JPA INTERNATIONAL
Audit, Accounting, Consulting
Africa, Asia, Australia, Europe, North & South America

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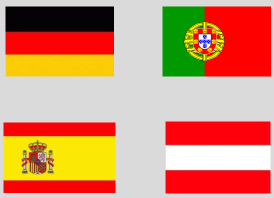
IN THIS ISSUE

Summer & Fall — 2014

The International Tax Newsletter



« Corporate tax rates around the world have equalized but does that also mean that the actual taxes have aligned themselves ? »

JPA INTERNATIONAL TAX GAME - STAGE 2 "WHERE IS THE BEST TAX PLACE TO INCORPORATE?"

During the JPA International meeting in Katowice, Poland our JPA member firm from Bonn Germany presented the result of stage 2 of the JPA world tax game.

Remember, stage 1 dealt with a family supposed to live in each JPA country. The family consisted of three people, mother and father and a school boy. The father was working at a car dealer, making 70,000 € per year. We were looking for the best place (tax wise) to live, meaning the country leaving the family the highest net out of the 70,000 € brut. The winning family was John and Jenny Wong from Hong Kong.

In stage 2, Hans Ronneberger and Volker Wogeck - both from JPA Germany in Bonn - were looking for the best place to incorporate. A new task was created: By January 1, 2014 the husband shall have bought 40 % of the shares of the car dealing company, he is still working for. This company generated the following net incomes before taxes:

- FY 2012: loss 200,000 € to carry forward
- FY 2013: profit 300,000 €

The according balance sheet :

	Balance Sheet (Germany) December 31, 2013				
	Aktiva / Assets			**Passiva / Equity and Liabilities**	
		€			€
A.	**Fixed assets**		**A.**	Shareholders' equity	
I.	Intangible assets	20.000	I.	Subscribed capital	1.000.000
II.	Tangible assets		II.	Accumulated losses	
1.	Land and buildings	2.100.000		brought forward	-100.000
2.	Technical equipment and machi	200.000	III.	Net income for the year	228.420
3.	Other plant, factory and office				
	equipment	220.000	**B.**	Provisions	
		2.540.000	1.	Provisions for taxation	71.580
B.	**Current assets**		2.	Other provisions	100.000
I.	Inventories				
1.	Cars, spare parts and accessorie	1.300.000	**C.**	**Liabilities**	
II.	Receivables and other asstes		1.	Liabilities to banks	2.000.000
1.	Trade receivables	300.000	2.	Trade creditors	1.000.000
2.	Other assets	50.000	3.	Other liabilities	70.000
III.	Cash in hand, cash at banks	180.000			
		1.830.000			
		4.370.000			4.370.000

JPA INTERNATIONAL IN GERMANY

RENTROP & PARTNER is one of the founding members of JPA INTERNATIONAL starting from its head office in Bonn to expand the network all over Germany where at present six different member firms are situated in eight different cities. Nearly all German members have joined JPA Audit AG, a company for common purposes and especially common audit work.

RENTROP & PARTNER, a medium sized company of about 30 people, 10 of them professionals, is serving its clients for more than 50 years with a focus on tax services, consulting and auditing. Hans Ronneberger, Wirtschaftsprüfer and Steuerberater, the leading Senior partner, chairman of JPA Audit AG, started his career in PWC as auditor for airline businesses. He is very much engaged now with his team of different professionals to find the right way for medium sized clients in a world of accelerating globalization.

Your personal tax advisor:

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The according income statement account:

	Income statement		
	for FY January 1, 2013 till December 31, 2013		
		€	**€**
1.	Sales revenues		17.500.000
2.	Cost of materials		
	Cost of raw materials, consumables and purchased merchandise		-15.000.000
3.	Personnel expenses		
	Wages and salaries	-1.200.000	
	Social security and pension expenses	-250.000	-1.450.000
4.	Depreciation and amortization		-100.000
5.	Other operating expenses		-500.000
			450.000
6.	Other interest and similar income		-150.000
7.	Result on ordinary activities		300.000
8.	Tax on income		?
9.	Net income for the year		?

JPA members were asked to calculate the corporate taxes for 2013 and to complete a given balance sheet for FY 2013.

The question behind our game was: Corporate tax rates around the world have equalized but does that also mean that the actual taxes have aligned themselves? This should be tested in a practical example.

With the first feedbacks it became clear quickly, that we would meet some difficulties with our example. Many countries establish tax consequences to certain balance sheet operations. So there you need more information than just on the income. That was then in addition to the tax rate the main reason for the different levels of taxes.

We have examined the results of our families in 20 countries. This time Paddy Murphy, the shareholder in Ireland has gained, because there prevailed the simplest tax system based on the lowest rates. Highest taxes arose to Heinz Becker in Germany. Although Germany has also fairly low tax rates, the actual tax was higher due to the restrictions on the deduction of losses there.

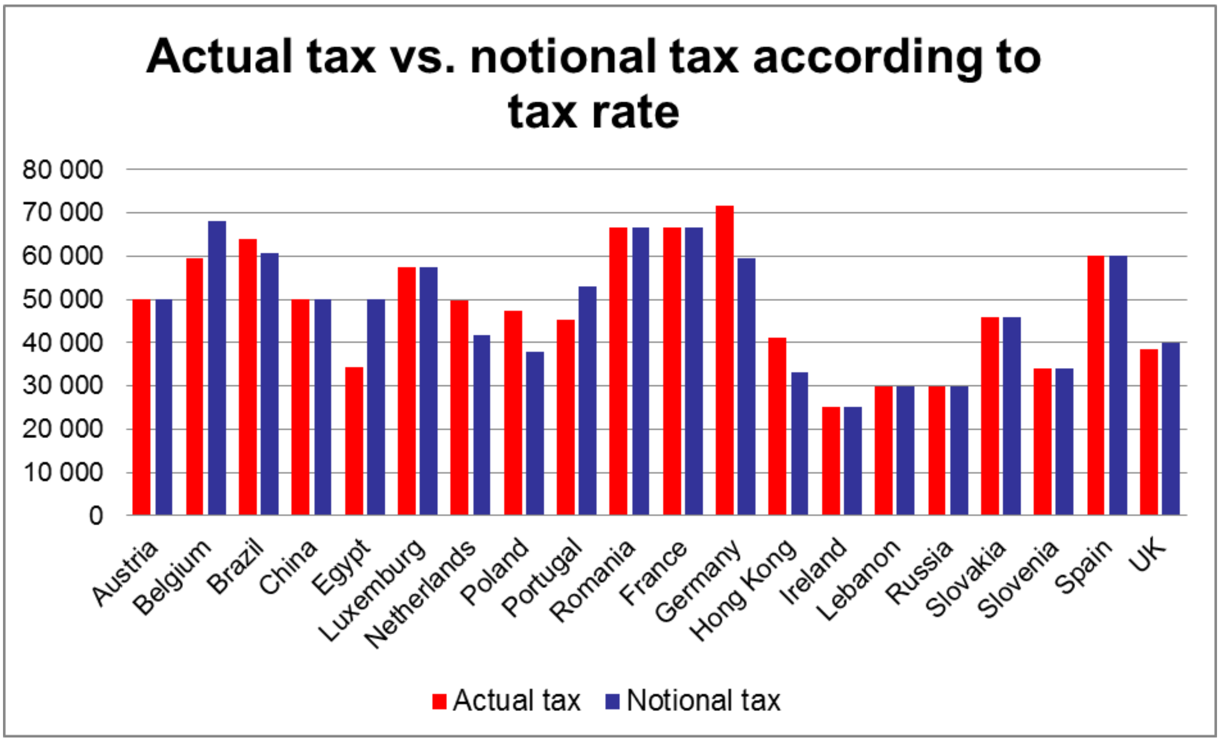
What was quite astonishing was the comparison between the actual tax and the notional tax, as a result of multiplication of net income of 300,000 € with each country's corporate tax rate. These differences resulted from various modifications, each country's tax system made.

One of the differences was the tax regulation on the profit carried forward. For some countries - like the winning Ireland - there were no restrictions for the tax credit on the loss at all. For others - like i. e. Brazil, Poland and Germany - the tax credit could not be credited in FY 2013 completely. Other countries had restrictions on the tax credit in general, but these didn't come into effect, because either the amount of loss carried forward or the percentage of change in shareholder did not exceed limits determined by country's tax laws.

Another difference was tax regulations for calculating company's income. Differences were various, so we just name a few: In the UK, Hong Kong, the Netherlands and Spain there are different rules on depreciation for tax purposes. The Belgium deducts a "notional interest" as a tax benefit.

Yet another difference arose from surcharges, which had to be added to the country's nominal tax rate.

All the above lead to the differences between the actual and the notional tax according to the tax rate, which you may find in the chart below:



Please find attached the results of following countries participated in stage 2 of the tax game:

Countries tax computation										
	Austria		**Belgium**		**Brazil**		**China**		**Egypt**	
Profit before tax	300 000		300 000		300 000		300 000		*300 000*	
Special additions or deductions			-24 678						*-62 800*	
Deduction of loss carryforward	-100 000		-100 000		-90 000		-100 000		*-100 000*	
	200 000		175 322		210 000		200 000		*137 200*	
	-50 000	25,0%	-59 592	34,0%	-63 960	34,0%	-50 000	25,0%	*-34 300*	*25,0%*
	France		**Germany**		**HongKong**		**Ireland**		**Lebanon**	
Profit before tax	300 000		300 000		300 000		300 000		300 000	
Special additions or deductions					48 700					
Deduction of loss carryforward	-100 000		-60 000 [8]		-100 000		-100 000		-100 000	
	200 000		240 000		248 700		200 000		200 000	
	-66 667	33,3%	-71 580	29,8%	-41 036	16,5%	-25 000	12,5%	-30 000	15,0%
	Luxemburg		**Netherlands**		**Poland**		**Portugal**		**Romania**	
Profit before tax	300 000		300 000		300 000		300 000		*300 000*	
Special additions or deductions			39 164							
Deduction of loss carryforward	-100 000		-100 000		-50 000		-100 000		*-100 000*	
	200 000		239 164		250 000		200 000		*200 000*	
	-57 321	28,7%	-49 791	20,8%	-47 500	19,0%	-45 260	26,5%	*-66 667*	*33,3%*
	Russia		**Slovakia**		**Slovenia**		**Spain**		**UK**	
Profit before tax	300 000		300 000		300 000		300 000		300 000	
Special additions or deductions							30 000		-7 334	
Deduction of loss carryforward	-100 000		-100 000		-100 000		-100 000		-100 000	
	200 000		200 000		200 000		230 000		192 666	
	-30 000	15,0%	-46 000	23,0%	-34 000	17,0%	-60 000	30,0%	-38 533	20,0%

It was very exciting to work on tax game stage 2 and gave us a good impression on various countries' tax regulations. Furthermore it shows what JPA member firms may achieve in serving their clients' needs even crossing country's border.

« the Portuguese government has intoduced measures to encourage investors to do business in Portugal, and foreign citizens have a good reason to consider moving to Portugal. »

TAX INCENTIVES FOR THE ESTABLISHMENT OF FOREIGNERS IN PORTUGAL

As we previously reported in the 2013 Autumn Tax Newsletter, while the effort to consolidate the Portuguese public accounts continues, tax incentives have been introduced to improve (the still low) economic growth. In the previous article we focused on some measures introduced to stimulate productive investment and job creation. In this article we would like to highlight some measures to attract foreign investment into Portugal.

1. The Fiscal Regime for the Non-habitual Residents

This regime has already attracted many people, (especially French, Dutch and Swiss nationals). It is designed to allow someone who has not previously been fiscal resident in Portugal in the last five years, to become such a resident. The regime allows qualifying non-habitual residents to benefit from a flat rate income tax of 20% on their Portuguese source income, (if it is considered "high added value" income, (see below)), and no income tax on income which is sourced outside Portugal.

Special rate of Portuguese Personal Income Tax (IRS) for non-habitual residents:

The net income from dependent or independent work **earned in the Portuguese territory**, on activities of high added value by non-habitual residents, is taxed at the **rate of 20%**. Currently an additional tax of 3.5% on all income in excess of the minimum wage has been imposed due to measures to balance the public accounts. There is an additional 'solidarity tax' of 2.5% on income over €80.000 and an additional tax of 5% on income over €250.000.

Income **obtained abroad** by non-habitual residents that **is exempt** from taxation in Portugal:

i) – Income from dependent work, as long as **it is taxed** in the other state, in accordance with the relevant double Tax treaty between Portugal and that state.

ii) – Income from independent work obtained by the rendering of services of "high added value" of a scientific, artistic or technical nature, or from intellectual or industrial property, from royalties, income related to interest, dividends, property income or capital gains, **as long as they may be taxed** in the other state, in accordance with the relevant double Tax treaty between Portugal and that state.

Activities of "high added value" are:

Architects, Engineers and similar technicians; Artists, Actors and Musicians; Auditors; Doctors and Dentists; University teachers; Psychologists; Liberal professions, Technicians and similar; Investors, Administrators and Managers of companies that promote productive investment, under some conditions and top executives of companies.

To register as a non-habitual resident it is necessary only to meet one of the following conditions, (besides not having been a resident in Portugal in the last five years):

- Having spent more than 183 days in the Portuguese territory;
- Having spent less than 183 days, but having, by the 31st December, a home that shows intention of maintaining it as habitual residence;
- Being, by the 31st December, part of a crew of ships or airplanes, working for an entity resident or with headquarters or effective direction in Portugal;
- Working abroad in political functions, for the Portuguese State;
- Having someone in charge of the family residing in Portugal.

After the registration, the person is entitled to benefit for this regime for a period of 10 years, which can be renewed.

2. The Specific situation of pensioners under the Fiscal Regime of the Non-habitual Residents

One special situation of this regime, which has, since last year, encouraged pensioners to move to Portugal, is that the non-habitual residents who receive overseas **pensions** or other similar lifetime earnings, **are exempt from tax**, as long as they are taxed on the state where they receive such income or **as long as they are not considered as being obtained in the Portuguese Territory**.

There is therefore a large potential for saving tax for a great number of people burdened by the extremely high tax rates in other countries. The success of this regime has prompted some to say that Portugal might become the “Florida” of the European Union, combining the possibility of a better quality of life (low property prices, lower cost of living and milder weather) with significant tax incentives.

3. The Special Regime of Residency Permit for Investment Purposes:

As other European countries have been doing, Portugal has created a regime usually known as the “Golden Visa”: a Special Regime of Residency Permit for Investment Purposes.

- All citizens of non-EU countries can apply;

- Types of qualifying investments:

- Property Investments - acquisition of Property with a value equal or exceeding €500.000 in total, (this may include joint acquisition, if the other person’s share is at least €500.000; and such property may be rented out);
- Capital Investments – the transfer of Funds equal to or exceeding € 1.000.000, (this may include direct investment into any company in Portugal);
- Job Creation – the creation of a minimum of 10 jobs.

- The investments may be made by a company, being attributed to the investor in proportion of their share in the company;

- General requirement - investments maintained for a minimum of 5 years;

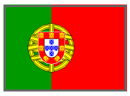
- For renovation of the permit, the person must demonstrate they spent 7 days in Portugal (consecutive or separate) in the first year and 14 days (consecutive or separate) in the following periods of two years.

There has been a great increase in the demand for luxury properties, especially from Chinese citizens, in the past year as a result of this Permit.

To conclude, the Portuguese government has introduced measures to encourage investors to do business in Portugal, and foreign citizens have a good reason to consider moving to Portugal; as the high number of people subscribing to the above mentioned regimes has proved.

All of the measures highlighted above have some additional details and conditions, so each case must be analysed specifically.

The JPA International associates in Portugal will be glad to help you and your clients in exploring any potentially interesting situation regarding these regimes and incentives.



JPA INTERNATIONAL IN **PORTUGAL**

“Carlos Teixeira, Noé Gomes & Associado, SROC, Lda.” is a partnership of chartered accountants, founded in 1982, based in Porto, with offices also in Lisbon, and is one of the founding members of JPA International, more than 25 years ago.

Besides the activities of audit and consulting, it provides a wide range of tax services, along with the other JPA International associates in Portugal (*Paula Saraiva & Manuel Pereira, SROC* and *JPA Portugal - Consultores, S.A.*).

In critical times where business decisions need to be evaluated thoughtfully, our tax experts will help you with your projects, increasing their added value, with total dedication and professionalism.

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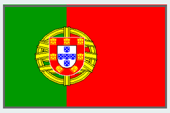

"The main objective of this new regulation is to allocate the services where they are effectively consumed."

VAT ON TELECOM SERVICES

From 1st January 2015, a new regulation for telecom, broadcasting and television services will start to apply: new rules for the place of supply of these services will enter into force, and consequently, these services will be taxed where the recipient is established (currently these are understood to be supplied where the provider is established).

The main objective of this new regulation is to allocate the services where they are effectively consumed.

The regulation defines the concept of telecom services, covering a number of services that are included in it:

- Fixed and mobile telephony services
- Video phone services
- Telephony services provided via internet (VoIP included)
- Call management services: voicemail, call waiting, call forwarding, call identification, three-way calling...
- Paging services
- Audio text services
- Fax, telegraph and telex services
- Internet access (World Wide Web included)
- VPN connections that provide telecommunication links for the exclusive use of the costumer

The regulation also states the services that fall out of the scope of telecom services:

- Services supplied by electronic means
- Broadcasting and television services.

In order to avoid issues as double taxation, the new rules intend to clarify its practical application, providing very clear regulation for services rendered in very specific places.

When the service is provided in places such as a telephone box, a WIFI zone, a cybercafe, a restaurant or a hotel lobby, where the physical presence of the customer is required, it shall be presumed that the customer is established or has its domicile or usual residence in such place.

When the service is provided on board of a ship, an airplane or a train transporting passengers within the EU, the place of supply will be the country of departure.

When the service is provided to a natural person through a residential landline, it shall be presumed that the customer is established or has its domicile or usual residence in the place of installation of such landline, unless the provider has information indicating that the customer is established in another country.

As a result, from January 1st 2015, companies providing telecom, broadcasting and television services to natural persons will have to register in the country where the customer has its domicile.

Available since 1st January 2015, the VAT MOSS (Mini One-Stop Shop) will be extended to telecom, broadcasting and electronic services. This aims to provide a simplification on the new practice. According to it, suppliers could avoid having to register in every member state where they supply these services, and optionally choose a Member State for registering for VAT, submitting the VAT declarations and paying the VAT of all the member states.

JPA INTERNATIONAL IN **SPAIN**

MARTINEZ COMIN is a professional firm providing, since its foundation in 1948, *full-service* of Business consulting and Corporate law.

We have taken part in the birth and development of successful business projects, providing not only legal, tax and economic advice, but also supporting clients in making strategic and organizational decisions.

We started our international presence in 1990, representing JPA International in Spain.

Through JPA international, our independent firm, MARTINEZ COMIN AUDITORES –an offspring of the first national audit firm to be founded in Spain-, belongs to the prestigious IFAC's "Forum of Firms" (FOF).

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"According to the double taxation treaty concluded between Spain and Austria, gains derived from the alienation of immovable property located in Austria may only be taxed in Austria."

WHEN SERIOUS DEALING WITH TAX TREATIES PAYS OFF

In double taxation matters, it is always advisable to be aware of the basic principles of double taxation treaty law. This being the case, unpleasant surprises can be avoided and pleasant surprises can be taken advantage of to the client's benefit. An interesting example of the latter shall be drawn here: in a case involving an Austrian citizen **residing** as a self-employed professional in **Spain**, **the sale of an apartment** situated in **Austria** was considered by the client. The property had been acquired for about € 50.000,-- in the 1970s and could now be **sold for about € 150.000,--**, resulting in a calculated sales profit of € 100.000,--. Whereas in Austria, the profit out of the sale of a private property (not used as a domicile of the vendor) is subject to a reduced ("flat") tax rate of 25 %, such profit is taxed in Spain with a progressive tax rate of 21 % to 27 %. At first glance, the difference in tax rates may, indeed, appear petty. Therefore, it may seem irrelevant or (at least in minor cases) not profitable to deal with the question which of the two countries may tax the profit out of the sale.

However, a deeper inquiry into the systematics of double taxation reveals the following: for **certain Austrian properties**, namely the ones acquired before the 31st of March 2002, income out of the alienation of the apartment may be calculated by subtracting fictive acquisition costs of 86 % of the sales price. Of the remaining surplus, 25 % are to be paid as tax. This equals 25 % of 86 % = **3,5 %** of the sales price. Of – in this case - a sales profit of € 100.000,--, only € 5.250,-- would have to be paid as tax. In the case at present, this would equal 5,25 % of the effective sales profit – the formal tax rate of 25 % is reduced considerably by means of favourable rules of income calculation.

In contrast to these rules, the **Spanish tax regime** refers to the effective profit as tax base. To this tax base, a special progressive tax regime for profits out of the sale of capital assets is applied: Of the effective gains out of the sale, the first € 6.000,-- are taxed by 21 % (= € 1.260,--), the next € 18.000,-- are taxed by 25 % (= € 4.500,--) and gains above € 24.000,-- are taxed by 27 % (here: = € 20.520,--) . In the case at present, this **would mean** a total tax burden of **26.280,--** or **26,28 %** upon the effective sales profit.

Hence, potential tax liabilities in Austria of € 5.250,-- concur with potential Spanish taxes of € 26.280,--, the difference between them being **€ 21.030,--**.

The worse scenario seems indeed likely to be true at first glance since the double taxation treaty concluded between Spain and Austria prescribes the **credit method** as the **main method** for **avoiding double taxation.** This means, that in general the Spanish Crown credits Austrian taxes to Spanish taxes so that the Spanish tax level on the total income of the resident is upheld. <u>For this purpose, Spain will calculate the profit according to her national tax law.</u>

This would mean in the case at present: tax in Austria € 5.250,--, tax in Spain € 26.280,-- - € 5.250 = 21.030,--, tax total for taxpayer: € 26.280,--.

Therefore, in the case at present, if Spain were entitled to tax the sales profit according to her own national tax law, the tax burden were more than five times higher compared to Austria levying her national taxes to the gains out of the sale!

However, as an exemption to this general rule, according to the double taxation treaty concluded between Spain and Austria, gains derived from the alienation of **immovable property** located in Austria may **only be taxed in Austria.** Spain may anyways take into account this income when calculating the tax on the remaining income **("exemption method").** However, as there is a Spanish special progressive tax regime for gains out of the sale of real estate property and capital income, separated from calculating the tax on the normal income (schedular system), the sales profit realized in Austria will not increase the tax rate for the remaining "ordinary" income generated in Spain. This would be the case only for additional capital or real estate income taxable in Spain. As the client did not enjoy such additional income, the sales profit out of the alienation of the Austrian property did not raise the Spanish tax rate applicable to the remaining income.

On account of these considerations, in the case at interest, the client could sell the property in Austria while being a resident of Spain without increasing his tax liability in Spain by even one Euro. The **only tax** liability resulting out of the sale were **€ 5.250,--** of Austrian immovable property sales tax!

This exemplifies a case where the in-depth understanding of the principles and mechanisms of (in fact: both national and) international tax law helped ensure the client that he could make use of a favorable opportunity to sell his property and to concurrently benefit of an advantageous tax regime.

We are of course eager to carefully examine and optimize your tax situation as well, be it in conjunction with a sale of immovable property or other demanding issues of national or international tax law. Feel free to contact us for a preliminary phone call upon your case.

JPA INTERNATIONAL IN **AUSTRIA**

"Fiebich & PartnerInnen" is a successful medium-sized firm of chartered accountants, auditors and consultants with many years of experience in the field of tax consultancy, accounting, payroll accounting and other consulting services related to industry and business.

Our strengths lie in the high-quality service as well as in our extensive counselling and coaching oriented towards our clients' needs. We serve small- and medium-sized companies in different areas of business, group-structures, individuals and associations.

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Your personal tax advisor:

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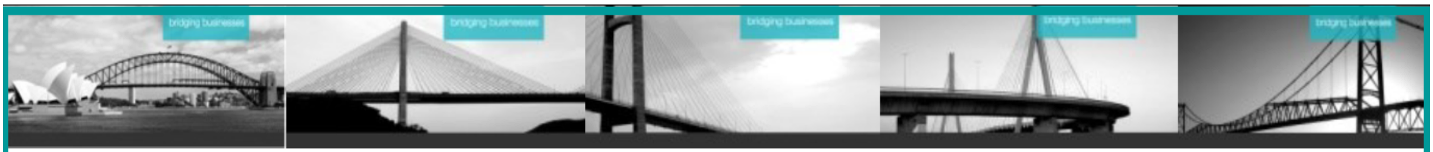

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Your life never brought you to have knowledge about the history and customs of this country ?

→ The essential events to know about are given in the **Quick History** part !

You want to know the taxation of benefits from your subsidiaries?

→ You will definitely find the answer and many others in the **Tax system** category.

You can't decide between the different possibilities to enter a new market in the country?

→ Evaluate the main challenges to carry out your entry in the **Business environment** section

You don't know the customs of the country regulating business meetings ?

→ Find the way to proceed with the **Business etiquette** informations !

You don't have the magic words in the local language that could help you to communicate easily ?

→ The vital assistance to open the doors will be in the section **Speaking** !

You are afraid of being treated like a tourist at the airport exit?

→ The essential advices will be in the field **Pay the right price**.

You're tempted by a new culinary experience ?

→ You will find the best tips in the **Eating out** category.

You want to break the ice at business meals ?

→ See how usefull is the **Conversation starters** tool !

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