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Autumn 2013

United Arab Emirates – an oasis of opportunity

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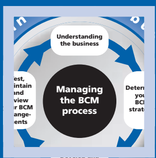

United Arab Emirates
– an oasis of opportunity

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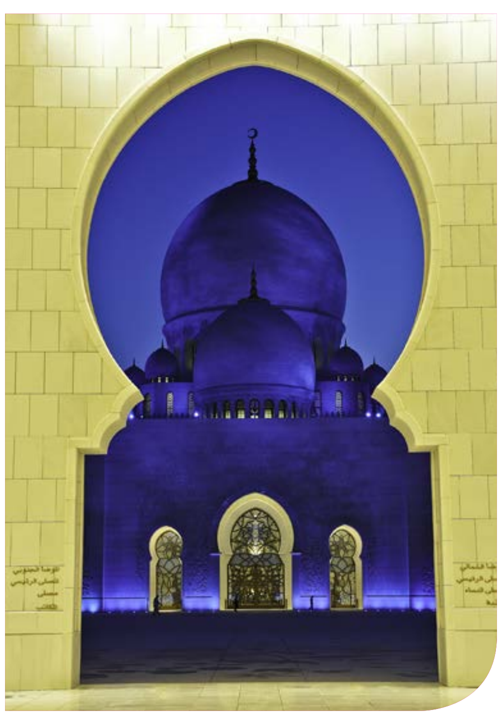
Since exporting its first barrel of oil in 1962, the United Arab Emirates (UAE) has transformed itself both socially and economically. Today, the UAE's oil reserves and enterprising business culture support a thriving economy based around industry, trade and service. Add to this its relaxed attitude to western ex-pats and the UAE finds itself as one of the Middle East's most dynamic and enlightened countries. This makes it eminently attractive to overseas business investors.

The UAE consists of seven emirates: Abu Dhabi, Dubai, Ras Al Khaimah, Umm Al Quwain, Fujairah, and Ajman. Think of the UAE as a country and the seven emirates as cities, with Abu Dhabi as the capital.

Dubai is the second largest emirate. It is also the best known because it has invested in infrastructure and the latest technology, enabling Dubai to position itself as both a business hub and tourist destination.

Foreign investment

In June 2013 MSCI (an international investment-risk analyst) announced it had reclassified the UAE from a frontier market to an emerging market and made it a constituent part of its emerging markets index. MSCI only makes these decisions after discussion with the global investment community. This reclassification could lead to sizeable international capital flow into the UAE.



As well as its enhanced global economic standing, the UAE provides other advantages to companies setting up in the UAE. These include:

- Corporate tax holidays or, in some instances, no corporate taxes
- no personal taxes
- negligible import duties
- low labour costs.

Dubai has several free zones. These have helped attract considerable foreign investment, enabling Dubai to position itself as a regional business hub. Estimates suggest there are more than 20,000 companies operating out of more than 20 free zones in Dubai.

Setting up a business

There are three ways to set up in the UAE: mainland company, free zone company, offshore company.

Mainland companies

By law at least 51% of a mainland company must be owned by UAE nationals. The only exceptions are:

- A business set up in a free zone
- a business registered as a branch or representative office of a foreign entity provided it appoints a UAE national as a service agent
- a professional company, for example a law firm, where 100% foreign ownership is permitted provided it appoints a UAE national as a service agent.

Free trade zones

Free zones allow companies to conduct business in the UAE but restrictions apply to business conducted from outside the free zones.

Free zones include the Jebel Ali Zone – the largest in the Middle East and North Africa (MENA) region – and the Dubai Airport Free Zone – the world's fastest growing zone. Free zones account for a large part of foreign commercial activity and have helped position the UAE as the Arabian Gulf's commercial hub.

As well as allowing 100% foreign ownership of companies other attractions of the free zones include:

- income tax holidays of between 15 and 50 years
- no restrictions on repatriation of capital and profits
- no customs or other duties on imports into or exports from the free zones provided goods don't become imports into mainland UAE.

The free zones allow all kinds of trading, industrial and service activities. Some free zones focus on specific industries or services; examples include the Dubai Technology and Media Free Zone (technology and media), and the Dubai International Financial Centre (financial services).

Legal, regulatory and licensing restrictions prevent businesses in the free zones from working outside the free zones unless they have clearance from the free zone authority or the emirate in which the company wishes to do business. However, employees of a company in a free zone can live anywhere in the UAE.

Offshore companies

Apart from certain regulated businesses such as financial services, the UAE makes it simple for offshore companies to operate in a variety of activities.

An offshore holding company can centralise group resources and maximise tax benefits by, for example, funding its subsidiaries in a tax-efficient way. Also, legal fees are often lower and information concerning the ownership of companies is usually outside the public domain.

Offshore companies cannot do business inside the UAE, although there are some exceptions, such as companies set up to hold physical assets like investment properties in the UAE.

Professional advice

While the UAE offers many opportunities to the foreign investor there are many rules and regulations to negotiate. If you are thinking of doing business in the UAE, it is important that you seek advice from an expert.

Free zones account for a large part of foreign commercial activity and have helped position the UAE as the Arabian Gulf's commercial hub.

The Cypriot banking crisis **– what next?**

In March 2013 Cyprus became the latest member of the European Union (EU) to hit the financial rocks and look for a financial rescue package. However, unlike the earlier bail-outs of Ireland, Portugal and Greece, the proposed solution, from the triumvirate of International Monetary Fund, European Central Bank, and European Commission (the Troika), resembled a bail-in more than a bail-out. So why was Cyprus different?

It is worth understanding what Cyprus is. Cyprus is an island in the Mediterranean. The southern half – the Republic of Cyprus – joined the EU in 2004 and it has one of the more non-European of European economies with much of its wealth held by non-European nationals.

The cause of the crisis

Cyprus can feel a little unfortunate as the circumstances leading up to the crisis were largely not of its own making. Because of its strong links with Greece, Cyprus was heavily exposed to Greek banks. When the Greek economy collapsed and its banks failed, Cyprus found itself caught up in the fallout – the Greek government debt haircut massively reduced the nominal value of Greek debt holdings.

The rescue plan

The approach used with Ireland, Portugal and Greece of injecting billions of euros into a failing economy in return for a package of strict austerity measures was not replicated with Cyprus. Instead, the Troika offered to inject capital in return for a levy on bank deposits, as well as cuts in government spending. This was a departure from the norm, possibly because the make-up of the Cypriot economy differed from others and a regular bail-out may have been viewed as European money rescuing non-European nationals. The ripples were felt as far away as Spain and Italy that were also rumoured to be close to seeking bail-outs.

The final package signed off by the Cypriot government was a slightly watered-down version where the levy on bank deposits, originally affecting everyone, only affected people with large deposits exceeding €100,000. In return, Cyprus must meet stringent public spending targets and open its financial system up to stricter regulation.

The announcement of the rescue package was quickly followed by prophecies of a mass exodus of foreign nationals and businesses from Cyprus, taking their money with them. Perhaps the biggest threat came when Russian Commercial Bank (RCB) announced its intention to relocate to Malta. However, RCB recently reversed this decision and announced it will stay in Cyprus.

Six months down the line and the predicted cut and run hasn't happened. This is partly because Cyprus is still attractive to foreign investors but also because many who may have considered leaving didn't really have a developed plan B. One hedge fund manager recently summed up the pragmatic approach: "Looking at the whole picture – taxes, regulations, operating costs and staff – Cyprus still suits us, as long as there are no further changes".

Where next for Cyprus?

Although Cyprus has entered a period of austerity its reputation as an attractive destination for foreign investment is intact. Cyprus's favourable tax environment ensures it continues to be a gateway to Europe for non-EU countries such as Russia, Ukraine, India and South Africa.

Cyprus's accommodating residency and naturalisation schemes make it one of the more popular destinations for non-EU nationals. Added to this, new legislation governing projects such as casinos and golf resorts, together with increased international flights, is sure to give the tourism sector a welcome boost, and a new marina in Limassol will firmly place Cyprus on the global luxury-yachting map.

Cyprus also has its own natural resources. The discovery of natural gas reserves promises to make Cyprus one of the key energy players in Europe, with the prospect of becoming a leading energy hub in the Eastern European and Mediterranean region. Cyprus is still in the early days of austerity but it has shown a willingness to meet its obligations. The banking sector is now more closely regulated and in time will move closer in line with other EU banking institutions. While Cyprus has it far from easy at present, the future looks bright.

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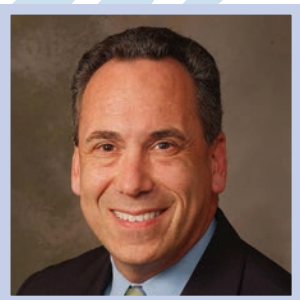
Structuring foreign investment **in US real estate**



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Of all the business opportunities available in the United States to international investors these days, perhaps no asset class is drawing more attention than real estate.

Despite years of sluggish performance by one of the world's largest economies, savvy investors from all over the world continue to be bullish on American real property. Buyers are acquiring single family homes and condominiums, multi-unit residential developments, commercial buildings and office complexes. States seeing the most action are Florida, California, Arizona and Texas, with many other states receiving at least some degree of interest from foreign buyers.

The latest report from the National Association of Realtors shows that international sales of residential real estate reached $68.2 billion for the twelve months ending March 2013. This is a slight pull-back from the previous year, but still a historically robust level. Canadians continued to be the most active buyers, followed by foreign nationals from China, Mexico, India and the UK.

Why all the interest? Simply stated, the severe downturn in US real estate that took place several years ago, combined with a weak dollar, has produced some relatively good bargains. Despite short-term economic challenges, the US remains a premier investment area for international investors seeking security, profitability and respect for property rights.

The devil is in the detail

Less simple is choosing the investment structure that best navigates all the legal and tax complexities. There are more than 7,000 taxing authorities in the United States, from the Internal Revenue Service down through all fifty states to the thousands of local jurisdictions. Each has its own rules for taxation and registration – the only thing in common among them is their lack of consistency and coordination. For example, taxes conferred by individual states are not covered under US federal tax treaties or exemptions.

While some foreign investors may decide to hold a piece of US real estate directly, many opt to structure it as a business entity for the added legal protection that such a choice provides. But the state in which the entity is created does not necessarily have to be the state in which the real estate is located.

Delaware is a popular place for business entities because of its owner-friendly rules protecting the rights of shareholders. But the decision to incorporate there is more about maximizing investors' legal protections than it is about maximizing tax efficiencies.

A tale of two tax regimes

When it comes to structuring the purchase of income-producing properties for tax purposes, it is important to know that there are two US federal tax regimes that apply to foreign investors, based on whether the property generates 'passive' income or 'effectively connected' income.

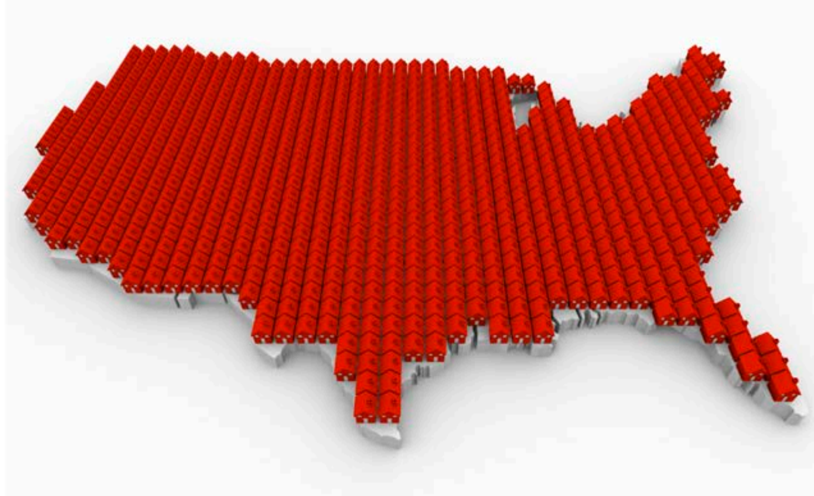
Passive income is any fixed, determinable, annual or periodic income derived by a foreign investment or business activity, and is subject to 30% tax withholding on a gross basis unless reduced by applicable tax treaty.

Effectively connected income (ECI) is income that can be shown to be connected to a trade or business, and is taxed on a net basis at the graduated tax rates that apply to any US citizen, resident or entity. In almost every situation, it is in the international investor's best interest to make this net election when structuring an income-producing real estate transaction in the US.

Another important detail in American tax law is the potential impact of FIRPTA – the Foreign Investment in Real Property Tax Act – on the sale of US real estate by foreign owners.

Before the law was passed in 1980, capital gains taxes could be effectively avoided on the sale of property owned by non-resident aliens through legal structuring that configured the transfer of the asset as a corporate stock transaction rather than the sale of real property. FIRPTA closed this loophole in order to ensure that any disposition of US real property interests by foreign

Despite short-term economic challenges, the US remains a premier investment area for international investors seeking security, profitability and respect for property rights.



investors or their corporations remained subject to US tax. The law further required that the buyer of such property deduct and withhold 10% of the purchase price on the federal government's behalf (although under certain circumstances the buyer can petition the IRS to waive this requirement).

Use local guidance to choose the best option

There are hundreds of ways to structure the purchase of US real property by a foreign investor. Each has its own legal and tax pros and cons. Some of the more familiar choices include:

- Direct investment – the investor owns the property personally, or through a single member limited liability company (SMLLC)
- LLC taxed as a partnership – in this set up, the business profits and losses flow through direct to the partners and are taxed accordingly
- US Corporation – a corporate entity is established in the US to buy, hold and dispose of the property
- Foreign corporation – an entity is established in the investor's home (or other foreign) country to buy, hold and dispose of the US property
- Two-tiered corporation – the property is owned by a US corporation, which is in turn owned by a foreign corporation set up by the investor.

This two-tiered option is a popular choice for many international investors because it provides protection both in the US and in the home country. It also offers the greatest opportunity to reduce overall tax exposure. True, the structure is more expensive to create and maintain, but if the entity's portfolio is large enough, the tax savings can more than offset the cost of set-up and tax filing requirements in multiple jurisdictions.

Filing tax returns in the US may be viewed by some international investors as an unfair and disagreeable burden, but those who choose to structure their US real estate holdings to avoid such filing requirements will likely pay more in tax in the end.

Family fortress – preserving wealth using a family office

About the author

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Tony is a Certified Public Accountant and founding partner of Rose, Snyder & Jacobs, the Los Angeles member firm of Russell Bedford International. His client responsibilities include tax and management consulting advice to closely-held corporations, family-owned businesses, partnerships and the high-net-worth individuals that own them. Tony has spent considerable time resolving the complexities faced by wealthy families. He is author of the business guide *Say Hello to the Elephants* and is working on a second book.

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In his important book *Keeping it in the Family*, Jay Hughes discusses the importance of tending to the capital that a wealthy family owns. He describes the capital in two ways: financial capital and human capital. He goes on to discuss that too many family members worry only about family finance while forgetting about the mental and philosophical well-being of the family members.

A well-conceptualised and well-run family office – an organisation responsible for the day-to-day management of a family's affairs – can help preserve and enhance both capitals in important ways.

A family office can be a centralised point for collecting and evaluating information, helping to consolidate the process of describing and interpreting the results of the collective family enterprise as well as the individual family members. Centralised bookkeeping, tax management and financial forward planning form the focus of many successful family offices.

The second most frequent function of a family office is to centralise and coordinate the investment activities of the family. Families will often hire professional investment advisers to help monitor and manage the significant wealth that many families concentrate in what we might call the modern portfolio.

Some family offices go further than accounting and investment and have what I call a majordomo – the key internal trusted adviser. The majordomo is the go-to-person for coordinating important functions like multi-generational communication and succession planning.

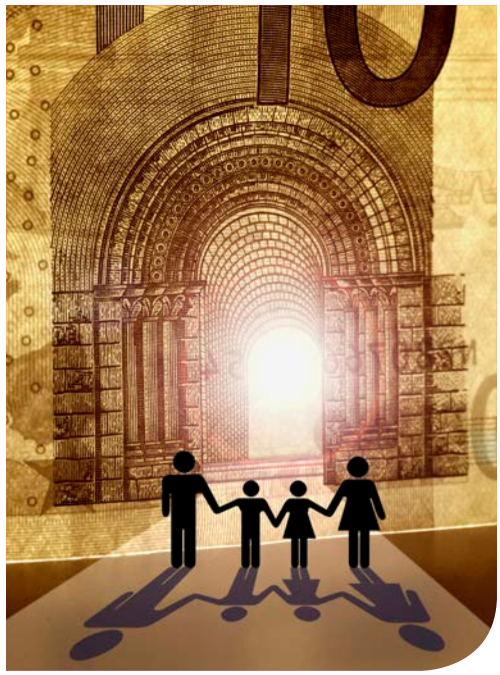
The family office can provide concierge like services too. Helping to manage the outside professional relationships is one; working with family members on

their insurance and travel arrangements are others. Never underestimate the support a family office can provide, both professionally and domestically. If a family office can help accommodate family members so they can work on important issues then it is providing a valuable service.

But there are dangers too. The family should never abdicate its authority and it is easy to forget to manage the managers. Everyone needs managing, so a well-designed governance and management structure that helps the family office serve all the family interests (not just a few) is key. Family office employees might be managed by one or two family members at most but they work for everyone. The cost of maintaining a family can be significant so consider what it needs relative to the size and wealth of the family.

The case study shows an effective family office in action.

Attentive and concerned family office team members are important protectors of a family's wealth. A professional adviser can help you create the best structure, size and function in the context of the family goals so that you can be confident about the future.



Case study

James was an 80-something billionaire. Over a 50-year period he turned a million into a billion but now his health and mental acuity were failing. James had made the fortunes for his entire family. He loved doing deals and, in the early years of the growth of the family enterprise, these deals were incredibly successful. However, lately they weren't so spectacular but this mattered little as he had more than enough money. As a widower with no children, his grandnieces and grandnephews stood to inherit the wealth.

Gus was a long-time friend of James. Although only a stock broker of average talent, he had done much of the investing for James; this made Gus a successful stock broker. It did not matter how competent Gus was, he was James's friend and James was loyal. When James's health worsened Gus became increasingly active in managing the stock account but continually lost money. Churning, more and more, Gus earned more and more fees but the value of the portfolio continued to drop.

Fortunately, while building the family wealth, James had established a family office. James appointed Betty as the accounting manager and Stan as the chief investment officer.

Betty noticed ever-increasing amounts of money being deposited with Gus. She showed several months' account statements to Stan and asked his opinion. Seeing hundreds of trades in a very short period, Stan realised Gus was churning the account (churning happens when an unscrupulous stock broker continually trades shares to create and earn commissions). They decided to show the statements to Gus's managers. It was clear to all what was going on and the brokerage reimbursed James several hundred thousands of dollars. This is a family office in action.

Ten tips on getting better business results from the written word

Most business transactions involve written communication, so our ability to use the written word to convince, convey and clarify is a vital business skill. In this article business development expert Scott Keyser shares ten trusted techniques for making our writing more persuasive.

About the author

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Following eight years with two of the Big Four firms, Scott Keyser has trained staff of The Economist since 2004 in bid writing and general business writing skills. As a business development consultant, he helps organisations around the world to win 'must-win' bids, tenders, pitches and proposals. Visit him at www.scottkeyserproposals.com.

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Tip 1: Plan first, then draft, then edit

These are the three core steps of the writing process. Planning saves you time through fewer re-drafts and no re-writes, and makes your communication more effective. 'Drafting' is the proper term for writing, while editing your document is how you turn a half-baked first draft into a thing of beauty. Too many business writers try to do all three steps at the same time, but they should be separate.

Tip 2: Walk a mile in your reader's shoes

To persuade someone to do something different(ly), you need to understand them. What do they do? How do they live? What do they care about? Tailor your writing to them. People will read long documents, provided they are well written and *relevant*. Personalising your writing to your reader satisfies their need to feel heard, appeals to their self-interest and makes them more receptive to your message.

Tip 3: Establish the purpose of your communication first

Use K.F.C. to define your purpose or objective. Not Kentucky Fried Chicken, but what you want your reader to Know, Feel and Commit (to do). Know is the information you need to impart; Commit is what you want them to do as a result of reading your words. Feeling is key. Make them feel confident, reassured, scared, greedy, guilty, lustful, flattered or angry. Logic makes people think, but *emotion* makes them act.

Tip 4: Answer the reader's main question: 'What's in it for me?'

Motivate your reader by showing them how they'll *benefit* from your words, rather than listing features. A feature is an attribute of a product or service; a benefit makes your reader's life easier, better, cheaper. So benefits are more persuasive than features, but business writers confuse the two. Convert features into benefits by answering 'WIIFM?' from the reader's perspective.

Tip 5: Use more verbs than nouns

Nounitis – the overuse of nouns – is a serious affliction of business writing. The cure? Verbitis. Nouns, or naming words, clog up the arterial blood of our writing, but verbs (words of action or doing) invigorate it. Verbs are also shorter, eg *solve* is shorter than *solution, manage* is shorter than *management*. So verbs bring two benefits: vigour and brevity.

Tip 6: Turn your passive sentences into active ones

Another disease afflicting corporate writing is passivitis, overuse of the passive voice. *Scott wrote the article: Scott* is the subject, *wrote* is the verb, article is the object (S-V-O). So this sentence is in the active voice.

The *article was written by Scott* is in the passive voice, because the subject and object have swapped places. It means the same, but is less direct and 33% longer.

Tip 7: Omit needless words

The shortest path to conciseness. Banish words that add no value, content, meaning or information. Examples abound. Instead of For the purposes of refuelling say To refuel or For refuelling; rather than In order to achieve her goal say *To achieve her goal*; not *This report is of a confidential nature*, but *This report is confidential*. Keep it simple and make every word count.

Tip 8: Shorten your sentences

Average sentence length (ASL) affects readability. Use the readability stats in any version of Word to calculate yours. In Word 2010, go to file – options – proofing. Tick 'Check grammar with spelling' and 'Show readability stats', click 'OK'. Run the spelling & grammar check. Click 'No' when asked if you wish to check the rest of the document and the stats will appear. Your ASL (middle section of the stats) should be 15-20 words.

Tip 9: Write plain English

Plain English is middle-register language, i.e. neither formal nor colloquial. An example is *cash* or *pay*, while *remuneration* is formal, *emolument* is über-formal and *dosh* is slang. Plain English words are pithier, punchier, more concrete and more visual. So we could say *help* rather than *assist, start* or *begin* rather than *commence*, *buy* rather than *purchase*, *leave* rather than *depart*.

Tip 10: Read your text out loud before sending it

All pro writers do this. It slows you down and forces you to hear each word, catching long sentences, clumsy phrases, ambiguity. When we scan our writing we tend to add meaning or words that are not there or that the reader won't get. If you take nothing else from this article, remember ROL – which is why I've left it till last.

Business continuity management – are you prepared?

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Business continuity management (BCM) is the process of identifying the parts of your business that are critical to its on-going operation and ensuring these can continue to operate should anything threaten them. In this article we will look at identifying risks to business-critical areas. Depending on the nature of a business these might include, among others, information technology, stock, premises and staff.

Any incident, whether natural, accidental or deliberate (examples include flood, fire and vandalism), can severely disrupt your business. While an effective contingency plan can't prevent incidents, it can enable your business to continue while you put things right. Without a plan your business will at best be damaged and at worst may not recover. Rest assured that if you have to cease trading for even a short while your competitors will be quick to fill the space.

Implementing a BCM programme is easier than you may think. You will need to:

- identify your key products and services
- know your business-critical activities and resources
- understand the risks that threaten your key business operations
- build a plan to maintain these activities should any of these risks become real.

An effective BCM programme is the result of an in-depth understanding of the business. The diagram illustrates a process designed to guide companies through the six elements that form the BCM life cycle as set out in ISO 22301 – the international standard for business continuity management.

Managing the BCM process

If your BCM programme is to succeed you will need to manage it effectively. If you follow these three steps you will find developing, implementing and maintaining a BCM programme quite straightforward.

1. Assign responsibilities

Your BCM programme cannot work without the full support of your management team; get this from the start. It is also important that you make BCM someone's responsibility, so nominate someone at management board level to own BCM and appoint a team or individual to take the programme forward.

2. Establish and implement BCM in the business

Early in the process you need to agree your BCM policy. The management board representative, working with the wider board, must set out the scope, aims and objectives of BCM, and devise a plan to deliver that. The team or individual responsible for BCM must implement the plan. Implementation will involve:

- communicating with stakeholders
- staff training
- ensuring completion of all programme activities
- testing the BCM programme to check it works.

3. Ongoing management

Business continuity management does not end once you have put a plan in place. There are activities you need to carry out continually to ensure your BCM remains current and relevant – it is no good introducing a new product or service if your BCM does not reflect it.

So your BCM team must regularly review, update and retest your BCM, and promote it to the wider business. You must make BCM part of the way you do business.

We will now look at some of the activities that make up a successful BCM programme.

Understanding the business

A full understanding of the business is essential and forms the foundation from which you build your BCM programme. A thorough business impact analysis (BIA) and risk assessment will enable a better understanding of the business by uncovering key products, services and supporting activities. It is then easy to see the impact on the business that a disruption would cause.

Business impact analysis

Follow these steps to a thorough BIA:

1. List your key products and services and consider the impact of a serious disruption over one day, two days, one week and two weeks.

2. Think about how long your business can survive before it becomes unviable either financially or reputationally.

3. Establish a point in time for each key product and service by which you must restore normal business activity.

4. Document the critical activities your business must perform to deliver its key products and services.

5. Quantify the resources you need to deliver and maintain the critical activities at an acceptable level. You will need to consider staff, premises, technology, information, and suppliers and partners.

Risk assessment

Once you have completed your BIA you should carry out a risk assessment. Your risk assessment will look at the likelihood of an event happening and the impact of that event on your critical business operations. Once you know what your major risks are, you can decide and prioritise your risk reduction activities.

Determine your BCM strategy

Here you will identify and document the actions you need to take to maintain the critical activities and resources you identified in the previous step.

Develop and implement your BCM response

This is about planning how you respond to and manage an incident to ensure continuity and recovery of critical activities, and the products and services they support. Your plan should document:

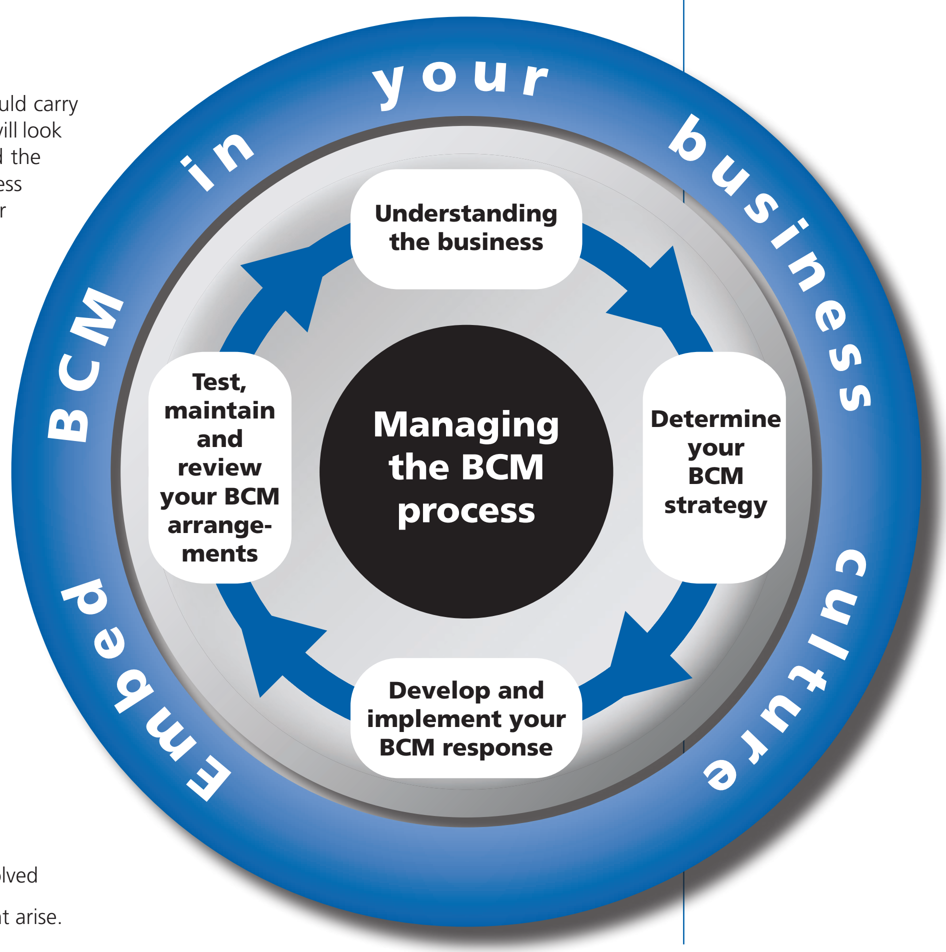
- its aims and the extent of its coverage
- who owns the plan
- roles and responsibilities of everyone involved
- how to invoke the plan should an incident arise.

Test, maintain and review your BCM arrangements

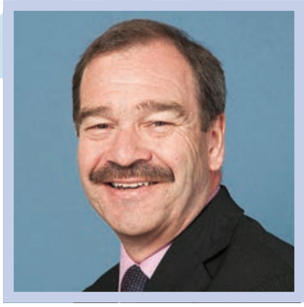
It's not sensible to wait for an incident to happen before finding out whether your BCM works or not. Therefore, you need to test your BCM and plug any gaps. You then need to keep your BCM up to date so that it caters for your changing business.

Embed BCM in your business culture

To be successful, BCM must become part of the culture. This does not happen overnight so it needs on-going promotion, communication and training.



VAT in the EU: the future



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Anthony Barber, the then Chancellor of the Exchequer, introduced VAT in the UK in 1973 (as a precursor to entering Europe) at a rate of 10%, describing it as a simple and easy to understand tax. Forty years later VAT has evolved into a different beast to deal with the changing nature of business supplies and products, and an expanding European Union (EU).

The initial expectation was that cross-border transactions would attract VAT in the country of the supplier – the origin principle. Increasingly this has become politically unacceptable and it was recently decided that transactions will attract VAT in the country where the goods or services are used. This is not a completely new concept as this basis for charging VAT has existed for certain supplies for a while, but it means change for other supplies.

One example is the e-services and telecommunication sector. Currently VAT is charged for business-to-consumer transactions based on the supplier's location. This is why many online sellers of these services have subsidiary companies in Luxembourg, which uses a lower standard rate of VAT than many other member states. The key supplies include downloadable e-services such as music, games, applications, and telecommunication services.

Changes announced in 2008 will apply from 1 January 2015. From this date VAT will apply where the non-business customer is resident. Information is available to help businesses prepare for the changes, as rather than charging VAT to EU customers at one rate, several rates will now apply – suppliers with customers in each member state will have to be prepared to account for VAT in 28 countries. The new VAT Mini One Stop Shop should make accounting for VAT easier as it will enable businesses to pay VAT to their home VAT authority, which will then pay the VAT to each member state.

Businesses will still need to calculate and declare the relevant amounts of VAT to be paid to each country.

This will be a challenge as the VAT rates vary from 16% to 27%, but of greater concern to businesses will be how to decide on a VAT-inclusive price for goods. With an average VAT rate across the EU of around 21%, we expect many businesses to use this as a hypothetical VAT rate. This isn't unusual; some non-EU businesses already account for VAT in this way although many choose to set up EU subsidiaries instead. Whether these subsidiaries continue after 1 January 2015 remains to be seen.

EU Commissioner for taxation Algirdas Semeta has stated that the Mini One Stop Shop will be monitored closely as the way to achieving the underlying principle of taxation at the place where goods and services are used. We anticipate that further changes to the place of supply rules will happen in the future so that VAT does not drive where businesses locate themselves.

Late 2010 also saw the start of a consultation by the European Commission (EC) into the future of VAT across the EU, entitled Towards a simpler, more robust and efficient VAT system. The consensus was that the VAT system needs changing, especially for sales inside the EU. Although VAT legislation across the member states is founded on the same source, the old Sixth Directive, implementation varies significantly from country to country. This has become an obstacle to trade within the EU. In addition, there is a worrying level of fraud, a level that is not easy to determine.

So what can we expect in the future? One of the first EC initiatives was to review those reduced rates that it believes it should eliminate or restrict. Furthermore, to achieve the objectives in its consultation paper the EC wants greater VAT consistency across the member states; this could mean greater uniformity on rates, thresholds and the scope of exemptions. The EC will enforce this by infraction proceedings, the process by which the EC takes a member state to the European Court of Justice.

Whatever the outcome of these discussions it is likely there will be changes to the scope of VAT. However, it is also likely change will be slow and will meet opposition from member states. The UK for instance has given a guarded reaction; while it is in favour of the basic principle it has indicated that it will counter unhelpful ideas especially those that may erode UK national sovereignty.

VAT has never been a simple and easily understood tax, but it is one that continues to change and challenge businesses.

News in brief

- Mont Audit Plus LLC has joined Russell Bedford International as its first correspondent firm in Podgorica, Montenegro.

  Founded in 2007 by managing partner Prof. Djordjije Rakočević, the firm has established a solid reputation as a provider of audit services to companies throughout Montenegro, as well as to local government and non-governmental organisations. The firm's other services include accounting, bookkeeping, tax consulting, business registration, valuation and liquidation services, and consulting services on the application of IFRS.

  Prof. Rakočević has more than 30 years' experience in accounting and auditing. A licensed auditor and certified accountant with a PhD, he is also an authorised internal auditor, court-appointed expert in financial matters and authorised asset appraiser. He is President of the Institute of Internal Auditors of Montenegro and is a regular speaker on internal audit at conferences in Montenegro and abroad.

- Russell Bedford's Isle of Man member, SMP Partners, has announced the merger of the businesses of SMP Fund Services Ltd with Chamberlain Fund Services Ltd. The combined business will trade under the SMP Fund Services Ltd banner and administer a full range of Isle of Man fund types including Experienced, Specialist, Exempt, Regulated, AIM listed companies and overseas schemes as well as providing Isle of Man Managed Manager facilities.

  This merger represents a joining together of two of the island's most respected fund administration businesses and demonstrates the ambition of SMP Partners to grow the Group both organically and through a targeted merger and acquisition strategy focussed on high quality businesses and management teams.

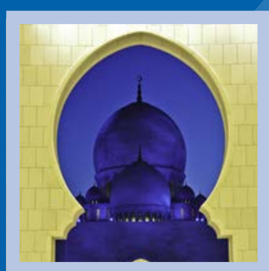
- Boutros, Saghir & Associates (BSA), a newly-launched audit, tax and advisory practice, has joined Russell Bedford International as its correspondent in Beirut, Lebanon. The firm was launched as a Professional Civil Company in May 2013 by its two partners, Abdel Kader Saghir and Tony Boutros, both members of the Lebanese Association of Certified Public Accountants (LACPA).

  The senior partner, Abdel Kader Saghir, established his own firm, AKS, in 1993. Providing services to both local and international clients, his firm became recognised as one of the leading medium sized audit offices in Lebanon. Abdel Kader Saghir is a member of the executive committee of the Arab Federation and Accountants and Auditors and a member of the board of directors of the Arab Tax Society.

  Tony Boutros, the managing partner, has over 15 years of audit, tax and advisory experience at Big-4 firms in Lebanon. In addition to his Lebanese CPA qualification, he has an MBA and is a member of the American Institute of CPAs (AICPA).

- Russell Bedford International has announced the appointment of its first member firm in Doha, Qatar. The addition of RBSA Audit Firm (previously known as Saoud Abdullah Auditing Firm) further extends the network's growing presence in the Middle East and Gulf markets.

  The new firm will provide accounting, audit, tax and management consultancy services to companies and organisations in the manufacturing, real estate, tourism, banking, insurance, services, government and not-for-profit sectors, and to inbound investors seeking to establish or grow their presence in Qatar.



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