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# Business World

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

**September 2017**

## What is the future of globalisation?

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









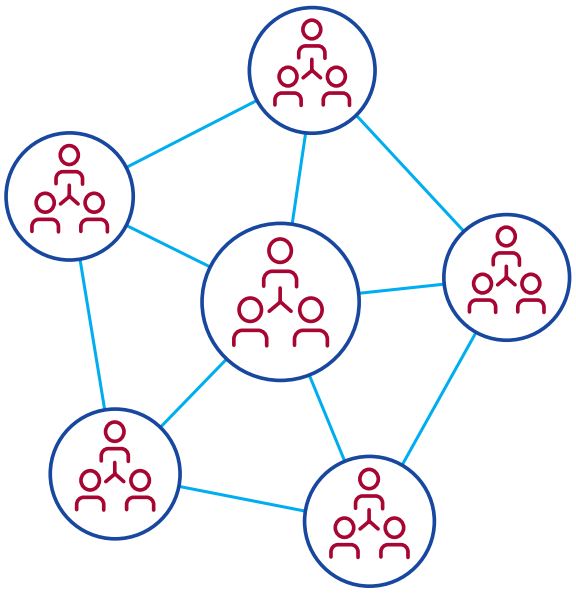






**Stephen Hamlet**
CEO, Russell Bedford International

# Foreword



As I approach the end of my first six months as the new CEO of Russell Bedford International, I look forward to our annual global meeting in Rome, at the same time looking back on a most productive initial period.

I have witnessed first-hand networking of cultures, building of relations across international borders, impressive ambition, and assured quality of Russell Bedford members at our International Tax and European meeting in Athens. I also had a most effective trip to Russia, meeting our firm in Saint Petersburg en route to a recruitment trip in Moscow, where we are confident to add yet another quality member to the Russell Bedford family of firms. Additionally, I recently returned from an extremely beneficial trip around Asia, visiting a number of Russell Bedford offices in advance of a highly successful meeting in Bangkok for our Asia Pacific region.

I have also represented Russell Bedford International at the meetings of the Forum of Firms and the European Group of International Accounting Networks & Associations (EGIAN); both of which provide valuable insight into the world of accountancy and regulation, keeping our members abreast of developments in what is becoming a very interesting and evolving profession.

There is much talk these days on data analytics and the ever-changing world of auditing, with technology playing a more than overriding role in its development and progress. Accounting firms need to keep up to date with such developments, which dictate the characteristics of the personnel they now seek in order to grow their practices and offer the added-value services that their clients, and future clients, will need.

In the tax world, there has been much debate around the area of BEPS, and our tax consultants at Russell Bedford firms are more than ready, and extremely qualified and experienced, to assist.

The world is indeed becoming an interesting place, and we have experienced recent times of understandable anxiety. With no intention to sound political, I only need to reference Brexit, elections in the United States, the United Kingdom and France (to name a few), amongst continued troubled times of unstable governments in various parts of the world, terrorism and corruption, resulting in volatile exchange rates and business uncertainty.

It is ever so more vital to reach out to the business advisers and experts as operations look to cross borders. Russell Bedford International prides itself on a long history of quality independent practices, offering their expertise in specialised fields of accounting, taxation and business consultancy.

I joined Russell Bedford with an ambition to maintain its quality reputation, yet enhance and advance the network to its next level of development, ensuring our member firms are moving with these changing times and continue to provide the services their clients need. I am delighted to hear these sentiments and ambitions echoed by Russell Bedford firms as I travel to various meetings across all regions.

You will find here a selection of articles from around the global membership which provide just a flavour of the expertise Russell Bedford International members are able to offer. We are also pleased to include an article by guest author Robin Clough, who recently presented a webinar to our member firms on Big Data and Data Analytics.

I look forward to my next six months as CEO and to many fruitful years to come.

**Stephen Hamlet**

# What is the future of globalisation?



## About the author

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A recent European Commission report has highlighted the growing resistance to globalisation. But is this mitigated by other trends that might be working for SMEs?

The European Commission's (EC's) May 2017 Reflection Paper on Harnessing Globalisation articulates the concern of many commentators following the UK's Brexit vote, Donald Trump's election and the increasing support for populist and Eurosceptic political movements such as Italy's Five Star Movement. Others see increasing protectionism as threatening the trading environment achieved over the last two decades. But is globalisation genuinely on the retreat? Is recent regulatory change exclusively pointing to greater protectionism? Could technological change – the key driver behind the rise of the digital multinational – mean globalisation continues to offer opportunities for SMEs?

## Globalisation – on the retreat?

Leading global institutions appear increasingly concerned that globalisation is under threat. The World Trade Organisation's (WTO's) Report on G20 Trade Measures of June 2016 showed G20 economies introducing protectionist measures faster than at any time since the 2008 financial crisis.

Commenting on the WTO's updated report of November 2016, Director-General Roberto Azevêdo said, *"The continued introduction of trade-restrictive measures is a real and persistent concern. Tangible evidence of G20 progress in eliminating existing measures remains elusive."*

EU Trade Commissioner Cecilia Malmström, in a speech on 26 June 2017, claimed European exporters had reported a 10% increase in the number of trade barriers they encountered in 2016, *"We clearly see that the scourge of protectionism is on the rise. It affects European firms and their workers. It is worrying that G20 countries are maintaining the highest number of trade barriers."*

While President Trump decided in June 2017 not to withdraw from the North America Free Trade Agreement (NAFTA), it may have been the USA's withdrawal from the Trans-Pacific Partnership in February 2017 that prompted Trade Commissioner Malmström to describe the June 2017 EU – Japan Free Trade Agreement as, "A strong message to the United States that free trade is important and that you shouldn't be too inward looking".

## Globalisation – the EC response

In May 2017, the EC published its own response to what it perceives to be public anxiety about globalisation. The core argument of its Reflection Paper on Harnessing Globalisation appears to be that, while recognising its benefits, the EU needs to take a more central role in shaping globalisation to avoid the worst excesses of protectionism and laissez-faire politics:

*"… if the EU has greatly benefitted from globalisation, it has also brought many challenges …globalisation has helped lift hundreds of millions of people out of poverty and enabled poorer countries to catch up… But these benefits are not automatic nor are they evenly distributed among our citizens… However, the solution lies neither in protectionism nor in laissez-faire politics. The evidence presented in the Reflection Paper shows clearly that globalisation can be beneficial where it is properly harnessed. …The EU must ensure a better distribution of the benefits of globalisation by working together with Member States and regions as well as with international partners and other stakeholders. We should seize together the opportunity to shape globalisation in line with our own values and interests."*

But is the EC correct in assuming that today's global environment is going one way? Is it correct to assume that the forces of globalisation can be managed by regulation alone? While welcome, the EC's response does appear to ignore other technological and regulatory changes that could mitigate the worst impact of globalisation.

## A one-way street to greater protectionism?

Adopted on 22 February 2017, the WTO Trade Facilitation Agreement (TFA) promises ground-breaking simplification of international import and export procedures, customs formalities and transit requirements, to an extent that has prompted the EU itself to describe it as, "…the most significant multilateral trade deal concluded since the establishment of the World Trade Organisation (WTO) in 1995". Reduced bureaucracy will, the EC argues, make it easier for SMES to participate in global value chains.

## Digitalisation and the rise of the micro-multinational

Against this background, the EC's Reflection Paper on Harnessing Globalisation, in arguing for greater top-down regulation, appears contradictory.

The EC's introduction of new VAT place of supply rules in 2015 led to many microbusinesses – below national VAT thresholds and hitherto exempt from registration – having to register for the EU's one-stop VAT MOSS mechanism. The response from these businesses made clear the extent to which they are now trading electronically across borders, a view endorsed by industry analysts who see cross-border e-commerce as increasingly driving global retail growth.

While barriers remain, particularly in the EU and USA, today's increasingly digital world creates readily accessible markets for SMEs with a degree of autonomy of which established multinationals can only dream. This is clearly the case for Italy's manufacturing Industry, which experienced a new growth impetus from the opening of foreign markets through online trading. For these, globalisation is an opportunity, not a threat: any attempt at top-down regulation by the EC could present real risks here.

## Globalisation – more good than bad – at least for SMEs?

The UK's Brexit vote and the 2016 election of Donald Trump are cited as symptoms of how large populations – in Europe and the US – have not benefitted from the globalisation of the last 20 years. The EC is entirely right to address this, but a top-down approach risks ignoring the needs of those SMEs taking advantage of the digital revolution to grow their businesses across borders. Italy is a good example: despite the lack of long-overdue reforms in the state administration and justice system, the opportunities generated by globalisation have kept Italy afloat and a retreat from globalisation could jeopardize this precarious situation.

…today's increasingly digital world creates readily accessible markets for SMEs.

# The ten golden rules of real estate investment in Spain


## About the author

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Jaime Navarro is a partner in Navarro Llima Abogados S.L., Zaragoza, a member of Russell Bedford International, and he specialises in tax and commercial law.

Jaime has particular experience in international transactions and the provision of advice to Spanish branches or subsidiaries of overseas companies. He has worked as consultant to Spanish regional governments in attracting foreign capital and investments. He is a member of the Association of Certified Fraud Examiners (ACFE), International Association of Young Lawyers (AIJA) and the International Fiscal Association (IFA).

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We are currently seeing a resurgence in the Spanish property market. The data around mortgage approvals confirms this and leads us to be optimistic. Furthermore, certain cities and tourist areas are looking particularly dynamic in both residential and commercial sectors.

Before you invest in Spanish property you should analyse and plan around these considerations:

**Financial –** your expected return on investment, and the financial resources you need and how to get them.

**Legal –** advice is essential to minimise your risk and understand all the costs involved.

Here are ten areas you should understand when investing in Spanish property.

### 1. Notifying the authorities

While you do not need to seek prior authorisation to invest in Spanish property (there are a few exceptions, investments coming from tax havens are one example), you do have to notify the General Directorate of Commerce and Investment of certain investments once they have happened.

### 2. Money laundering prevention

Anti-money-laundering regulations require you to file certain documents to evidence your identity, your business and professional activities, and from where the funds originate.

### 3. Choosing the right investment vehicle

There are several ways of investing in Spanish property and, depending on circumstances, one may be better than another. You can buy property as an individual or through a company. You can also use property investment funds or real-estate investment trusts (REITs) such as Sociedades Anónimas Cotizadas de Inversión en el Mercado Inmobiliario (SOCIMI). I've even seen crowdfunding initiatives. These alternatives make it essential to get the right legal advice.

### 4. Identification numbers

When you buy Spanish property as an individual you will need to apply for a Número de identidad de extranjero (NIE), a foreigner's identification number. If buying through a company you will need a Número de Identificación Fiscal (NIF), a tax identification number.

### 5. Legal aspects

There are many legalities to navigate when buying property in Spain. These include civil, taxation, town planning, and consumer protection matters that can differ across territorial jurisdictions.

### 6. The role of the notary

To enjoy the protection of having your title to property entered in the public land registry, a notary must witness the transaction. A notary represents the Spanish government, not the investor, and does not replace the need for a solicitor.

### 7. Before you sign the arras contract

The arras is a pre-contract that obliges the parties to complete a contract of sale at a future point. It involves paying a deposit. Before you sign the arras, you should carry out the following checks where relevant to the property in question:

- The ownership of the property and its entry in the public land registry
- The presence of any charges or encumbrances
- The cadastral situation and how it determines property taxes
- Any urban planning that affects the property
- The existence of a community of owners and any rules that you will need to observe
- The possession status: whether the property is leased or occupied
- All expenses and taxes and whether payments are up to date
- The physical state of the property and its general maintenance.

### 8. Ownership costs

It is essential you familiarise yourself with the costs of ownership.

There are taxes that arise from your investment in a property as well as those that arise from your subsequent ownership, such as real estate tax and non-resident income tax.

There are also the costs involved in buying a property. These include notary fees, land registry fees, and other administrative costs. While ownership of these costs can be negotiated, it is usual for the buyer to pay.

Once you own the property you will need to insure it too.

### 9. The property as security

If you are buying a property with a mortgage, the lender will place a charge on the property as security.

### 10. Investor's residency

Commonly called the Golden Visa, this entitles non-EU owners investing more than €500,000 in Spanish property to apply for a family residence permit. The permit lasts for two years but is renewable. After five years of ownership, owners can apply for permanent residency. After ten years it is possible to apply for Spanish citizenship.

# Data analytics – rising up the corporate agenda

The amount of data that organisations generate every day has surged in recent times. Data comes in many shapes and forms – from financial and operational data to emails and tweets – and is a major asset to organisations. But it is often difficult to exploit data to gain insights that will help achieve growth and identify underlying risks.

Tesco plc was one of the first major organisations to recognise the value of data by studying customer spending patterns through its Clubcard loyalty scheme and using the data to send out specific promotional material to individual customers, tailored to their spending patterns.

As well as identifying opportunities to improve business performance, data analytics can also highlight risks before they materialise in a detrimental way. Many accounting scandals could have been spotted in advance if the right data analytics had been in place to spot red flags from within the data. External auditors of large organisations now use data analytics to trawl through millions of journal entries looking for red-flag characteristics appearing in the data.

## Creating a data analytics strategy

To be successful you need a clear data analytics strategy that addresses the areas of people, technology and process. The most important element is people. There needs to be a drive and appetite among data analytics specialists, and management needs to support and encourage the use of data analytics. Only by doing this can you be sure it supports your business in key areas such as: marketing, finance, compliance, and audit and risk.

## Defining a process

You need a clear process that gives you access to your key data sets. This data may come from your actual systems or data warehouses. By collaborating with your IT team, access to data can be seamless while not putting your systems at risk by placing too much demand on them or allowing too much access.

## Using technology

You will find a range of technology on the market that will help you analyse your data. These tools can be as simple as Excel through to advanced analytics platforms that perform predictive analytics using historical events to pre-empt future events. Most of these tools enable you to develop insights from data provided that you ensure the right people with the right skills develop the analytics.

Recently the trend has been towards data visualisation tools that take data and portray it as dashboards, storyboards, infographics and charts. Illustrating data on geographical maps is also a popular way of gaining at-a-glance insights from data. Data visualisation tools are popular because people who are short of time find it easier and quicker to understand the results as a visual representation. A picture really is worth a thousand words.

## Ownership of the data

You need to address who is responsible for developing and maintaining your data and analytics. Large organisations that recognise the value of data appoint Chief Data Officers (CDOs) who have total responsibility for overseeing and governing an organisation's data.

Andrew Day, the CDO at Sainsbury's in the UK says: "My role is to help the business make better decisions based on information and analytics. I'm responsible for leading a team of data engineers, scientists, analysts and reporting types, and I work out where to apply their skills to create positive outcomes for the business.

"I also provide an indirect leadership role for data and analytics across the Sainsbury's group, to ensure that we're providing learning and development opportunities for people, and sharing best practice."

While appointing a CDO may be a step towards ensuring that you make the most of your data, it may not be a viable option for smaller businesses. Instead, responsibility for these activities may fall to an IT function. Other business functions may also have to play the role of CDO, seeking direction from your IT function or external consultant.

Data analytics has been around for a long time but many organisations often struggle to benefit because of a lack of direction and skills. To gain a competitive edge over your rivals, and remain on the right side of legislation, you need to work out the right strategy that will create positive outcomes for your business.

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Robin Clough has worked in data analytics for over 20 years. After working at PwC, and then Deloitte, Robin set up his own data analytics consultancy, DataConsulting, in 2007.

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# Cross-border brands, transfer pricing and the impact of BEPS



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Victoria Willcox-Heidner is a tax specialist with Tomik+Partner mbB, Russell Bedford's member firm in Halle (Westfalen), Germany. Victoria is a lawyer and Certified Tax Advisor, with a focus on cross-border activities (e.g. VAT, transfer pricing, set-up) and project-related consultancy in the area of corporate taxation. She is a native speaker of both English and German.

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For multinational groups, a change in a local tax regime may lead to higher overall corporate income taxes for the group. Nowadays, with tax authorities around the world on the lookout for tax avoidance, there is little room left for tax planning. Early compliance is now the key and may open up new opportunities or reduce your tax risks.

One area that is often neglected, in the context of transfer pricing, is the cross-border use of corporate brands or trademarks by related companies. Often, subsidiaries trade under the same name as their parent, and use the same brands or trademarks. This raises the question of when intra-group licence fees or royalties are chargeable for the privilege.

As of January 2018, Germany will restrict the tax deductibility of licence payments and royalties that do not follow the modified nexus approach.

## Use of a company name and brand in German tax law

Conclusions from various court cases, and changes in German tax law, prompted the German Ministry of Finance to issue guidance in April 2017, setting out criteria for defining a chargeable transaction. A chargeable transaction arises where:

- a licence agreement exists allowing the use of a name or product related brand; and
- there is an unbreakable connection between the name and the brand; and
- the name or brand has a clearly distinguishable value (benefit test).

Until 2013, the absence of a licence fee agreement, or the presence of an uncompensated usage agreement in a company's articles of association, shareholder agreements or bylaws could prevent any obligation to charge for the use of a name or brand. However, changes to the tax law in 2013 and 2015 have now regulated that the tax authorities can deem a level of licence income with no written or oral agreement. And the authorities will disregard shareholder agreements regarding the uncompensated usage of a name or brand, if not intrinsically associated with the shareholding.

This does not apply if the usage of a name or brand has been charged for in another way, for example through the sale of goods to a sales subsidiary. On the other hand, if a company gains an advantage from manufacturing products or rendering services by exercising its right to use a name or brand, the tax authorities could easily value these rights, giving rise to a chargeable transaction.

## Impact of the OECD's BEPS project

Now, in the case of a German company paying a foreign company royalties for the use of its name or brand, a question arises regarding the tax deductibility of these payments.

For some time now, jurisdictions have been competing to attract inward investment in research and development (R&D). Initiatives include favourable tax treatment of licence income through 'patent box', 'licence box', and 'IP box' regimes. However, the OECD's report into base erosion and profit shifting (BEPS) found this had the potential to encourage companies to shift profit artificially from one jurisdiction to another with lower taxes.

BEPS Action 5 – Countering Harmful Tax Practices More Effectively aims to tackle these abuses. One example would be where a company produces patents in a high-tax jurisdiction, incurring tax-deductible expenses, but accrues its profits in a low-tax jurisdiction. Because the jurisdiction carrying the expense burden earns no tax revenue from any profits, Action 5 introduced the 'modified nexus' approach.

This approach requires that, for a business to benefit from a favourable regime, it must not only make profits in that regime but must also engage in a significant proportion of R&D activities and incur actual expenditure that contributes to the profit in the same jurisdiction.

As of January 2018, Germany will restrict the tax deductibility of licence payments and royalties that do not follow the modified nexus approach.

This restriction will only apply where the licence income is taxed in the destination jurisdiction at a rate lower than 25%. Where the rate is lower, the tax-deductibility of the licence fee will be partly restricted to offset the preferential tax treatment.

Where related companies use common names or brands, the new legislation is likely to create non-deductible licence expenses for German companies paying a licence fee to a company in a preferential tax jurisdiction. It may be difficult to gain an exemption under the modified-nexus approach as it will be hard to prove the necessary local R&D spend.

## What to do next?

The new tax legislation applies to both German inbound and outbound usage of rights.

Where it is a German company using a name or brand, an agreement may reduce the taxable base. However, the BEPS rules we've discussed, and in some cases German rules on controlled foreign companies (CFCs), could restrict this.

Where it is a German company allowing the use of a name or brand, the tax authorities may deem a contract exists even if there is none in place, or if the usage right exists in a shareholder related document, taxing deemed income.

Multinational groups with German companies should evaluate their branding and trademarks and seek professional advice to mitigate any risks.

The new tax legislation applies to both German inbound and outbound usage of rights.

## About the co-author

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Stephan Strothenke, also with Tomik+Partner mbB, is a Certified Tax Advisor and Certified Advisor in International Tax Law. His expertise lies in national and international tax structuring for companies and private clients, together with specialist consultancy around structuring, especially succession planning.

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# Five Eyes on the Fence: **Intellectual Capital**

## Protecting the five core capitals of your business


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In my book Five Eyes on the Fence, I debunk the myth that the health of a business can be judged by its bottom line alone – by its financial capital. Instead, I assert that financial capital is a by-product of four other capitals:

1. **Human capital** includes the personalities, intelligences, behavioural traits, values, attributes, and motivators of a person, a family, or a company.

2. **Intellectual capital** is a company's and its employees' knowledge and experience.

3. **Social capital** is a company's network of people and associates.

4. **Structural capital** includes a company's processes, systems, and ways of delivering its products or services.

A company that pays attention to only its financial capital has a high probability of failing. The company is keeping only one eye on the fence. The recipe for a company's success is much broader and includes the interrelationship between all five capitals.

In this series of articles, I examine how the five capitals form an intricate web, and how you can make decisions based on how the five capitals interact.

In this article, we will take a look at intellectual capital.

## Intellectual Capital

What you and the other members of your company know – your intellectual capital – is the bedrock of your product or service. This includes the acquired skills, knowledge and expertise that you apply to your product or service. Your intellectual knowledge is why you make money. The degrees you have, the experience you have gained, the training you have completed, and the innovations you have created all feed into the product or service you offer.

A company is most powerful when it can package together several sets of intellectual capitals to create a product or service that is difficult to duplicate.

## Packaging Subsets of Intellectual Capital

Many of us have overlapping sets of knowledge. Every estate planning attorney, for instance, can draft living trusts and have individuals and companies mitigate or avoid taxes. Any competent CPA can prepare and examine a company's financial records.

Companies that de-commoditise and stand apart are those who combine seemingly unrelated bits of intellectual capital to create something unique.

Consider, for instance, Uber, which joined together two different pieces of intellectual capital. First, was a knowledge of the ride-for-hire industry, and second was knowledge of technology capabilities. Now a known and common service, Uber originated as a company representative of combining complementary pieces of intellectual capital.

## Connecting the Dots

What you know is special. In Steve Jobs' famous commencement speech, he highlighted the importance of connecting the dots. When you are aware that what you know, insofar as your intellectual capital is concerned, is special and unique, you can connect the dots and create inimitable intellectual capital when the opportunity presents itself.

When it comes to pinpointing your intellectual capital, keep your mind focused on these questions:

1. What is the value that I currently deliver? Figure out why your customers come back to you. When you know the answer to this question, you can intentionally deliver more of it. Then, make your intellectual capital even more powerful by asking:
2. What knowledge do I have that I can add to my product or service to make it more unique? When I do this exercise with graduate students, I encourage them to write down everything that comes to mind. This might include things like, "I know how to drive a car," or "I know how to shop online and find the best deals."

You should ask these two questions not just of yourself, but also of your entire team. When you discover that Maria the receptionist is an expert animator, for instance, you could combine her artistic abilities with your marketing platform to create packaging that sets your product apart from everyone else's.

By asking these questions, you will learn that you have comedy writers, animal whisperers, home decorators, musicians, mathematicians, bartenders, writers and historians on your team.

These skills might seem unrelated – in fact, many of them might be unrelated. Nonetheless, when you intentionally identify them, you allow your brain to start forming connections and noticing patterns it might not have otherwise seen. In other words, you can more easily connect the dots and strengthen your intellectual capital.

What you know – your intellectual capital – is the bedrock of your product or service.


## About the author

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Frédéric Burband has 30 years' experience in auditing and consulting, including extensive industry experience as CFO of a listed company. Currently advising a range of clients including major groups and SMEs, he has more than 15 years' expertise in IFRS accounting for listed and unlisted companies. A Registered Certified Public Accountant and Registered Statutory Auditor, he is a member of the National Commission on Accounting Standards of the French National Council of Independent Auditors (Compagnie nationale des Commissaires aux comptes, CNCC), and Vice Chairman of its local branch, the Compagnie régionale des Commissaires aux comptes de Paris.


# What is IFRS 16 and what does it mean for your business?

IFRS 16 promises major changes in the balance-sheet treatment of leases. Specialist software – such as Blimp360 – offers a solution, however, and is helping companies make the transition.

The introduction of new accounting standard IFRS 16 from 1 January 2019 introduces significant changes governing the treatment of leases. Directed at improving balance-sheet transparency, IFRS 16 replaces the previous IAS 17 standard, which allowed considerable discretion in determining whether a lease was an 'operating lease' (which could be held off the balance sheet), or a 'finance lease', which could not. Under IFRS 16 almost all leases will now have to be treated as finance leases, effectively removing opportunities for off balance sheet accounting – a move which introduces significant implications for companies' asset financing strategies, accounting methodologies, gearing, profitability and, potentially, credit ratings and borrowing costs.

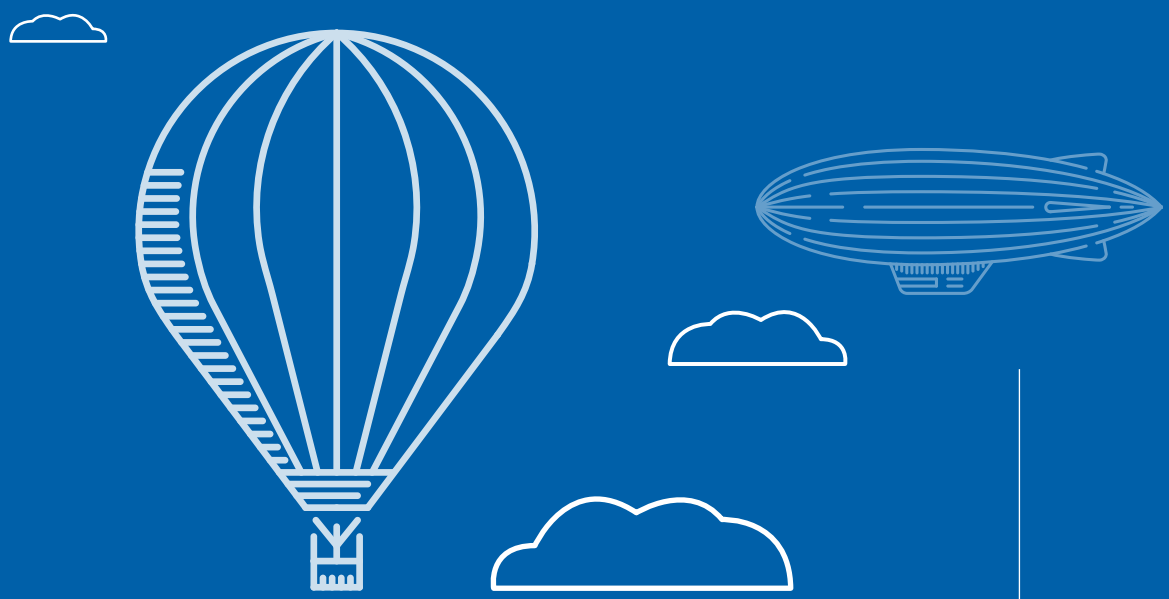
…any business with high-value asset finance arrangements in place will need to take a close look at their current accounting strategy immediately.

## What do you need to do?

The challenge, for most companies, will lie in sourcing, retaining, analysing and managing data on leases in place throughout the business, and deciding how to handle this in the transition to the new IFRS 16 reporting requirements – either by applying the new definition to all contracts in place, retrospectively, or merely electing for a 'simplified' transition method. In any event, all businesses will need to ensure full disclosure in respect of operating leases, with effect from 1 January 2019.

More broadly, companies will also need to assess the likely impacts on EBITDA, total balance-sheet assets, and gearing. In terms of financial statements, the key changes can be summarised as follows:

| ASSETS | LIABILITIES |
|---|---|
| Right-of-use assets | Estimated dismantling and restoration costs |
| | Initial direct costs |
| | Leasing costs |
| | P&L |
| | Interest charges |
| | Depreciation |



## Collecting the data – how technology can help

Collecting the data necessary for full compliance post-2019 is likely to be the greatest challenge for most companies – particularly for those without centralised systems for managing their lease contracts. Most lease management programmes do not yet match the new IFRS 16 requirements, and will require additional functionality to be fully compliant. Such additional functionality is likely to include:

- multi-dimensional, multi-entity and multi-currency management of lease contracts, including the legal, accounting and operational aspects of these;
- sound valuation of lease assets and liabilities;
- projections and revaluations for each reporting period; and
- automated processing to simulate potential impacts on financial statements and accounting records.

## Blimp360 software

Designed to meet the practical needs of SMEs, groups and multinationals in managing the transition to IFRS 16, Saint-Honoré Partenaires' bespoke Blimp360 software is a fully integrated web-based lease contract management system, offering an integral contract approval process as well as full and efficient management of individual contracts and/or portfolios.

## Full compliance with IFRS 16

Blimp360's full compliance with the new IFRS 16 standard allows ongoing assessment of both specific financial indicators, as well as wider balance-sheet and financing implications. The Blimp360 programme automatically measures leasing costs and right-of-use assets, taking all of the new IFRS 16 parameters – including discount rates, likely lease periods, and restoration costs – into account. Automated alerts warn users of upcoming renewal and options deadlines well in advance.

## Transition management

A dedicated module within the Blimp360 system means clients have optimum scope in choosing how to handle the transition process – either through retrospective restatements regarding existing leases, or by applying the new standard to new lease contracts only – as well as allowing flexible selection of key criteria.

The system includes automated calculation facilities, as well as user-defined reporting options and decision-making tools, and covers all key lease management criteria including fixed and variable lease costs, payment deadlines, cost indexation, renewal periods, options, incentives, and other related arrangements. Revised cost indexation or changes to leasing terms are automatically incorporated together with other contractual amendments, allowing the full modelling of potential financial implications and revised accounting estimates. Reporting is fully customisable, including for statutory reporting statements, simulations and projections, management accounting and financial analysis and reports.

While the new IFRS 16 standard does offer some exemptions – specifically for leases of less than 12 months' duration and/or those with a 'capital value' of under $5,000 at the time of procurement – any business with high-value asset finance arrangements in place will need to take a close look at their current accounting strategy immediately. The integrated software of the Blimp360 system is designed to meet the scalable needs of all companies in simplifying this process.

**A full introduction to Blimp360 software is available at www.blimp360.eu**

# VAT in the Gulf – What you need to know

A Gulf Cooperation Council (GCC) agreement has confirmed the introduction of VAT in 2018 in all GCC Member States – Saudi Arabia, Kuwait, the United Arab Emirates, Qatar, Bahrain, and Oman. What does this mean for businesses in the region?


## About the author

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Naresh is responsible for providing accounting and audit services to small and medium sized entities, and he advises clients on tax planning and the establishment of relevant structures in accordance with their individual circumstances.

Naresh also has considerable experience in advising on immigration and wealth protection and in assisting clients investing abroad.

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## The VAT Framework Agreement

The agreement broadly reflects OECD and EU VAT principles in terms of place of supply rules, reverse charging and treatment of input/output VAT. To a large extent, there will be universal GCC-wide regulation, but Member States will have considerable scope in terms of compliance regulation, zero-rating and exemptions.

The following principles are universal across all GCC jurisdictions:

- A standard rate of 5% will apply to all goods and services that are not zero-rated or exempt;
- VAT registration is mandatory for any business with turnover above SAR/AED 375,000 (approximately USD 100,000). Businesses turning over 50% of this may register voluntarily;
- Imports are subject to VAT at 5%, except where specifically exempt or zero-rated;
- Services delivered to 'taxable persons' from outside the GCC are subject to tax under the reverse charge mechanism.

The following are mandatorily zero-rated throughout the GCC:

- Exports to countries outside the GCC, as well as temporary imports
- Intra-GCC and international transport and transportation services
- Financial services
- Gold, silver and platinum
- Medical equipment and medicines.

In other areas, the application of exemptions or zero-rating is to be determined by individual Member States. The Framework Agreement also allows Member States considerable scope in terms of practical implementation and businesses' compliance obligations.

## What happens next?

While simultaneous implementation had been mooted, the levels of preparedness in individual Member States make this unlikely. The UAE is expected to introduce its VAT regime from 1 January 2018. A draft VAT law has been approved in Qatar. Saudi Arabia is expected to implement its VAT regulation in Q1 2018, and Bahrain by mid-2018. There are, as yet, no public announcements from Oman and Kuwait.

## What does this mean for businesses – and what should you be doing now?

Once specific tax collection and enforcement agencies are in place, the first steps for every business will be to:

- register for a Tax Identification Number (TIN)
- familiarise themselves with local VAT legislation and filing obligations
- make sure they know who to contact at their local tax authority.

In the meantime, businesses should develop a full understanding of the nature and operation of VAT, its likely impacts throughout the business, and the changes necessary to contracts, invoicing, IT, systems and staffing.

Whereas profits taxes are typically applied only at a company's year-end, VAT returns (and settlements) are normally required monthly or quarterly. Apart from the additional reporting and compliance burden, effective VAT management introduces other considerations: poor control over input and output VAT can have serious implications for cash flow, contracts and invoices need to reflect all VAT costs for clients, and IT and systems need to be fully adapted to accommodate these requirements.

## Developing a viable VAT implementation strategy

Businesses should evaluate their existing systems and assess how far these can be adapted to meet the requirements of the new VAT regime.

- *Review existing systems and processes:* Remember, you will need to record (and reclaim) all VAT paid on goods and services you purchase; you will need to show all VAT due on goods and services you supply.
- *Undertake an analysis of your full supply chain:* It is important to identify any areas that might result in irrecoverable VAT.
- *Pricing policy:* Consider how you are going to adjust your pricing strategy to reflect what your clients and other end-users may perceive as a 5% price rise.
- *Cash flow:* You will need to make sure you have scope to meet VAT liabilities.
- *Review contracts, invoicing and documentation:* Make sure that all documents make reference to VAT charges. Make sure your accounting functions are adapted to record where VAT has been paid, and where it is charged.
- *Personnel and training:* Do you need to recruit an experienced professional with specialist VAT skills, or is it viable to re-train existing staff?

Smaller enterprises may not have the financial or personnel resources to undertake the level of preparation required. If that's the case for your business:

- At the very least, revise your accounts payable function to show VAT paid, and to reflect where VAT is and isn't due.
- If nothing else, make sure you can at least introduce manual accounting processes for VAT management, in the short term.

## We can help

Russell Bedford member firms in Kuwait, Qatar, Saudi Arabia and the UAE can advise on the most immediate impacts of the new VAT regime, including contract reviews, invoicing and systems analysis, corporate restructuring, tax planning, and recruitment and staffing.

# **News** in brief

Russell Bedford International has further expanded its coverage in Brazil.

Since the re-launch of the national network in 2016 with the appointment of the Curitiba-based ValuConcept Group (now Russell Bedford ValuConcept), a first step was taken in early 2017 with the incorporation of the tax and accounting practice FiscALL Soluções Ltda, representing the network in Jaraguá do Sul, Santa Catarina.

In a major strategic move, Russell Bedford ValuConcept has now enlarged its São Paulo branch via a joint venture with the audit and financial consulting firm Buzzeye Consulting (BZY Auditoria e Consultoria Ltda), resulting in a team close to 50 professionals in this location.

The network has announced the appointment of A.G. Consultores S.L. (AGC) as a new member in Madrid, Spain.

AGC will form part of the national network, Grupo Español Russell Bedford, increasing its presence to five locations, now covering Barcelona, San Sebastian, Valencia, Zaragoza, as well as Madrid.

AGC was incorporated in 1984. The firm has two partners and around 25 personnel, including lawyers, accountants, tax advisors, payroll and labour management specialists, and organisational consultants.

Poland's leading daily national business newspaper, Rzeczpospolita (RZP), has ranked Russell Bedford Poland as one of the Top 20 tax advisory firms in its 2017 survey. The ranking includes all consulting firms and law practices authorised to provide tax advisory services in Poland.

Isle of Man member firm SMP Partners Group is looking forward to continued growth following the completion of its acquisition of Royal Bank of Canada's (RBC) trust, fund administration and custodian business in the Caribbean.

Having acquired its first Caribbean regional office in the Bahamas from RBC towards the end of 2016, its presence in the region has now been further cemented with the acquisition of additional offices in the Cayman Islands and Barbados.

Hallidays, Russell Bedford's Manchester, UK, member firm, has added over 100 clients to its portfolio through the acquisition of Cheshire accounting practice, Edmondson & Co.

As part of the acquisition, Paul Edmondson of Edmondson & Co., will join the team led by Hallidays director, Valerie Wain, which has expertise in sourcing financial opportunities for SMEs and individuals.

Russell Bedford has announced the appointment of Camphin Boston Chartered Accountants as the network's new member firm in Sydney, New South Wales, Australia.

Camphin Boston was established in 1985 and has three partners and more than 30 personnel.

Based in central Sydney, it is a full-service firm with a strong focus on audits and tax consulting, including international tax planning, structuring, and transfer pricing. Services also include accounting and tax compliance, a particular strength in outsourced accounting requirements, self-managed superannuation and business advisory.


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