INTERNATIONAL BUSINESS

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Auren International Business is a quarterly publication, made up of contributions from colleagues all around the world. The newsletter compiles country focus articles, international tax cases as well as technical updates on a variety of topics that impact business.

Experts in Auren have the knowledge and experience to help you on your journey, and this issue should be the starting point for your inquiries.

Features of this edition include, among other topics: the publication of the tax reform in Colombia during this year 2016; tax inheritance reform in Germany; Cyprus citizenship by investment program, and business and emotional aspects of the sale and purchase processes of family companies.

We hope you find the contents of this newsletter useful and informative. Happy reading!

Index

Overview of key topics Tax Disclosure System

Why join this process? Unlike previous legal mechanisms of tax forgiveness for voluntary declaration of capital, we believe than the current international scene is being one of the causes that drive to join the scheme.

Argentina is being one of 55 the countries that has adopted international standards for automatic exchange of financial information established by OECD from 01/01/17. 46 other countries will join them from of 01/01/18.

At the same time, Argentina has re-establish communication with the United States to exchange financial information of people who is a resident in both countries.

In addition, different information leaks that have recently happened, as the case Panama paper´s, HSBC accounts in Switzerland, set the tone in the future will be very difficult to maintain undeclared accounts abroad in future.

By last, foreign Banks are demanding to their customers or a tax return, in which has to be included the money kept in these financial institutions or joining to Tax Disclosure System.

Who can submit this voluntary and exceptional system for the declaration of currency and property? This declaration can be submitted by Individuals, undivided estates, companies, associations, foundations, trusts, mutual funds. All of these shall be domiciled, established or registered in the country as of December 31, 2015.

It is important to mention that people who have acquired resident status prior to 07/22/16 can submit it too. This part was included after passing the law.

The deadline is March 31, 2017, included.

The possession of currency or securities abroad that are deposited in financial entities or depositary agents domiciled or located in jurisdictions or countries identified as High Risk or Non- Cooperative Countries by the Financial Action Task Force (GAFI) cannot be included in the voluntary and exceptional declaration indicated in this title.

Which is the pre-existent date for the property? The property declared by individuals shall be pre-existent to the date in which this law is published; however, the property declared by legal entities shall be preexistent to the date of the last balance closed before January 1, 2016. Hereinafter, theses dates shall be referred to as Date of Property Pre-Existence.

This means on one hand the possibility for individuals whiten hidden assets to a more current date than societies. Supposing a company that closes business year in January, may submit assets only until 31/01/15 and must analyze what happened with these since February and the tax consequences that would result.

On the other hand, for the purposes of the voluntary and exceptional declaration, the assets shall be expressed in the national currency using the exchange value of the corresponding buying foreign currency of

the Banco de la Nación Argentina, current at the Date of Property PreExistence. Continuing with the example above, while individuals will use the exchange value of 14,81 legal entities will use the exchange value from date of close business year. If the society closes business year December 31st the exchange value will be 12,94.

Terms and Rates: Despite of being the deadline March 31st, the special tax is lower if the voluntary and exceptional declaration is prepared before December 31st. Special Tax rates range between 5% and 15% depending on the date and the kind of asset.

Real property will pay a tax 5% over the market value regardless the date of the declaration.

Property, including real property, which together has a value below three hundred five thousand pesos (ARS 305,000) will not pay the special tax. Property, including real property, which together has a value exceeding the amount mentioned above but below eight hundred thousand (ARS 800,000) will pay a special tax rate of five percent (5%). If the value of property is higher than ARS 800.000 will pay special tax rate of 10% until December 31st. Since 1/1/17 until the deadline (03/17/2017) the special tax rate will reach 15% without including real property.

What can be declared? Possession of national or foreign currency, Real property, Personal property (including shares, participation in companies, rights of the beneficiary of a trust, all kind of financial documents or securities,), Other property in the country or abroad including credits and any kind of right that can have an economic value.

The main difference between this process and the one before is that those that have declared the possession of currency or securities abroad are not obliged to bring them to the country and this situation does not have an effect on the special tax.

It should be especially careful not to forget to include all asset since if AFIP detect something in the future all benefits achieved for the assets included in exceptional declaration will be lost. Through regulation it was established that if value of the detected assets not included in the declaration are more than ARS 305.000 or 1% of the assets included in that, the highest one, all benefits will be lost.

Alternative for no paying the special tax. There are three ways to avoid the special tax.

1. Acquire one of the government securities issued by the National State, a three (3) year-bond in Dollars to be acquired until September 30, 2016, including, non-transferrable and non-negotiable with a cero percent interest (0%)
2. A seven (7) year-bond in Dollars to be acquired until December 31, 2016, including, non-transferrable and non-negotiable during the first four (4) years. The bond shall have a one percent interest (1%). The acquisition of this bond shall exclude from the special tax an amount equivalent to three (3) times the amount subscribed. (for example, acquiring bond for ARS 300.000, avoid special tax of ARG 900.000)
3. Subscribe or acquire quota-shares of mutual funds, for at least 5 years, for the financing of infrastructure projects, productive investment, real estate investments, renewable energy, small and medium size companies, development of regional economies, mortgages, etc.

There is no doubt that this options require a particular financial analysis in order to decide which of them suit better to the equity structure

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Registered Agent for VAT recovery in Bulgaria

Eurofast Global Bulgaria has been granted the license by the Bulgarian Ministry of Finance authorizing the Bulgarian entity to act as a VAT agent in the country. With this license our Bulgarian Entity is officially authorized to conduct VAT refund procedures on behalf of foreign persons from third countries, listed by the Bulgarian Ministry of Finance.

With this license, Eurofast is one of the few companies in Bulgaria that are able to assist companies from Israel, Iceland, Canada, Korea, Moldova, Macedonia, Norway, Serbia, Ukraine, Switzerland and Croatia to recover VAT charged from Bulgarian counterparties, for purchases of commodities and services and for imports into the country.

Eurofast Global EOOD has been operating in Bulgaria for over 10 years, offering a range of advisory services including Market Entry Services, Corporate Services, Tax Planning & Tax Compliance, Outsourced Payroll and Employment Solutions, Transfer Pricing and Mergers & Acquisitions and Transactional Services.

Eurofast Bulgaria is a fully fledged office Eurofast - a regional business advisory organisation employing over 200 people in South East Europe and the East Mediterranean. Our Organisation has over 25 years of experience working with global businesses and leading institutions with a strong understanding of international and cross cultural issues. We provide the hands-on experience you need to raise the bottom line of your company!

Please consult our Eurofast Team in Bulgaria for further information or to arrange a meeting.

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Tax reform in Colombia 2016

The oil prices has generated significant crisis and global adjustments; for that reason, Colombia isn't exception, Ecopetrol, the State oil company, where the State has a participation of 89,49%, in 2013, generated profits of $13.35 billion pesos, in 2014 generated profits of $7.81 billion pesos, while for the year 2015, the company obtained losses of $ 3.9 billion pesos, that has made once again present a tax reform, conceived by this income reduction and other factors such as the post-conflict, the "fiscal gap", the credit rating of the country and reforms requested by multilateral entities (pension, health and education).

Even when President Santos, in his presidential campaign had insisted that he would not increase taxes, the reality has been different, the past October 19th the present Government presented its third tax reform, the aim is the raise of COP$ 12 billion pesos, possibly in 2017 will be generate COP$ 7 billion pesos.

Here are the main points proposed by the Government in this new "structural" tax reform:

1. Rate increase of VAT from 16% to 19%.
2. Gradual Rate Reduction of the income tax that currently is available in 25% more 9% of the CREE (that would be deleted), which would be thus:
   a. 34% in 2017.
   b. 33% in 2018.
   c. 32% from 2019 onwards.
3. During 2017 and 2018, taxpayers would pay an income surtax of 5% and 3% respectively.
4. The rate to user's free zone is in 10 percentage points lower than the general rate, today is 15%.
5. The dividend tax is creates of 10% when exceed the $ 29.7 million pesos and 5% lower to this amount and higher to $ 17.8 million pesos, below this last value will be not tax.
6. It aims to increase the number of reporting workers lowering of $ 3.4 million to $ 2.5 the monthly encumbered revenue.
7. Consumption tax of the 4% for the mobile phone services, additional to the general VAT from the 19%.
8. Non-profit organizations may not distribute yields and enter a rating and surveillance by DIAN.
9. Tax of $300 pesos per liter to sugary drinks, these can be prepared or powder.
10. Increase in the cigarettes tax of COP$ 700, and can reach COP$ 2,100.
11. Creation of mono tribute to small businesses with incomes up to $104 million pesos per year, who want to receive this system.
12. Technology platforms should be taxed to the general VAT rate.
13. The reform establishes that builders may not request the VAT paid as return, making costs soar.
14. Also includes a VAT of 5% for new homes of more than $ 800 million pesos 15.Presumptive income goes from 3% to 4%.

Now we should expect the "negotiations" of the Government with the Congress, because now many voices arose to establish their protest in relation to the volume of corruption that exists in the country, others, are pretending that Congressmen decrease their salary in order to generate savings in the field of performance and increase of investment.

We must then wait a few weeks because the reform, regardless of what it is adopted, it must be with presidential sanction approval before December 31st of the current year.

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Cyprus Citizenship by Investment Programme

On the 13th of September 2016, the Cabinet proceeded with the amendment of the provisions for the granting of Cypriot Citizenship. The amendments were enacted in order to encourage investments in Cyprus by foreign investors and consequently to assist the economy.

The most important provisions that were amended include the following:

- The threshold for minimum investment has been reduced to €2.5 million of combined investments;

- A €2 million investment is acceptable provided that an additional €500,000 is invested in real estate which must be the investor's private residence;
- The applicant's parents are now entitled to apply for a Cyprus citizenship based on the investment as long as they also invest an additional €500,000 in a permanent residential property in their name;
- The applicant can also invest in Government bonds up to an amount of €500,000 while the remaining balance of €2 million should be invested in other options such as the purchase and development of real estate;
- Investments made in Cyprus must be maintained for a minimum of three years while real estate ownership must be indefinite;
- The applicant may also invest in a Cyprus company that employs at least five Cypriot nationals.

In light of the provisions amended as stated above, it is worth noting the following advantages offered to investors interested in Cyprus citizenship:

- When obtaining the Cyprus citizenship, the investor obtains full EU citizenship, with the right to freely reside, work, study and have a business in any of the EU-member states;
- Dual Citizenship is permitted in Cyprus;
- After obtaining the Cypriot citizenship there is no specific stay duration requirement;
- The investor's spouse, children and descendants (up to the age of 28) have the right to submit a citizenship application;
- Cyprus maintains a visa-free regime with over 150 countries;
- There are no language proficiency requirements;
- A fast track procedure is available, ensuring an approval of the application in only 3 months.

Consequently, the amendments made are definitely an efficient assistance to the growth of the Cyprus economy while also providing investors a wide range of benefits.

Our team at Eurofast Taxand is in the best position to advise and assist you concerning the matter and any further enquiries you may have. In addition, we can assist you with the relevant application as well as with any other documents required in order to acquire a Cyprus citizenship.

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A New Try: Inheritance Tax Reform

With retrospective effect as of 1 July 2016 the German Inheritance Tax Act and the Valuation Tax Act were changed – again. After a ruling of the German Federal Constitutional Court in 2006 both Acts were changed with effect as of 1 January 2009; the now enacted changes became necessary because the Federal Constitutional Court ruled once more that some of the changes were still unconstitutional. And even now the new rules are vividly discussed – a further ruling by the Constitutional Court seems likely.

The rules apply to the transfer and valuation of business assets (companies regardless of their legal form). The main (not complete) changes are as follows:

- Business assets worth up to EUR 26.000.000 can be transferred tax free (further conditions apply); a regular 85% tax exemption or a full tax exemption is applicable (as was before)
- Administrative assets (Verwaltungsvermoegen) is now fully taxed, the former 50%-limit is eliminated, the rate/quote of administrative assets may not exceed 20% when applying for the full tax exemption
- The definition of administrative assets is extended; this concerns certain objects such as stamp collections and yachts
- The capitalization factor is fixed at 13,75; this fixing shall prevent the determination of unreasonable high values of business assets
- Valuation haircuts for family businesses are possible (further conditions apply)
- The sum of salaries is relevant for businesses with more than 5 employees (former rule: 20 employees)

The rules for the transfer of private assets have not changed. In both instances the rules allow tax optimized transfers. To mention only one of these optimizations: the transfer of real estate with usufruct reservation.

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Annual tax certificates are not any more mandatory in Greece

In accordance with Law 4410/2016 (Government Gazette Ά 141/03-08-2016) annual Tax Certificates issued by Legal Auditors and Audit Firms are not any more mandatory from 2016 and onwards. Consequently, enterprises have now the option not to obtain it.

Annual Tax Certificates are issued upon an audit of the application by enterprises of tax provisions on tax subjects, in parallel with the statutory audit of the fiscal year. Subject to the issuance of Tax Certificates are Societes Anonymes (A.E.), Limited Liability Companies (E.P.E) and branches of foreign companies of which the financial accounts are obligatorily audited by registered auditors and audit firms at the public registry of the Law 3693/2008.

Enterprises which choose to obtain the annual Tax Certificate shall appoint every five (5) years another Legal Auditor or Audit Firm for its issuance. Infringements ascertained by the optional annual Tax Certificate may be taken into account by the Tax Authorities when the latter exercise their tax audit duties. However, enterprises which gain a Tax Certificate without remarks as to tax infringements are not exempted from an eventual tax audit by the Tax Authorities.

Inevitably, this new provision with regards to the optional Tax Certificate issuance in combination with the recent increase of the statutory audit exemption thresholds is expected to have an impact on the auditor's and audit firms' business whereas, on the other hand, enterprises feel relieved from a considerable cost. Last but not least, the optional issuance of a Tax Certificate has as a result, the abolition of penal provisions that were in effect in case of non-issuance of the Tax Certificate.

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Transfer pricing, some post BEPS numbers country by country reporting and its big impact

As we already know, Action #13 from BEPS requires that many Multinational Groups (MG) to filing the Country by Country reporting (CbC) for fiscal years beginning on or after January 1st, 2016.

At a first glance, we may believe that this new compliance rule may have only impact on the big MG (those with revenues above 750 million euros per year), however, we may bear in mind that the information required includes sensitive tax information about all subsidiaries.

In this sense, we want to share with you some numbers that comes from a recent survey carried out by the Consultancy Firm Thompson Reuter. It shows very interesting trends regarding different BEPS actions.
To the question about which action presents the biggest change on the Tax departments, the outcomes were as follows:

ACTION	2015	2016	VARIATIONS
Country by Country reporting	76%	83%	7%
Re-characterisation & special measures	46%	37%	-9%
Permanent Establishment Status	48%	33%	-15%
Intangibles	44%	31%	-13%
Interest Deductions and Financial payments	38%	18%	-20%
Treaty Abuse	20%	7%	-13%
CFC Rules	21%	10%	-11%
Digital Economy	15%	5%	-10%
Hybrid Mismatch	18%	10%	-8%

Source: Thompson Reuters

It is not a surprise that the CbC reporting is the major concern among MG because, if we carefully review the information that must be submitted, we realize that such report stands for an invaluable tool for tax authorities in terms of a better tax scrutiny.

In line with this, 42% of the MG pointed out that to be subject of an auditing process is their biggest concern right now.

Furthermore, in the las 5 years the number of countries that have introduce transfer pricing regulations have doubled and reaching a total of 101 worldwide countries so far.

There is no doubt that CbC reporting will be the main tax topic in the next months and even more as the first "dead line" gets closer.

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Sustainable marketing?

This year we have been constantly working with problems related with the word sustainability, which has made us understand and assimilate it as our own. Today we reiterate that our work helps to the improvement of our country; it is worth remarking that sustainable does not only refers to the ecological aspect, like most people think, it is aimed at a most poetic sense of meaning: to create a better world to live.

Sustainability encompasses three key areas: social, economic and environmental. We recently worked with a Spanish company focused on performing marketing activities from a sustainable point of view. In a joint effort we were able to understand, through focus groups, that Mexicans have concerns on these issues. It is true that perhaps the sustainable concept is not known or adopted by the majority, however it is present trend in the "Millennials": young people trying to live in a better place. It is active in environmental issues where citizens increasingly show a real concern and it is certainly present on their constant concern about the economy, which affects education, poverty, insecurity and health.

Many Mexicans think, "they want to help, but sure they want to win something in return, like evade taxes, to earn more money, mere publicity" and that is where I quote a very popular phrase used in our company "I like to do business in a win-win situation." This "new type" of marketing tries to put a seed, where the minimal help is welcome; any company could save the money invested in this kind of sustainable campaigns and stick to what is already known, what is within the typical idea of social need, what gives them greater resources; however, they are investing time and resources to know and understand people's primary concerns (like the one quoted above). We took the time to listen to them.

Today I know that there is and that it is possible to do marketing to help drive sustainability in México; For example, we did a research for an international foundation that allowed them to know what of employers in various parts of the country need and want on their employees. This was done in order to train and help young vulnerable part educated people between 16 and 28 years to get a job easier.

The issue of sustainability is a chain of factors. How does it affect my environment? How do we affect the environment? How does the environment give certain particular guidelines regarding sustainability in each a culture or in the society in which we are immersed? Market Research is an innovative way to understand all these scenarios, all the possibilities and possible improvements, in order to take a step toward making a better world, a sustainable world.

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Ministry of Finance clarifies registration of foreign entities for VAT purposes

On May 23, 2016, the Serbian Ministry of Finance announced its clarifying opinion on tax representation of a non-resident entity for the purpose of implementing the Law on Value Added Tax and registration for VAT.

Although the concept of tax representatives for non-residents existed in previous versions of the VAT Law as well, the latest amendments to the Act adopted in October 2015 precisely defined conditions that VAT representatives should fulfill while also allowing the possibility to non-residents providing goods and services in the Republic of Serbia to register in the VAT system via a proxy. Instructions on the process of registration were further described in the May 23rd opinion issued by the Ministry.

The criteria that tax representatives have to fulfil include mandatory registration in Serbia, a VAT taxpayer status for at least the last 12 months, no tax arrears, and no conviction for a criminal tax offense. The decision on eligibility is issued by the Tax Administration within 15 days of the application. The VAT representative registration is available online on the web page of the tax authority.

The reason why only a limited number of companies are currently registered as VAT tax representatives for foreign entities is most likely due to the joint and severe responsibility for all obligations of the foreign entity which arises for VAT representatives. Additionally, even though the rulebook and opinion explain most of topics, some practical aspects are still left unclear - including details about procedures for payments or refunds of VAT.

Having all this in mind and considering that registration is not mandatory but rather on a voluntary basis, it remains to be seen whether this new facility will be heavily used by the non-resident entities and their resident associates or will the VAT burden remain with the domestic goods and services recipients.

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Business and emotional aspects of the sale and purchase processes of family companies

The sale of a family company is, at times, the only way to ensure its continuity. The difficulties in passing on an entrepreneurial spirit to the next generation and the existence of conflicts arising from the lack of communication skills among the members of family companies are among the reasons for some of them being sold.

The family company often undergoes the sale of the undertaking as an event which is more emotional than entrepreneurial. This sentiment complicates the decision-making process. Even though the family acts as if it were prepared to sell the company, if the emotional issues are not understood and recognised, these will rise to the surface in the form of concealed resistance, prejudicing the negotiations.

The decision to sell a family company should take into account various factors and, inter alia, answer various questions, such as the following:

Are there any successors with the necessary skills for running the company?

Will the market accept a price which is satisfactory for the current owners?

A sale may be an emotionally comforting financial decision. Continuing under family ownership when the relatives are not interest in the company, or are not capable of running it, makes no sense, and could cause the enterprise a significant loss in value.

We advisors try to ensure that the family speak frankly about the emotional and personal implications of the sale. If we ignore this aspect, the relatives might adopt attitudes which seem strange to us. It is important for the family to understand that their feelings are neither good nor bad, but rather must simply be taken into account.

We advisors help clarify the differences between the emotional reactions of the family and business decisions: the two issues should be separated in order to carry out the process effectively. It is possible, and indeed recommendable, to remain aware of the emotions while, at the same time, taking objective business decisions.

If the family eventually decides not to sell, weighed down by personal reasons, as advisors we try to ensure someone takes responsibility for such decision and reasonably understands its consequences. The advisor can give an opinion, while respecting the decision the partners might take. They should certainly not be blamed for any negative consequences arising from the decision not to sell.

A common mistake of family entrepreneurs is believing that selling will be easy. Businesspeople might be surprised by the amount of the exit fees of a sales transaction, which only represent a small percentage of the product of the sale.

The main stages of a family company divestment process tend to start with an appraisal report providing the transaction with a focus. Normally, the appraisal precedes the analysis of any alternatives existing.

The subsequent preparation of a sales log will enable potential candidates to be identified from among those interested in receiving information on the operation. The subsequent negotiation procedure will open up the way for a due diligence process on the part of the purchaser, the conclusions of which will allow it to be clarified whether the prior letters of intent must undergo any changes or will remain in all their terms, facilitating the ensuing closure of the transaction.

A study by IESE based on the opinions of experts and family entrepreneurs clearly shows the virtual non-existence of any cost-saving synergies when the company purchased is of a family nature. The same study indicates, through the opinions of family entrepreneurs, that some family companies do not use financial investors in their sales transactions, preferring other undertakings from their same sector, except in cases of MBO or MBI (purchase of the company by its own or the external management team), because their entry would take at the lowest price possible and they would try to optimize their purchase price.

The investment timeline for financial investors will be a maximum of three to five years, or six years, and all actions will be aimed at revaluing their investment to the utmost in the shortest time possible, an attitude which may contradict the very essence of the family company.

The family companies in our environment to not tend to be very active in purchasing enterprises, but take advantages of any opportunities arising, especially when dealing with entering international markets. Purchasing decisions in family companies are often taken unanimously, with the subsequent difficulty in making a fast decision although, once the decision is taken, the unanimity allows the negotiation to be quicker.

Thus, the emotional components related to the sale of a family company are highly present throughout the transaction process, from the initial decision to sell until its culmination. Treating them as such is essential to the success of the process.

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Brexit - VAT and all that

The Brexit vote on 23 June had a seismic impact on the world economy. UK shares tumbled before recovering again and the pound has endured it's weakest value in living memory. Furthermore the uncertainty is likely to continue when the UK Government activates Article 50. But what will it mean for VAT in the UK?

The introduction of VAT to replace purchase tax on 1 April 1973 was a condition of the UK joining the European Economic Community. Initially set at 10%, the standard rate of VAT in the UK has ranged from 8% to 25% over the years. However, UK VAT was, and still is, governed within the boundaries of EU Law. Many of the most basic applications of VAT – including the rate, the scope of exemption and zero rating, the place of supply and the time at which VAT becomes payable – are enshrined within EU legislation which the UK – and every other member state – must follow. The EU's grip on domestic VAT also extends to the European Court of Justice which can overturn decisions by domestic courts.

But all this will change when the UK leaves the EU. From that point on, VAT will be under the sole jurisdiction of the UK Government. So what changes can we expect?

Firstly a lot will depend upon the UK's Brexit negotiations with the EU, which may take up to 2 years. However the free movement of goods cross border is likely to cease. We may therefore see a return to the situation where all incoming goods are cleared via the same import procedures that are currently applied to Non EU imports. Likewise, the movement of goods to other EU member states will become "proper" exports again. On the flip side, administrative procedures such as the completion of EC sales lists and Intrastat returns will also cease to be required (by the EU anyway).

One thing that is certain is that neither the UK Tax payer nor the Government will be forced to follow European Court of Justice rulings, some of which can border on the bizarre. However this "double edged sword" may apply equally to those decisions we like and those we do not. There have been a number of high profile and high value cases that taxpayers have won in the European Court and HMRC will doubtless be looking at reversing their impact when the UK leaves the EU.

At a more esoteric level leaving the EU could be the opportunity to introduce a raft of "common sense" rules in the UK that would currently not be allowed. For example, it is believed that the EU exemption for financial services was introduced in 1973 because no one could work out how to tax them. Various models have been put forward over the years but no solution that is acceptable at a European level has been found. With the threat of financial institutions relocating outside the UK now would be an ideal time to start talks on the potential VAT benefits of staying put. After all the UK will be a "non EU" counterpart post Brexit – with all the supplier advantages that brings.

So the post Brexit VAT world, like so many others, remains unclear. One thing is for sure though, VAT is here to stay. The second highest source of Government revenue, VAT is the ultimate stealth tax because it is politically insensitive. Put the rate of V AT up by 2.5% and very few voters bat an eyelid. Put up the rate of income tax by 2.5% and I am sure you can guess the public reaction!!!

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Distribution of dividends: The creation of a presumptive operative event

On this occasion we will make reference in particular to one of the provisions contained in the draft law of Rendering of Accounts that we understand has not had the proper public impact that it deserves: the encumbrance on Income Tax or NRIT on dividends and presumptive utilities.

Broadly speaking, the calculation to determine if it is necessary to pay is to determine the lower of the following amounts (example closure of accounting year 12/16):

a)Retained earnings at 12.31.16 (including reserves and accumulated results capitalizations from 1.1.16).
b)Tax results from the first accounting year with income taxed by IRAE (Income Tax on Economic Activities) minus investment in fixed asset, minus investment in shares, minus taxed distributions.

If both numbers are positive, on the lower of both and at the third month of the closure of the accounting year, it must be paid the 7% by concept of Income Tax or NRIT in concept of "presumptive distribution". The tax must be paid even if the money has not been distributed yet, or doing it is not a short-term plan.

Let us remember that in 2007 one of the big changes of the Tax Reform was the reduction in the rate of the Income Tax from the 30% to the 25%, by subsequently taxing the money withdrawal by partners or shareholders at the rate of 7%, as a way to "encourage" the profit to remain within the business scope. Many took this option, retaining the profits in the company and investing them in working capital (but this does not subtracts for the calculation), or leaving them as a way of keeping job positions, facing any possible rises in costs, etc. These people now have to pay a 7% for a distribution that did not really exist and may not exist in the future. Indeed, this is not of a tax that anyhow must be paid "sometime", since the amount of the future results of a company is as uncertain as it is the economy of a country. Perhaps at the time of deciding to distribute its dividends in the long term or dissolving the company, much of its accumulated earnings have already been consumed, be it by a decline in sales, rising costs or by a myriad of reasons than explain why many companies in our country are not as cost-effective as they would like to be.

What it is said is that the new presumptive operative event is due to the finding that, since its entry into force, a very small percentage of taxpayers have paid 7%, choosing by doing this for creating a generic rule, without distinguishing between those who actually earned and withdrew the money from the company under the form of loans, and those who actually did not withdraw it.

Let us remember that the withdrawal of the money in the form of loan to the partner or shareholder is absolutely valid with the current rules, and pays Estate Tax at the rate of 1.5% per annum and IRAE for the notional interests, but even so, and being aware that this provision could affect these companies, we understand that a much less distortionary alternative of reality might have been to determine that "presumptive distribution" means amounts owed by partners and shareholders to the companies of which they are holders, applying on such balances the assessment of the 7%.

But nevertheless it is chosen for this solution without entering into the debate on its retroactivity or unconstitutionality. Where there is no room for doubt, is the fact that for the companies which did not withdraw the money, this is a provision difficult to qualify (the word unfair does not seem to be enough).

The project has already the approval of Deputies and is at the moment at the Chamber of Senators, now apparently focusing the discussion on the issue of donations to private universities - gone was the discussion for rising rates of personal income tax with all the impact that it had-. Both are certainly issues of extreme importance, but the question that remains is if we are still on time for discussing and make this provision more flexible, so it does not affect in such a drastic way to those who have opted for obeying to what was meant to be promoted in 2007 and did not withdraw the money of the company. We are optimistic that still there is time for modifications, since the exclusion of the new regime of presumptive distribution to whom actually retained the earnings in the business field, is clearly much more fair and adapted to reality, without being further affected the image of a stable and secure country for investment that we are so proud of.

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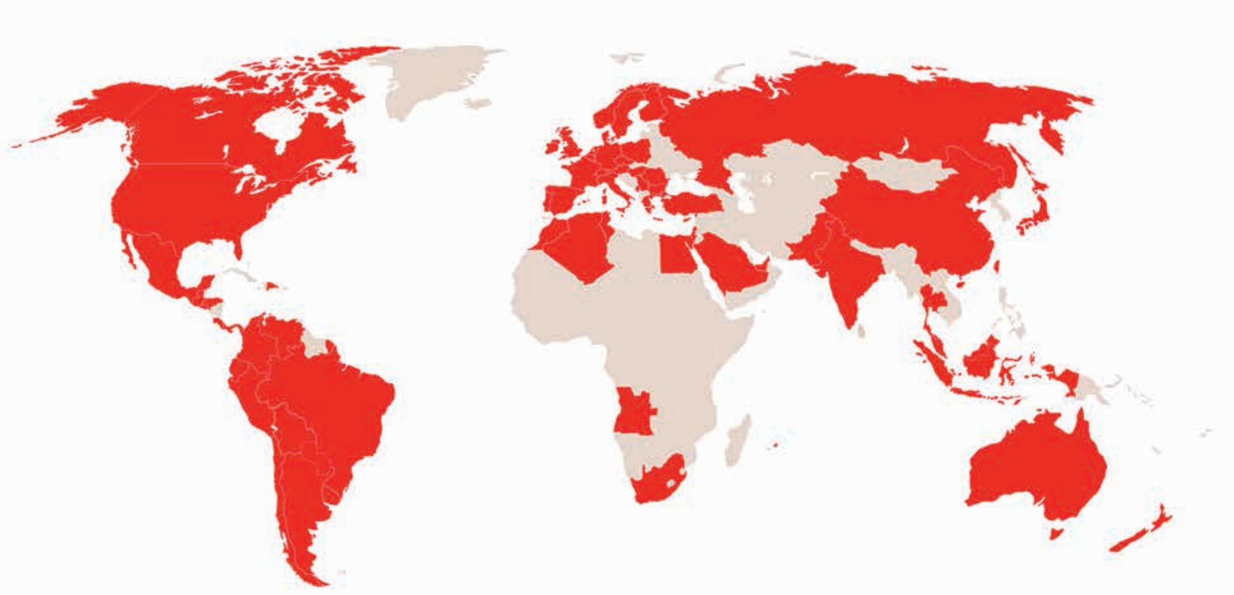

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