Crowe

Global Trade

Audit / Tax / Advisory / Risk

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Contents

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Foreword

Welcome to our first edition of Global Trade, our periodic round up of insights into International Trade.

International trade continues to dominate the news with trade wars and Brexit creating uncertainty and difficult trading conditions for UK importers and exporters. Whilst the weak pound creates an opportunity for exporters it continues to make imports more expensive. The latest statistics from the government show that in September the UK was a net importer with exports increasing by 11% since September, but falling by 3.9% compared to the previous year whilst imports increased. Despite this the government is continuing with its efforts to help grow UK exports.

With the forthcoming election on the 12th December and an expected Brexit next year, international traders will have a lot to consider as new trade deals are struck which will alter trading relationships with existing markets whilst also creating new opportunities.

Crowe's round up of some of the key insights that our international trade team have published over the previous few months is designed to provide you with a summary of some of the things you may be interested in as an international trader.

In this publication we have also included an article kindly written by David Priestly, Head of Export Finance Managers and Business Group Operations at UK Export Finance.

We continue to produce regular insights and guidance as well as running seminars and courses to support those involved in international trade. Our dedicated webpage pulls together everything in one place and I would encourage you to visit the site to keep up with developments. Our webpage can be found at: www.crowe.com/uk/croweuk/services/advisory/international-trade

Darren Rigden
Head of International Trade,
Crowe U.K. LLP

Growing the UK's export community

How to take your business global

Darren Rigden, Partner Audit and Business Solutions

In November, HMRC published figures revealing the UK's 'Importer and Exporter' statistics for September 2019, which shows the amount traded globally with the UK. According to the data, exports increased to £31 billion, and imports increased to £50.3 billion showing the UK was a net importer for September. The government the UK was a net importer for September. The government continues with its strategy to increase exports and although they would have been pleased with the 11% increase on August, the decrease of 3.9% compared to September 2019 would have been a disappointment as trade wars and Brexit continue to dominate, leading to uncertainty for both exporters and importers.

While these figures reveal a burgeoning community of international traders, the government is keen to get the UK exporting more. For many, the prospect can be a daunting one, with many considerations needing to be taken into account and opportunities suitably measured against risk.

Exporting carries a number of risks, but also many rewards in opening up new markets. It significantly increases the number of potential clients a business can sell to, but without any prior experience of exporting it can be difficult to know where to begin.

Preparing a strategy

Firstly, it is important to have a clear strategy. This should take the form of a proper business plan, which should include a cash flow forecast. This will need to take account of higher working capital requirements, as exporting will often result in a longer cash flow cycle. The business plan should set out which countries the business wishes to target for its exports and why the product or service will be suitable for that market.

Exporting works particularly well if you have a product that you sell, which can be exported to a country that is unable to make that product internally, or if you can produce the product cheaper in the UK than in the country being exported to. It can also be an avenue to explore if your product is branded or can be sold at a premium as being British-made. Across much of the world, British-made goods are held in high esteem, with the 'British' stamp effectively acting as a revered brand.

At Crowe, we have helped many businesses to produce strategies and forecasts at early stages of export planning. This has helped our clients to avoid unnecessary and additional costs that may be incurred at a later stage.

What to consider?

Are there situations or markets that would result in a local demand for your product?

Are there any local laws, regulations or religious regions which mean that your product is not suitable for that market?

What equivalent local products are available and how does your product compare to these?

How are British products seen in the country (in some countries UK-made products are seen as premium and are in high demand)?

What is the selling price of your product compared to the local competing products or brands?

Have you considered what the additional costs for you in terms of currency, tariffs, taxes and carriage will be?

Are there any restrictions on the import of your product to that country which will restrict your market, or prevent you from importing your goods?

Are the countries you are targeting subject to any trade or other embargos which could prevent you from dealing with them? Most banks for instance will have a list of countries that they will not allow you to trade with.

Beware of the risks

Foreign exchange: Fluctuating currency rates can easily impact on profit margins if they move against you. Hedging against currency risk can take many forms, some of which are highly complex. Banks, as well as specialist foreign exchange bureaus will be able to provide advice on this. Usually it is better to go for the simplest form of hedging and it is important that you understand the product being offered and its cost. If you are also buying from overseas then the best form of hedging against currency risk is a natural hedge where you buy and sell in the same currency.

Selling strategy: How you will sell is an important consideration and it can be achieved in many ways; direct sales from the UK, use of an agent or representative, using a distributor or commission representative or by setting up a branch or entity overseas. Each route will have its own tax implications, which a qualified accountant will be able to advise on.

The business plan should cover the short medium and long term so that an appropriate structure can be put in place for both commercial and tax planning purposes. However, this should aim to set up the business for the best commercial outcome rather than around a tax structure that does not work commercially. Involving your specialist advisors at an early stage should ensure things are set up properly from the outset, which will potentially save a lot of time and money further down the line.

You should also consult your specialist advisors about VAT and tariffs before agreeing a price with your customer so that you can be sure that all the costs are included and your profit margin will be what you expect.

Invest in the right people

Recruiting and investing in the right people will have a significant impact on how successful the business will be. The most successful businesses often invest in local sales people who not only speak the language but also understand local customs and ways of doing business. They can also be invaluable in understanding local laws and regulations which if not properly considered can cause problems.

Once you are up and running getting your goods to their destination can seem very complicated due to the paperwork required. However, help is on hand from freight forwarders and local chambers of commerce, along with banks and specialist advisors who can help with the paperwork required.

Receiving payment

Once you have exported you need to ensure you are paid. Receiving the cash is likely to take much longer than if you sell to a UK company due to delivery times and delays at customs. Therefore, you will need to consider how you fund your working capital requirements.

A typical process could include the following before any money is received:

1 Generating a pro forma invoice/quote for your customer.

2 Requesting a letter of credit from your bank.

3 Fulfilling the terms of the letter of credit; a very important stage as a minor discrepancy can hold up payments.

4 Manufacturing or collating the product.

5 Shipping/insurance arrangements, understanding the INCO* is important as it impacts on your responsibilities and the level of insurance required.

6 Packing the goods.

7 Arranging for the goods to be transported and delivered to the customer.

8 Collecting the shipping documents and ensuring they are properly completed.

9 Presenting the shipping documents to your bank.

*The rules which define the responsibilities of sellers and buyers for the delivery of goods under sales contracts.

There is plenty of help available to companies researching overseas markets and information can be obtained from organisations such as the Department for International Trade (DIT), Open to Export along with most banks and of course online research and local guides.

As well as providing information on markets, many organisations will also run trade missions to countries of interest. This is where government officials and business leaders from one country travel to another to promote trade between the two. Trade missions are usually organised by governments or banks and are used to explore potential international business opportunities. They can also help create networks of buyers, agents, suppliers and key government contacts in a specific country or region. Often these may be part funded by the organisation running the mission.

With the right advice exporting is not as daunting as it first seems and will significantly increase your customer base. The key, as with any business, is careful planning and consideration of the above points before you start out.

Setting up or expanding overseas

Our recommendations for business owners considering their international strategy

Simon Crookston, Corporate Tax Partner

Overseas expansion
We are currently seeing an increasing number of UK businesses trading internationally, whether this be within the EU or globally.

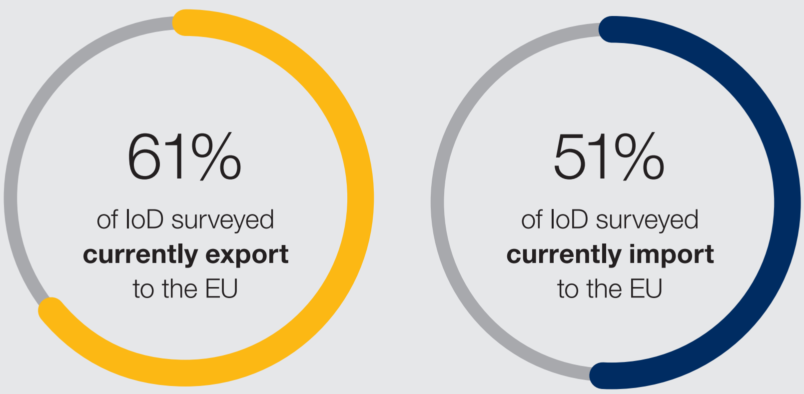
Online trading and the use of online marketplaces, such as Amazon, have made it even easier for businesses to reach potential customers, many of whom they would not have considered to be within their target market just a few years ago.

Initially, trading abroad may be by way of exporting, using a local agent or distributor. Once the local market is understood, businesses may then seek to set up or expand their business operations overseas.

Setting up overseas could be by way of buying an existing business, entering into a joint venture arrangement with a local partner, or often it is by setting up a branch or an overseas subsidiary.

Brexit has led many businesses to reconsider their strategy for trading internationally, as highlighted in a recent survey.

64% of IoD surveyed currently export to the EU whilst 51% import from the EU. Of these, two-thirds of businesses that export to the EU were looking to relocate or set up operations overseas. Whilst, overall, the survey found that nearly a third of their members had now either commenced setting up abroad or were actively considering doing so as a consequence of Brexit.



The benefits of setting up an overseas business can include:

increased **market penetration** and access to a wider market

improved **customer service** and after-sales support

increased **brand awareness** and enhanced marketing message to the local market

access to **incentives** for foreign investors

reduction of **operating costs**.

In our experience, in addition to understanding the cultural differences, language and political stability of the overseas country, to successfully expand and set up a business operation abroad there are a number of key areas that require due consideration.

Ten areas of focus – what you should consider, research and seek advice on for successful expansion abroad.

1. Set-up

- What activities will the overseas business be performing?
- Will these activities create a permanent establishment and therefore a taxable presence in the overseas territory?
- Assuming a taxable presence is created, is it best to set up the overseas business as a joint venture agreement, company or a branch of the existing UK business?
- How long will this set-up process take and what regulatory and other requirements need to be met?
- Are there any trading or other licenses that need to be obtained?
- How can locally generated intellectual property be appropriately protected?

2. Structure

- What is the best ownership structure and how will the overseas entity be held from the UK?
- What are the overseas territories requirements in terms of shareholdings – are there any restrictions on ownership or minimal capital requirements?
- If a subsidiary company is set up, who should hold the shares – the existing UK company, UK individuals or should a holding company be set up to create a worldwide group?
- From a tax perspective what are the pros and cons of each option?

3. Management and control

- Who will manage and control the activities of the overseas business and who will be the directors?
- Where will those people be located and does this cause any additional tax residency issues that require consideration?
- Do local country regulations require a local national director or employee to be recruited?
- From a tax perspective will there be sufficient commercial substance in the overseas country?

4. Profit repatriation

Many UK businesses that expand overseas will seek to repatriate some or all of their earnings/profits back to the UK.

- What is the most efficient way of doing this – via dividends, loan interest and repayments, royalties, management charges or by way of other trading transactions?
- Are there any local regulatory restrictions on profit and cash repatriation that need to be considered?

5. Funding

- How will the overseas business be funded? Options may include:
  - subscribing for share capital
  - a loan from the existing UK business
  - UK or overseas bank finance
  - third party investor finance
  - a combination of these.
- How long does it take to set up an a local country bank account?
- Are there any currency controls or foreign exchange restrictions that require consideration?
- What are the pros and cons of each source of financing and which may be the best from a commercial and tax perspective?

6. Employee transfers and mobility

- What payroll and employee tax obligations will arise on the transfer or recruitment of employees abroad and how are these best structured?
- Do you need a locally compliant employment agreement?
- What visas / work permits do you need to employ foreign nationals?
- How employer vs employee friendly is the local country and how difficult is it to terminate an employee's employment?
- How can double taxation be minimised from an employees' perspective?
- What are the mandatory insurances you will need?

7. Transfer pricing

- What are the local country's transfer pricing rules?
- What benchmarking, documentation and other evidence will be required to demonstrate that transactions are being conducted at a price and on terms that are at arm's length?

8. Withholding tax

- What withholding taxes will arise under local tax rules on payments of interest, dividends royalties or other payments?
- What tax treaty or other reliefs, can be applied for to potentially relieve the withholding tax?

Many UK businesses that expand overseas will seek to repatriate some or all of their earnings/profits back to the UK

9. VAT and duty

- What VAT and duty is payable if you import goods into the overseas location?
- Who will bear the cost of these taxes?
- What ongoing local VAT compliance requirements are there and who will assist you in meeting these obligations?
- Will you need to appoint a fiscal representative in the local country?

10. On-going compliance

- What are the local country statutory accounts filing requirements and deadlines?
- What are the key reporting requirements and filing deadlines for corporation tax, VAT/sales tax, payroll and other local taxes?
- What are the key rates of the tax that will potentially be suffered including corporate, VAT, employer payroll and other local taxes?

Accelerating growth

How the government is supporting the overseas sales of companies from across the UK

David Priestley, Head of Export Finance Managers and Business Group Operations

The opportunity

Exporting has many benefits for businesses looking to accelerate their growth. Companies can increase sales and revenue, enhance competitiveness and overcome domestic market saturation by finding new overseas channels for their services or product. Academic research shows that companies selling overseas with access to trade finance have export volumes that are as much as 60% higher.

UK businesses have an international reputation for high-quality, desirable products and services. Our export success spans all sectors, from aerospace, transport, energy and financial services in regions across the UK. With its strong track record as a great trading nation, there is a large global demand for UK exports. However, there is potential for more.

Barriers to exports

When it comes to exporting, it isn't always enough to have a great product or service. Companies can face a number of financial constraints when securing and fulfilling export contracts. This can include working capital challenges, bond requirements from their overseas customer or not being able to access credit insurance to sell to a particular market. These challenges can present a problem across all industries, from construction to healthcare to aerospace to beauty products.

Getting the exporter's edge

UKEF's (UK Export Finance) mission is to ensure that no viable UK export fails for lack of finance or insurance. UKEF can support companies of all sizes and across sectors and help them to win contracts, fulfil orders and get paid.

We work with more than 100 commercial lenders and brokers to offer government-backed loans, guarantees and insurance to support companies’ overseas sales. Last year we directly supported 262 companies' exports to 72 countries, supporting an estimated 47,000 UK jobs as demand for British goods across the globe continues to grow.

SMEs can quickly and easily access trade finance worth up to £2 million under UKEF’s trade finance schemes directly from their bank. UKEF’s network of Export Finance Managers, based all over the UK, can also help signpost businesses to alternative sources of support from the private sector.

Case study 1

MR Solutions

In 2017, MR Solutions won a £1.2 million contract to export one of its MRI scanners to Sydney University. However, the deal was potentially jeopardised because the company couldn’t access sufficient working capital.

Cash flow management is a frequent challenge for SMEs, and one that is particularly pertinent for MR Solutions. The long manufacturing times required to build its highly sophisticated products can put a strain on the company’s finances as it needs sufficient cash to pay its staff and suppliers for months at a time before a contract can be completed. Complicating matters further, MR Solutions’ business and cash flow is dependent on small numbers of high-value transactions.

One of the ways UKEF helps companies is by ensuring they can access the finance they need to fulfil an export contract. Under our Export Working Capital Scheme, we provided an 80% guarantee to MR Solutions’ bank for the issue of a working capital loan of much greater value than would have been possible without UKEF support.

This gave the company enough liquidity to fulfil the contract, which it may have otherwise had to turn down.

Case study 2

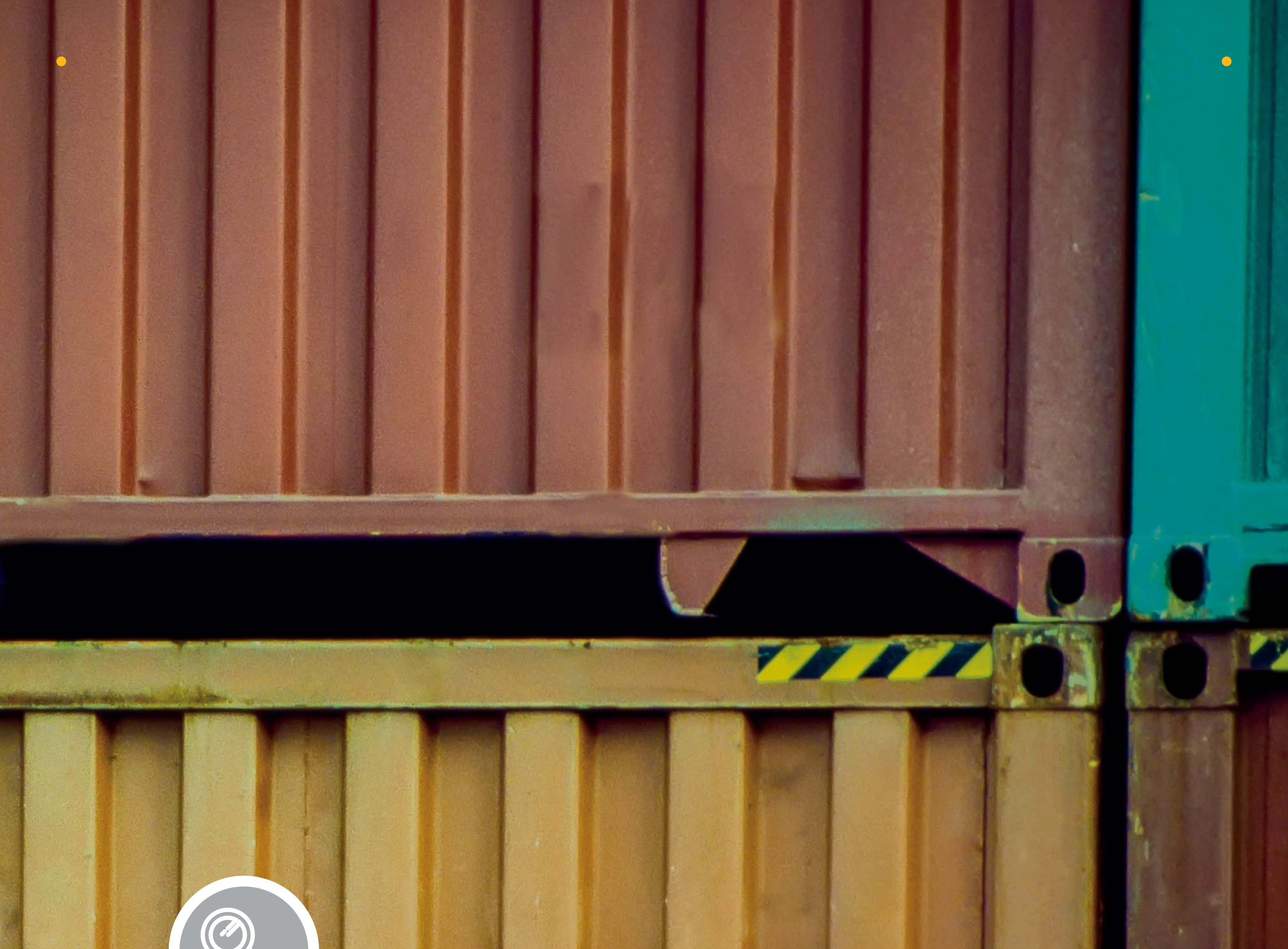
Bioguard Hygiene

When Northampton cleaning products manufacturer, Bioguard Hygiene, won an export order worth £90,000 with a large pharmacy chain in the Middle East, it found it had a challenge on its hands.

While great for Bioguard's growth ambitions, having to finance production on a larger scale without the security of advance payments led the company to seek extra financial protection should anything go wrong.

As part of the solution, UKEF was able to provide bespoke export insurance support against the risk of non-payment by an overseas buyer. Since most of Bioguard's business is domestic, the company only wanted a standalone policy covering its new Middle East business – but struggled to find single-market cover from the private insurance market.

Thanks to UKEF support, Bioguard was able to secure significant revenue from an important new customer and maintain its momentum in a high-value market. In just four ears, Bioguard has quadrupled the proportion of its export business and hopes to continue its overseas success with a target of at least 40% of its orders coming from overseas within the next two years.



Case study 3

Essex Girl Beauty
Michelle Lauren, from Essex, founded her company Essex Girl Beauty in 2013. Starting off as a hobby, the company sells the latest beauty products from around the world including spray tanning kits, nail art products and hair care tools.

As most of Michelle's suppliers are from outside the UK, the company was faced with cash flow restrictions as she had to make a quick return on existing stock before ordering in new stock.

Michelle's local Export Finance Manager worked with her to discover what financial products were available from her bank, arranging introductions with the relevant people so that they were in a position to provide support quickly.

As a result, Michelle's financial results went from £83,000 turnover last year to £110,000 this year, and her forecast for next year is £150,000.

UKEF is committed to ensuring businesses thrive by giving them the exporters edge. For more information, visit www.great.gov.uk/trade-finance/

Incoterms

Implications from a Tax Perspective

Robert Marchant, Partner, VAT

Ongoing discussions surrounding which form of Brexit the UK is due to take, coupled with the increased focus on the UK's trading relationships with other countries, means there is a greater need for businesses to understand what Incoterms they are using and the tax implications.

What are Incoterms?

Incoterms are a set of rules which outline the role between buyers and sellers for the delivery of goods under contracts for international trade. The primary aim of Incoterms is to make the respective responsibilities of the buyer and seller clear in order to minimize misunderstandings.

Incoterms are globally recognized and are published by the International Chamber of Commerce (ICC). Reviewed every 10 years, the next revision of Incoterms is due to take place in September 2019, with the changes taking effect from 1 January 2020.

Businesses dealing in international trade use Incoterms to define contract terms such as:

- who handles customs procedures such as paying the duties and import VAT
- where the goods will be delivered
- who arranges transport
- who is on 'risk' for the goods
- who is responsible for insuring the goods.

The most common examples of Incoterms used by businesses include:

- Ex Works (EXW)
- Delivered Duty Paid (DDP)
- Delivered at Terminal (DAT).

What tax issues can arise?

When goods exported from the country of origin (country A) arrive at their country of destination (country B), import duties and taxes are generally required to be paid in order for the goods to enter into ‘free circulation’ in country B. In most countries, these will include customs duty and import value-added tax (VAT). The importer of record is responsible for the import taxes.

When the wrong Incoterm is used, it can lead to unexpected costs and tax obligations. This is particularly the case for sales on DDP terms.

Where DDP is used, the expectation is that the seller acts as importer of record and is therefore required to carry out the customs formalities in country A (for export) and country B (for import). Under DDP, all of the responsibilities for the sale fall to the seller, including requirements for the application for any import taxes in the country where the customer is based. This may lead to the seller needing to register for VAT in the country it is importing into. This is because the VAT rules would typically then treat its sale to the customer as taking place with country B, and so require local VAT to be charged.

From experience, it is not uncommon for there to be inconsistencies as to the Incoterms and contractual obligations of the parties. Some organizations have experienced mismatches between the order form, purchase order and sales contracts; others have encountered situations where the terms of the contract have not been followed.

The consequences of these mismatches and inconsistencies can be costs or delays of having to complete customs import formalities, and financial costs of having to pay import taxes when they were not expected. In some situations, the seller may also have to maintain a VAT registration in the country of import.

Brexit

While the UK is currently a member of the EU Customs Union, businesses trading in goods sold between the U.K. and EU, and vice versa, have not had to focus on Incoterms. This is because the benefit of a Customs Union is that, once the goods have been brought into ‘free circulation’, they can move between member countries without the need for import formalities and the payment of import taxes.

In the event of the UK leaving the EU Customs Union, the movement of goods between the two will be subject to import formalities and the payment of import taxes. Therefore, businesses will need to ensure that they are using Incoterms that reflect the commercial and legal relationships they intend with their suppliers/customers.

Planning Points

It is now the perfect time to review your international contract terms owing to the combination of newly revised Incoterms in 2020 and the immanency of Brexit.

It is likely Incoterms such as DDP will be replaced in 2020 by terms such as:

- Delivered at Terminal Paid (DTP).
- Delivered at Place Paid (DPP).

Fundamentally, Incoterms are designed to facilitate international trade and to provide certainty so that the buyer and seller are aware of their respective obligations.

Businesses are therefore encouraged to:

- review the range of Incoterms currently used for international trade to assess whether these are appropriate for the risk and roles you intend to take on
- ensure consistency of use in all of the different documents that form part of the customer order e.g. order form, purchase order, sales contract and invoice
- understand whether a need for local VAT registration will arise where you intend to act as importer into the destination country
- seek specialist advice to understand compliance obligations and prevent being exposed to unnecessary risk and costs.

This article first appeared in Bloomberg Tax in August 2019.

International Payroll

Dinesh Jangra, Partner, Global Mobility

Global Mobility and payroll are inextricably linked. For those that support globally mobile employees, payroll is a word they can't escape. It's an area that all too often can quickly descend into frustration and unexpected complexity (and lots of it!). Yet payrolls are vital, they deliver currency to the employee and compliance to the organisation.

Given their potential complexity and critical outputs understanding how payrolls work and the different types that exist is absolutely key for those supporting employee mobility.

Context and purposes

Payroll is a process through which to deliver cash compensation to employees, make deductions and payments for appropriate taxes and provide the required reporting to local tax and fiscal authorities.

Different types of payroll are required for different situations in employee mobility. The type of payroll required may depend on the organisational set-up in country, the employee mobility category, the employee's tax and social security status and the countries involved. This is what makes it tricky, there isn't a one size fits all type of approach even at a country level. Local specialist knowledge is always required.

I like to think of payrolls as having two key outputs – currency and compliance.

Currency is about the delivery of cash to an employee into their bank account. This could be any country and any currency. What is required will depend on whether there are any local country rules that dictate whether compensation must be paid in local currency and then the practical considerations around what currency the employee needs and in what amounts. In some countries, tax costs can be minimised or altered directly as a result of where payroll payments are made.

Compliance is about the local country requirements around deductions of taxes from the employee, payment of employer taxes and the reporting of this all to country tax and fiscal authorities. Increasingly around the world there are more and more onerous obligations around payroll reporting. This is a feature of the digitisation of tax authorities around the world who increasingly expect electronic filing of a number of different types of data relating to the employee and compensation.

Global payroll is an umbrella term often used for a collection of country location payrolls that are part of a standardised process delivered commonly through a system or platform. I won't be covering this in detail in this article and will focus instead on the technical issues rather than process and systems.

It goes without saying that compliance is not optional. If payroll compliance rules are not met financial penalties, interest and reputational risks follow.

When kind of payrolls may be required in the context of global mobility?

1. Local/domestic
This is the payroll that exists for a domestic employee. Employee is paid via one payroll, in one currency and reporting is required to the local tax/fiscal authority only.

Global mobility professionals would come across these when managing local to local transfers or perhaps when assisting in the localisation of assignees who move to these payrolls.

2. Shadow
A shadow payroll is a payroll that doesn't delivery currency – it delivers the compliance only. From the perspective of the tax authority it's a real payroll – payroll taxes are accounted for and income is reported to the tax authority.

These types of payroll are used in addition to local/domestic payrolls to meet compliance gaps. In the case of short term assignees or commuters it may not be necessary for the employee to receive cash in the country in which they are working but a payroll obligation does arise.

3. Hybrid – Local/domestic and shadow
In many cases, there is a requirement to use a payroll to deliver both currency and compliance.

The starting point here is a local/domestic payroll that delivers the required country currency to the employee. The compliance requirements are however extended to take account of cross border compliance requirements. Cross border, globally mobile employees, like assignees usually give rise to compliance obligations in more than one country.

Payroll taxes, social security and reporting can be due in the country of work but also in the home country. The compensation of globally mobile assignees can also become much more complex, with split payments, new sources and providers involved, meaning that neither the home nor the host payroll delivers and reports the overall global compensation. As a result, shadow payroll type adjustments are required to ensure that all the compensation on which payroll tax payments and reporting are due is correctly captured. These adjustments can be complex and challenging from a technical and systems perspective.

There is a requirement to use a payroll to deliver both currency and compliance

What do you need to watch – some key complications

A. Multiple compensation sources: As mentioned above, globally mobile employees often have their pay delivery split between different countries. The employee may require home currency to finance pension, mortgage type commitments but also requires host currency to spend and live off in the host country.

New benefits and reimbursements connected with housing, education and relocation amongst other things will also exist. This all results in multiple currencies and multiple sources of compensation in respect of which payroll compliance is required.

It's vitally important to build a good process to ensure there is a good accumulation of compensation process that provides visibility of the full global compensation and employee data to each payroll. Without this, compliance is not possible.

B. Country payroll set-up: When transferring globally mobile employees to new countries or countries with small operations it can often be the case that there is no in-country payroll. In these locations payroll may need to be set up and registered. Separate registrations can be required for tax and social security aspects of payroll. This can be a surprisingly complex and time consuming process in a number of countries.

So that expectations can be managed it's really important to understand at the outset the process, documentation and related lead times involved in setting up a new in-country payroll and the process to settlement the payments to foreign tax authorities.

C. Tax and social security reporting: The payroll compliance in a country will be driven by the local business set-up and the individual specifics of the globally mobile employee. The country combinations involved and the tax residency and status of the employee will play a role in determining the tax and social security payment and reporting requirements.

Assessment of the business set up and tax and social security status review of employees are key. It's very difficult to assume a position for payroll tax reporting without a country and employee level technical review. Not doing so may either result in non-compliance or in some cases over compliance – paying too many payroll taxes or paying them when technically a payroll compliance obligation did not arise.

D. Off- payroll workers: There is without doubt a movement in many countries to review the classification of certain types of workers to check if they are employees for payroll compliance. Those involved cross-border or international HR, Reward or employee mobility should review if contractors, self-employed individuals are actually classed as such in other work locations by the tax authorities. The home country status doesn't necessarily always apply.

Conclusion

Payroll is a top priority for global mobility professionals because it touches on critical aspects for the employees and the organisation. There are different types of payroll that can apply to different kinds of employee mobility.

The key to avoiding non-compliance and delivery of the right payments to employees at the right times is to proactively understand what kind of payroll is required and manage the various complicating factors that follow.

10 Reasons Why Singapore is an Attractive Investment Destination

Richard Austin, Head of Global Business

Singapore's global economic standing, stable political landscape and support for innovation, among other factors, have placed the island nation among the most successful cities in the world in attracting foreign investment.

While there are many factors that have contributed to Singapore's success, we have selected 10 reasons that make Singapore an attractive investment destination for multi-national companies as well as budding entrepreneurs.

1. **Low Corporate Tax Rate**
2. **No Capital Gains Tax**
3. **No Withholding Tax on Dividends**
4. **Global Network of Tax Treaties**
5. **Tax Exemption of Foreign-Sourced Income**
6. **Ease of Investment**
7. **Highly Competitive Economy**
8. **Among The Most Innovative Nations Globally**
9. **Second Easiest Place in The World for Doing Business**
10. **Intellectual Property Protection**

Low Corporate Tax Rate
The current corporate tax rate is 17%.

In addition, 75% of up to the first S$10,000, and 50% of up to the next S$290,000 of a company's chargeable income is exempt from corporate tax.

No Capital Gains Tax
There is no capital gains tax in Singapore.

Capital gains may be construed or deemed to be of an income nature and subject to income tax if they are derived from the activities of a trade or business carried on in Singapore.

No Withholding Tax on Dividends
Under the one-tier tax system, shareholders are not taxed on the receipt of dividends from a Singapore resident company.

Accordingly, there is no withholding tax on dividends paid to non-resident shareholders.

Global Network of Tax Treaties
As of 2018, Singapore has over 80 Avoidance of Double Tax Agreement (DTA) treaties in force, providing support to businesses in Singapore in resolving cross-border tax disputes as well as the opportunity to avoid double taxation.

Source: Ministry of Finance, Singapore

Tax Exemption of Foreign-Sourced Income
A company's foreign source income is not taxable in Singapore until such income is received or deemed received in Singapore.

Companies that are tax-resident in Singapore can benefit from tax exemption on foreign-sourced dividends, foreign branch profits and foreign-sourced service income if certain conditions are met.

Ease of Investment
There are no significant barriers to investment in Singapore. For example:
- generally, 100% foreign ownership of Singapore incorporated companies is allowed except in certain sectors for national security reasons
- there are no minimum share capital requirements
- there are no foreign exchange controls.

Highly Competitive Economy

Singapore is ranked as the third-most competitive economy in the world according to the *World Economic Forum's Global Competitiveness* Report for 2017-2018.

Key constituents of Singapore's economic robustness include a stable macroeconomic environment, healthy public finances and public institutions that are transparent and highly efficient.

Source: World Economic Forum

Among The Most Innovative Nations Globally

The Bloomberg 2018 Innovation Index, which ranks countries on their overall ability to innovate using factors such as research and development spending and the concentration of high-tech public companies, ranked Singapore as third in the world.

Singapore was ranked as the 7th most innovative country in the world by the 2017 Global Innovation Index that details the innovation performance of 127 countries and economies based on about 80 indicators.

Source: World Economic Forum and Bloomberg Innovation Index

Second Easiest Place in The World for Doing Business

The World Bank in its *Doing Business 2018* report, ranked Singapore as the second-best economy worldwide for ease of doing business.

Source: World Bank, 2018

Intellectual Property Protection

According to the World Economic Forum's Global Competitiveness Report for 2017-2018, Singapore ranks fourth in the world and top in Asia for IP Protection.

Source: World Economic Forum

Brexit

Emma Clewes, Director, Tax

The distraction of Brexit has provided a reason for businesses to think, refocus and make strategic change. Establishing your business in the EU is one option and cross border support is crucial in achieving a smooth transition.

Since 2017 Brexit has been a distraction for UK businesses. In June, Crowe held an import and export discussion group which identified that the decision to leave the EU has however provided an opportunity to re-focus and explore business strategy and develop business structure for the future.

For a long time UK businesses trading with the EU have not had to think about some of the mechanisms of their EU trade, such as duty requirements, Incoterms and withholding taxes.

This may have contributed to a degree of apathy to change, expand or explore markets outside of the UK.

Over the past year, we have supported a number of UK businesses who have seen the opportunity to **develop their EU strategy** and have made the decision to **establish a base in the Netherlands**. The focus has been to manage risks such as speed of goods movement, to retain existing EU customers and suppliers and meet regulatory requirements.

Why incorporate in the EU

This is a decision that has been taken by a number of our clients where a substantial proportion of their existing operations flow through the EU, particularly the Netherlands, for example, and a substantial amount of their customer base will remain in the EU post Brexit.

The requirement for the swift physical movement of goods has been a key consideration to protect the customer base and the margins being achieved; particularly for high volume low value goods. The risk of smaller less sophisticated customers being burdened with additional import/export compliance and switching supplier due to delays in transit is high. The EU entity is placed to maintain control of operations and compliance in the EU and the customers can continue business as usual.

In some cases, regulatory requirements for registration within mainland Europe post Brexit, has been the main driver for incorporating the EU.

This has been particularly key for clients within the Pharmaceutical industry and the need to meet stringent regulation in respect of drugs and food supplements, for example. Uncertainty over how the regulation of these products will evolve post Brexit, means an established business within the EU to maintain EU product approval is key.

Practical support for practical decisions

Incorporating an EU Company has been relatively painless. However, establishing yourself in another country comes with a long list of considerations; particularly in the current global tax environment where cross border structures are increasingly in the spotlight.

- Who will manage the business?
- Where will the company be located?
- Where and how will the administration take place?
- What insurance is needed?
- Will we have employees in the EU?
- Who will the customers and suppliers contract with?
- What law governs those contracts?
- What is the duty status of my goods?
- Do we need an EU bank account?
- Where will the goods be physically processed/stored/packed?
- Do we need security services?
- Where will we pay tax and when?

It is clear that there are similar business decisions and questions dealt with on a day to day basis when operating in the UK. What makes incorporating in the EU daunting can be the physical location, the language barriers, the differences in regulations and differences in culture.

Incorporating in the Netherlands

By working alongside our Crowe Global colleagues in the Netherlands we have been well placed to support our clients who have taken the strategic decision to incorporate in the EU. We have worked with the client from the point they begin to look at their strategic choices and continue to support them once incorporated and operating cross border.

Although the headline considerations are similar in the UK, we have stepped through the process with the client to address the nuances particular to the Netherlands. The process of incorporation itself is different to the UK and the thresholds for VAT registration and transfer pricing are lower. This has meant a more upfront appraisal of the group's arms' length position.

The impact on foreign exchange is largely out of the client's control and operating and transacting in Euros may help to smooth spikes in foreign exchange movement as were seen back in 2016 when we voted to leave the EU. A Dutch bank account has been the most straightforward way to achieve this.

The VAT implications of an import/export relationship on leaving the EU could have significant cash flow implications. We have assisted with their VAT deferment licence and the interaction with tax residency and ensuring that the business is properly established in the EU. This has led to decisions on whether to locate employees in the Netherlands and the associated tax, social security and global mobility issues that go hand in hand.

By mapping out the business and group transactions, potential additional costs have been identified. While we have been in the EU, less thought has been needed when operating cross border, particularly in relation to customs duty and withholding taxes. By analysing the businesses transactions with a non EU focus, we can identify where additional complications may arise and provide commercial solutions to solutions to mitigate the impact.

In addition to the transactional costs, key customer and supplier relationships have been identified and we have assisted the client considering their contractual and legal requirements, insurance implications, freight and warehousing requirements and other commercial business needs.

Having a Crowe Team on the ground in the Netherlands has expedited the process through local face to face meetings and established relationships with other key service providers such as local banking and finance and legal services.

Time to think

The delay in leaving the EU has given businesses time to think. Those businesses who made the strategic decision to incorporate in the EU appear to have the best of both worlds; a foot in both camps.

This additional time has enabled the appraisal of the cost of setting up in the EU and building this cost into a business model for the future.

Those businesses have used Brexit as an opportunity to make a strategic change. Change that may have made anyway but perhaps further into the future. Change that should put them in front when trading with the EU in the post Brexit era. Those businesses will be able to execute their plan and carry on, focussing on growing the business and not on the Brexit fallout.

Trading with/in the US

Darren Rigden, Partner Audit and Business Solutions

According to the United States Chamber of Commerce, the US exported $125.9 billion of goods and services to the UK, making it the UK's second largest source of imports.

It also reports that the US imported $110 billion in goods and services from the UK, making the US the UK's largest export market. The Chamber also claims that the UK is the 7th largest trading partner of the US, and the 4th largest export destination for US goods and services. From a global mobility perspective, the two countries also share strong links, with British companies employing a large number of US citizens, and vice versa.

The 'special relationship' shared between the US and the UK is well publicised by both countries and the US has indicated that, post-Brexit, it is willing to sign a significant trade deal with the UK, which should further increase trading between the two countries.

On 4 June 2019, former Prime Minister, Theresa May, said: "Our trading relationship is worth over £190 billion a year, and we are the largest investors in each other's economies, with mutual investments valued at as much as $1 trillion." At the same time, Donald Trump, said: "Our nations have more than $1 trillion invested in each other's economies. The United Kingdom is America's largest foreign investor and our largest European export market.".

In addition to the size of the potential market and the 'special relationship' between the two countries, the US also has relatively low regulatory barriers, few language barriers, an established rule of law and an ability for money to be moved freely between the countries.

The Department for International Trade (DIT) also provides free international export sales leads from its worldwide network to help UK companies find export opportunities in the US.

Therefore, there seems to be strong reasons for UK companies to trade with the US, whether through importing, exporting or expanding into the US through a subsidiary or branch. But what should you consider beforehand?

General planning

As with any new market, research is key. The more general aspects to consider when forming your business plan were covered in a previous article *Growing the UK's export community – How to take your business global*, which was published on our website in May.

In basic terms, you should initially decide whether there is a market for your product or service and whether you can supply that product or service at a competitive price after taking account of taxes and tariffs. You also need to be clear on where in the US you intend to sell it (see below). In order to do this, research is key and you should be generous with the time taken to properly research the market, or this could cost you dearly at a later stage. Once you have fully researched the market you can build a business plan around this.

Specific points to consider in respect of the location in the US include proximity to transport links such as airports and ports (remember the US is a large country), location of suppliers, employees and customers, and where to locate for tax purposes. It is often possible to negotiate with the state and local authorities for incentives and benefits such as tax breaks, reduced power costs, lease incentives etc. However, these incentives are normally only available to companies creating a substantial amount of local jobs.

When assessing the suitability of your product or service for the US, you should understand that a disadvantage of the US market is that there is a lot of competition, causing saturation of products or services which can degrade margins. This is worsened by a high cost of living in major cities and people shop around for the best deal. Salaries can also be higher as a result.

Culturally, the US might seem very similar to the UK, however they tend to be much more direct when negotiating and, due their litigious nature, are likely to spend a considerable about of time scrutinising contracts and paperwork. It is usual for formal negotiations to start with a Non-Binding Summary of Key Terms (NB-SOT). Most recommend that you should do the drafting throughout, regarding both NB-SOTs and contract drafts and allow the US supplier or customer to comment on your documents.

Before you develop your plan extensively, you should ensure your products can be legally imported into the US and you understand what licenses and permits are required, including labelling.

It is a good idea to involve your professional advisors while forming your plan so that they can assist with this. Having both an accountant to consider tax implications and help with forecasts, and a good lawyer who can deal with both UK and US law, would be immensely beneficial at this stage.

Methods of accessing the US

Methods of accessing the US can range from using a local representative, through to setting up a new company in the US or acquiring an existing US company. This has been considered in more detail in our article *Setting up or expanding overseas – Our recommendations for business owners considering their international strategy.*

1. **Using local representation to export to the US**
2. **Sales through a local branch or subsidiary in the US**
3. **Joint venture or strategic alliance in the US market**
4. **Online selling in the US**
5. **Licensing and technology transfer to and within the US**
6. **Own office with own staff or partner's staff in the US**
7. **Company acquisition in the US**

Using local representation to export to the US – This can be the easiest and quickest way to access the US initially. Direct sales through local representation involves collaboration with a US based agent, representative, distributor or dealer. Each of these are distinct and you need to decide whether you only deal with one of these and you must be clear on how each of these differs. It is important to conduct appropriate due diligence, which should involve a US lawyer who should also be involved in drafting agreements and contracts.

Sales through a local branch or subsidiary in the US – This may be a better option for the long-term, but could be more expensive and the tax impact needs to be carefully considered.

Joint venture or strategic alliance in the US market – A US lawyer should be involved in the 'due diligence' on your prospective joint venture partner and again tax planning is important.

Online selling in the US – You can sell your products and services over the internet through your own website which will need to be adapted to support US electronic payments/credit cards, US addresses and zip codes (equivalent of UK post codes) or via an online marketplace.

The UK government has a good 'selling online overseas' tool on their website to help find the best place to sell your products online. You can also take advantage of special deals negotiated by the government for UK businesses.

Licensing and technology transfer to and within the US – You could choose to license your technology in the US but this comes with specific risks, to avoid this:

- protect your intellectual property (IP) before negotiating an agreement
- conduct 'due diligence' on licensees
- make sure contracts are drafted by lawyers who understand both UK and US law
- the tax impact needs to be carefully considered.

In the US, it is essential to get a US lawyer involved who understands federal and state legislation.

Own office with own staff or partner's staff in the US – You can put your own managers and staff on the ground in the US and start your office or you can work through a partner via a joint marketing agreement or strategic alliance. Both options have advantages and disadvantages. You will need to consider the tax and legal implications as well as the laws and regulations around global mobility, such as the requirement for visas if employing or moving people across borders. It can be expensive and time consuming obtaining the correct work visas.

Company acquisition in the US – You can get market share by acquiring a competitor or supplier that is already in the US This gives you instant presence, market intelligence, access to customers and infrastructure, but again requires strong due diligence.

Potential litigation

The US is known for its strong customer service and this has resulted an expectation for high standards for products and customer care. This is best mitigated by using a US lawyer who understand both UK and US law, and by familiarising yourself with US commercial standards, government requirements, voluntary standards and industry practices for your product. Furthermore, make sure you have good internal processes for product development and safety, incident reporting and investigation and responses.

To find a good lawyer, you could consult the list of state bar associations in the US The US Embassy also maintains a list of American attorneys based in the UK, while the American Bar Association has a list of US law firms.

It is important to note that, unfortunately, business insurance is often much higher.

Case One

Selling into the US with no physical presence except for stock

If the only activity the foreign company has in the US is holding title to stock in an independent warehouse, then the company is usually protected from federal taxation through the tax treaty. A federal tax filing is normally made with the IRS to show the protected activities and to disclose the treaty position, but no tax is due with the tax return. Depending on the state where the activity takes place, state tax filings may be required and state tax may be due since most states do not follow the federal treaty protection. Each state has its own measure for nexus (akin to the treaty concept of Permanent Establishment, or ‘PE’). The tax treaty and respective state tax rules should be reviewed to confirm the proper filings and taxes are completed and remitted timely. Some state taxes that may apply are sales and use tax, income tax, franchise or gross receipts tax, or property taxes.

Red tape and understanding the Federal system

The US is not a single national market; it is a federal system. You will need to treat each state as an individual ‘country’ with its own procedures. You need to determine the implications of developing your business in a specific state, or whether national entry is possible for your product or service. In many ways, the US should be viewed as 50 markets, as each region has its own rules and regulations and this can be very daunting. We have worked with our US firm on many occasions to help our clients with this and would suggest using a firm that has access to a strong global network with a good presence in the US.

All corporations in the US have to register with a government body in the state they incorporated in. Business filing documents are available through the relevant state government authority. Privately held companies don’t have to make their financial statements available to the public and this can result in record keeping/accounting being less accurate as, unless it is a listed business the information will not have been audited. This needs to be considered if looking at acquisitions and it also makes assessing suppliers’ and customers’ credit worthiness harder than in the UK.

Case Two

Hiring an employee in the US without a separate US entity

The income tax treaty with the US protects activities which are preparatory or auxiliary in nature from creating a filing requirement in the US Thus, UK employees may be sent to the US to better understand the US market without creating a filing requirement.

However, once a US employee is hired, this dependent relationship may not be protected by the tax treaty and, depending on the circumstances, may create a PE; federal and state taxes would then need to be filed and remitted for that activity.

If no entity was proactively created, the activity defaults to a branch of the UK entity. The downside to this structure is that it requires the foreign entity to file in the US and provide information from the foreign parent in the filing, so that the activities are not ring-fenced to a US entity. This is also not the preferred structure from a legal perspective, so this structure and those issues should be vetted through legal counsel. The state tax situation is the same as in Case 1.

Setting up a US bank account

Opening a bank account in the US can be challenging as you won't have a US credit record and they also have robust 'know your client' procedures which can be very demanding. It is common for smaller businesses to struggle with these as they are designed for large multinationals and require a lot of details including information on risk and training. The UK banks which have branches or associate banks in the US should make the process easier and may be a good first port of call.

Getting paid in the US

Getting paid in the US may be less of a risk than with some other countries, but you should ensure you have a clear contract specifying the terms for payment. If a dispute arises you will need to go through the US legal system for resolution. This generally takes place in the US state specified in the contract and abides by state laws. UK Export Finance (UKEF) can help UK companies to get paid by insuring against buyer default.

Cashflow generally needs careful consideration and this is covered in our piece on *Easing the impact on cashflow when exporting goods and services*.

Case Three

Creation of a separate US legal entity

Most companies will want to ring-fence the activities in the US for legal and tax reasons. Therefore, if the activities will be such that a PE will be created, the foreign parent will typically want to create a separate US legal entity and elect to treat it as a corporation for US tax purposes. Since the filing is made for a separate entity, this limits the authority of the US to the records on only the US entity. State filings are also required for states where the US entity has sufficient activity to generate nexus (similar to permanent establishment), which can vary by state. The federal tax rate for corporations is 21% and the state rates vary depending on what states the entity has nexus in, ranging from no corporate income tax to 12%.

Taxation and Tariffs

Trading with the US and the method you use to achieve this can have many tax implications and, when putting your plan together, you need to consider the impact of all taxes and tariffs on your profitability. This is a highly complex area and the type of trading, product and the state you are operating in will all have an impact. It is impossible to cover all of these aspects in one article, so we have used a case study here to highlight some of the points which you should be aware of.

Sales and use tax and the new economic nexus rules

In 2018, the US Supreme Court overturned a long standing precedent around nexus creating activities for state sales and use tax purposes. Sales tax is charged on the sale of goods to an end user and then remitted by the seller to taxing jurisdiction. If not collected on the sale but assessed at a later date this can become a liability on the selling entity. Many states have adopted new rules since the case was decided which allow a state to assess sales and use tax once an entity exceeds certain thresholds. These thresholds are normally based on the volume of sales transaction or amount of sales transactions in a state in a given time period. An entity may not have any other activity in a state but they could still be subject to sales and use tax once these thresholds are met. This is an area that entities looking to begin trading with the US should discuss with tax counsel to make sure they are tracking their activity to avoid potential issues.

How we can help you

The US represents a significant export market which has many advantages over other markets. However, careful planning is required before committing to this market. It is important that anyone considering committing to the US market seeks professional advice in advance. They should also read more widely around the subject. Our website has a number of articles which will help and we are always willing to meet anyone considering this step to explore their plans in more depth.

Crowe

We are a national professional services firm providing audit, taxation, advisory and risk services to our clients and are the UK member of the world's eighth largest professional network – Crowe Global. We pride ourselves on our tailored and personal service with long term relationships at the core of everything we do.

7 offices

>80 Partners

>750 Staff

8th largest firm of auditors on AIM

9th largest UK audit firm[1]

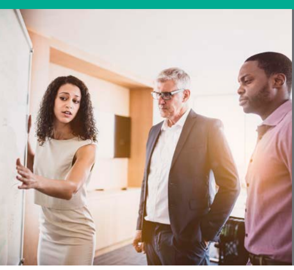
1 FRC Facts and Trends

Crowe Global is the **eighth largest global network** of independent audit and advisory services firms in the world, with 213 member firms and business associates across 130 countries.

130
countries

32,822
partners and staff

>4.3bn
revenue (US$)



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Crowe UK is a national audit, tax, advisory and risk firm with global reach and local expertise. We are an independent member of Crowe Global, the eighth largest accounting network in the world. With exceptional knowledge of the business environment, our professionals share one commitment, to deliver excellence.

We are trusted by thousands of clients for our specialist advice, our ability to make smart decisions and our readiness to provide lasting value. Our broad technical expertise and deep market knowledge means we are well placed to offer insight and pragmatic advice to all the organisations and individuals with whom we work. Close working relationships are at the heart of our effective service delivery.

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