permanent establishment and exchange of information provisions.

  Peter G. Economides, Chairman of Russell Bedford member firm Totalserve Management Ltd., welcomed the benefits for investors, commenting: "The removal of Cyprus from the Spanish blacklist and the establishment of a double tax treaty between the two countries, paves the way for safe and efficient investments or transactions from Spain to Cyprus and vice versa. At the same time, Spanish investors, whether corporate or individuals, may now channel via a Cyprus holding company their contemplated investments towards certain third countries such as Russia, Ukraine, India and South Africa, with which Cyprus maintains highly favourable DTTs."

- HE Dr Talal Abu-Ghazaleh, chairman of professional services and education group Talal Abu-Ghazaleh & Co. International (TAGI) and Mr Geoff Goodyear, chairman of global accounting and audit network Russell Bedford International, have announced the signing of a Memorandum of Understanding (MoU) between their two organisations.

  Updating their existing cooperation agreement, this new commitment will further enhance both groups' capabilities in supporting international organisations, multilateral agencies, and national governments in their respective markets, and in together pursuing major new business and tender opportunities worldwide. The terms of the agreement also allow TAGI, which has 73 offices and a leading market presence in Asia and Africa, to leverage Russell Bedford's 120 member and correspondent firms and 280 offices in its key markets in Europe, the Americas and Asia-Pacific.

- A specialist consulting practice in the field of research and development grants, loans and tax incentives, AF Innovación, has merged with Russell Bedford España Auditores y Consultores (RBE). As a result, six professional personnel have been incorporated into the firm's Madrid office and five into Valencia, and the practice's owner, Miguel Ángel Ortega, has become an RBE partner based in Madrid. Due to the nature of its business, AF Innovación boasts an impressive client base of blue chip companies, including large multinationals.

- Riyadh-based professional services firm AlHoshan Certified Public Accountants & Consultants has been upgraded to full membership of Russell Bedford International. The Saudi Arabian firm joined Russell Bedford as a correspondent in July 2011.

  AlHoshan was established in 1993 as a group of professionals delivering audit, accounting, consultancy and IT business solutions to both the public and private sectors.

  The three-partner firm is headed by chairman and founder Omar AlHoshan, a Certified Public Accountant in Saudi Arabia and the United Arab Emirates.

- Hoche Partners Trust Services S.A. and Avega Revision S.à r.l. have been appointed as the new Luxembourg member firms of the Russell Bedford network.

  Established in Luxembourg in 2005, Hoche Partners Trust Services S.A. offers a broad range of services related to the acquisition and management of international assets, including: international tax structuring; inheritance planning; setting up and management of special purpose vehicles, trusts and foundations; statutory accounting; valuations; due diligence; and corporate secretarial services.

  Avega Revision S.à r.l. was founded in 2009 and is certified by the Luxembourg financial supervisory authority (CSSF) as an independent audit practice (Cabinet de révision agréé).