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Who needs the West?

'Guinea's military leaders agree a huge mining and oil deal with China', reads a recent website headline.

It didn't get much coverage: certainly not in the international consumer press. After all, media proprietors may have concluded, not so many readers will be interested in what's happening in Guinea – or even know where it is. Give them news about a big US or European international deal affecting jobs and that's much more likely to sell newspapers.

But the disclosure that a Chinese company will invest more than USD 7 billion into Guinean infrastructure and, in return, become a 'strategic partner' in all mining projects in the mineral-rich West African nation (Guinea is thought to have the world's largest reserves of the aluminium ore, bauxite) is just another example of how the formerly-titled 'emerging markets' such as China are establishing trade ties in potentially lucrative environments such as Guinea – and how 'emerging' nations are doing business between each other, without dependence on any Western influences.

Western analysts may decry the Guinean deal while the legitimacy of Guinea's government remains in question (a little-known Army captain seized power in December 2008). But, as Guinea's mines minister Mahmoud Thiam says: "We're putting down foundations." It's reported that the 'foundations' involve building ports, railway lines, power plants, low-cost housing and a new government centre in the capital, Conakry.

The same Chinese investor – officially undisclosed but reported to be the Hong Kong-registered China International Fund Limited, established in 2003 – has also 'laid foundations' in Angola. Its mission statement includes: "To sincerely share experiences and achievements of China's economic reforms with developing countries."

It's far from the only Chinese investor growing trade ties in Africa. China is now Africa's second biggest trading partner, behind the US. Almost all of China's imports, worth USD 56 billion in 2008, come from the oil-rich nations of Angola, Equatorial Guinea, Nigeria, the Republic of Congo and Sudan (according to the US' Council on Foreign Relations).

And at a high-profile, China-Africa summit in Egypt in November, Chinese premier Wen Jiabao promised USD 10 billion in loans to the African continent for infrastructure and social programmes: double those pledged at a similar summit in 2006.

He also announced that China's direct investment in Africa, excluding the financial sector, rose by 79% to USD 920 million in the first half of 2009.

Now let's consider Venezuela, with its love-hate relationship with the US, leader of the Western nations. (Venezuela depends on the US as a trading partner, but President Hugo Chávez has frequently demonstrated his lack of trust in the US administration).

Recently, Venezuela announced a USD 16 billion investment deal with China for oil exploration over three years in the Orinoco river, one of the longest rivers in South America (76% is in Venezuela, the rest in Colombia).

The move comes shortly after Venezuela signed a similar agreement with Russia, estimated to be worth USD 20 billion. President Chávez – who says the deals will boost oil production in Venezuela by about 900,000 barrels a day – often talks about a 'muti-polar world' in which Latin American countries are less dependent on Washington.

Again, Western analysts have been dubious – pointing out that the US is still the mainstay of the Venezuelan energy industry.

But are Western nations at risk of complacency as they downplay economic influences beyond their reach, especially while the West struggles to shake off the shackles of what its politicians continue to call the 'global' economic downturn?

Still 'global' – really? While the US pokes its head just above the recession parapet, and the UK stutters in and out of recession towards recovery, the economies of China and India have been growing in 2009 by rather more than was previously thought, according to the Asian Development Bank (ADB).

Government spending in developing Asian economies has enhanced the region's growth prospects, it says (they renewed confidence quickly by pumping money directly into jobs, rather than into banks as in the West).

The ADB now expects China to grow by 8.2% in 2009, up from an earlier forecast of 7%. India's forecast has been raised from 5% to 6%. The ADB has also raised its growth forecasts for Asian economies as a whole to 3.9% in 2009, from its previous forecast of 3.4%; and its 2010 forecast to 6.4% from its previous estimate of 6% – figures Western governments can only dream about.

Meanwhile, among the so-called 'advanced industrialised economies', the UK has been printing money and issuing sovereign debt like there's no tomorrow, leaving it with at least a year or two of public service cutbacks and low GDP growth. The US has a budget deficit equal to an eye-watering 14% of GDP, a level unmatched since the Second World War. Even the mighty German economy has endured a GDP contraction of 13%.

Western economists, who have argued that so-called 'emerging markets' will be sucked into the 'global' downturn, are themselves now emerging red-faced. Latest projections from the International Monetary Fund (IMF) are that emerging markets, as a whole, will grow by about 5% in 2010, while the developed economies, as a whole, could still be contracting into 2010 after a 4% shrink in 2009.

The reality, says the IMF, is that emerging 'giants' have massive domestic markets and are now doing a bigger share of their growth business with each other, rather than with the West. The recent expansion of intra-Asian trade is another 'unsung story' of the credit crunch.

Facts back up the assertion: at the time of writing, Brazil's biggest trading partner is China, rather than the US; every one of the world's top 10 performing stock indices is based in an emerging market economy; the Chinese stock market has grown by 88% in 2009; and Indian stocks have gained almost 70% during 2009.

But, argue Western analysts, such asset values have risen too fast and are liable to tumble…

Maybe that's so, but analysts have trouble denying that these nations' economies are in far better financial state than the Western economies they once admired. Bank bailouts and recession-fighting measures mean the average sovereign debt burden of the G7 nations will explode to 114% by 2014, according to the IMF – more than triple the projected sovereign debt ratio in the main 'emerging markets'.

So could it be that the shift of economic power to the East, forecast for some while, is now upon us? And the West is poorly placed to respond? As reported in one of the leading Western daily newspapers towards the end of 2009: "There's a swagger on the streets of Shanghai."

Tax harmony no closer

Governments of the world's leading economies have been discussing a global corporation tax rate in a bid to deter multinational companies from moving their operations to the 'lowest bidder' jurisdiction so they can pay less tax.

After months of reported informal talks during 2009, the issue was said to have been discussed privately at the G20 when it met in Pittsburgh, US, late 2009.

Jurisdictions, such as the UK, that have been resolutely against the idea in the past, are now prepared to talk about it, according to economic commentators.

It's because the UK, for example, collected £42.8 billion (USD 71 billion) in corporation tax in 2008-09, a fall from £46.4 billion (USD 77 billion) the previous tax year – and the government believes that it has been drained of corporation tax in part by the accounting and banking policies of some offshore firms.

However, if G20 leaders did talk in earnest about it, no formal consensus evolved – probably because the UK corporation tax rate of 28% ranks eighth in the Organisation of Economic Development listing of 30 countries (known as the 'club of rich nations').

So unless others increase their rates, the UK rate would have to fall, and every 1% off would mean a drop of £600 million in collected tax in the first year, and £1 billion in the second year. And any attempt to cut the rate would be expensive at a time when UK government debt is ballooning.

Discussions on harmonising corporation tax have been complemented by talks on measures to bring the 'lowest bidder', smaller nations to heel – intended to stop them cutting their tax rates in order to poach 'big players'.

Penalties mooted include scrapping tax treaties, applying sanctions and charging extra taxes to companies who seek to avoid paying their country's full rate of corporation tax.

The moves follow the departure of several major corporations who have shifted their operations base from the UK to places with cheaper, more stable tax rates: what's been dubbed by detractors as a 'race to the bottom'.

But, to date, corporation tax harmony is no closer.

The G20 would have had enormous clout on the issue because it accounts for 90% of world economic output. However, in the past, even attempts to harmonise the basis on which European Union members calculate corporation tax, let alone harmonise the actual rate, have floundered.

So it was little surprise that no announcement on the subject followed the G20 in late 2009.

But it's an issue that will not go away. A poll by the Association of British Insurers shows that more than 60% of its members – top executives in the UK's insurance firms – would consider leaving the country to get a better corporation tax rate.

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The tide is changing

Determined efforts by the Mexican government to confront organised crime and corruption in business – with added weight from its own Sarbanes-Oxley-type legislation on corporate governance – are beginning to pay off.

Extra impetus has come from across the border, where the US government has been aggressively punishing companies for violating its Foreign Corrupt Practices Act anywhere in the world – not least, of late, in business deals within Mexico.

And now, in Mexico, the 'tide is changing' – pressures to weed out business corruption are having an effect, evidenced by organised crime gang violence on the streets, speculate economic analysts.

Certainly, heightened US focus on intra-trade with its southern neighbour, coupled with the US government's new-found zeal for aggressively pursuing corporate offenders wherever they may be found, is driving boardroom awareness of the need to adhere to corporate governance laws and standards.

And increasingly US company directors have been looking to mitigate against the alarming costs incurred to investigate 'suspect activity' within their ranks which becomes an emergency if the government is already knocking with a subpoena.

As a result, UHY's Forensic, Litigation and Valuation Services (FLVS) Group in the US is currently experiencing an upsurge of clients wanting to proactively identify, at their own pace, any problems in their cross-border business dealings within Mexico, rather than be caught out by either government.

"Companies that conduct business in Mexico should routinely investigate their business practices to ensure that neither their employees, nor their agents nor distributors, are violating either the Foreign Corrupt Practices Act or Mexican anti-corruption laws," advocates FLVS managing director Jeff Harfemist.

A different business culture

Mexico has long since had trade agreements with North America, Canada and Japan stretching back more than 20 years and it is the third-largest trading partner with the US for both exports and imports. Total trade between the countries exceeds USD 315 billion per annum, topped only by Canada and China. Total US trade with China in 2008 was only 10% greater than trade with Mexico. In fact the US exports nearly twice as much to Mexico as it does to China. As a result, sound and ethical business practice in Mexico is a substantial issue for US companies

The same applies elsewhere, but on a lesser scale. Whereas 80.2% of Mexican exports are to the US, exports to Canada represent 2.4% and to Germany 1.7% (2008 figures). Mexico exports manufactured goods, oil and oil products, silver, fruits, vegetables, coffee and cotton and has 12 free trade agreements with more than 40 countries including Guatemala, Honduras, El Salvador, the European Free Trade Area, and Japan – putting more than 90% of trade under free trade agreements.

According to attorney Bradley Richards, a leading partner in the corporate department of lawyers Haynes and Boone LLP (the largest law firm in Texas), who works with UHY's FLVS Group on certain engagements: "Mexico is a great location for a company's first investment outside the US. It has a strong rule of law, easy transportation links, strong treaty arrangements with the US, and a favourable business climate. But, it is a different culture, and one cultural attribute has been significant low-level bribery."

Bribery in Mexico, referred to colloquially as 'bites' or 'mordida', is a long-standing tradition. According to recent reports out of Mexico by anti-corruption activists, Mexicans paid more than two billion dollars in bribes in 2008, representing approximately 8% of their income.

Corruption is said to infiltrate the police and nearly every provider of services in the country.

Bribes are considered essentially 'user fees' that augment the compensation of poorly paid government workers. Since the 1990s, the Mexican government has tried to change this behaviour, and to improve the lives of its people, but with modest success.

This tradition is equally apparent in business – and the Mexican government has been finding business bribes just as difficult to eradicate. Mexico (like China) has been awarded only a 3.6 out of 10 rating on the Transparency International's Corruption Perceptions Index, which measures the degree of corruption associated with doing business in various countries.

Mexico adopted the Organisation for Economic Co-operation and Development 'Convention Against Corruption' by amending its penal laws in 1999 to prohibit bribery of foreign government officials.

Since then, it has passed numerous laws in its bid to increase government transparency and eliminate corruption within government. "And enforcement in the commercial arena has been attempted, with mixed results," says Harfenist.

"From a regulatory standpoint, Mexico has a very strong anti-corruption set of laws," he says. "Administrations have made fighting corruption a priority. Although they have made some progress in the enforcement of these laws, businesses still report that corruption remains a major issue.

"Activists are demanding that anti-corruption laws be enforced. The current Mexican government is working with the US to try to get ahead of this problem. This may put US businesses who conduct business in Mexico squarely in the regulators' cross-hairs. It's critical that US entities exhibit exemplary behaviour as this effort unfolds."

FCPA liability

The Foreign Corrupt Practices Act (FCPA) in the US prohibits the bribing of foreign officials, which includes not only those working for the government but also those working for businesses owned in whole, or in part, by the government. A bribe is anything of value paid or promised (even if never paid) to secure a business advantage. The bribe can be paid directly or indirectly.

Bribes paid by agents or distributors that result in an advantage for a company will nearly always be considered violations of the FCPA by that company. The burden shifts immediately to the company to prove it did not pay or authorise, even if indirectly, the payment of the bribes. "Proving a negative is never easy," says Harfenist.

"It is widely reported that prosecutions involving allegations of corruption are on the rise and that the Obama administration has no intention of slowing down that train. In addition, the costs associated with non-compliance are rising dramatically. Penalties are now often assessed by many of the non-US involved countries and nearly always involve the severe punishment of one or more executives implicated in the investigations."

While prosecution of government officials in Mexico may be mixed, when a bribe is discovered by the Mexican authorities, there is no hesitation to turn in the US bribe payer and to cooperate with US authorities. Mexico may also prosecute the payer under its domestic laws. More stringent on individuals than US law, Mexican law nearly always requires punishment for at least one executive involved in, or charged with, overseeing the operations in which the violations occurred, whether they had knowledge or not.

FCPA violation examples in Mexico

In September 2007, Paradigm B.V. settled with the US' Department of Justice for a fine of USD 1 million, in part as a result of improper payments to Mexican government officials. In addition to violations in other countries, Paradigm Mexico provided a USD 12,000 trip, USD 10,000 in entertainment expenses and a house to certain employees and wives of employees of Pemex, Mexico's national oil company.[1]

One of the world's largest offshore drilling companies, Pride International, Inc, based in Houston, US, performed its own internal investigation and uncovered improper payments to government officials in Mexico and Venezuela. The payments in Mexico were made to get certain equipment through customs, to move personnel through immigration processes and for entertainment of government officials. Pride self-reported these violations to the Department of Justice and the Securities Exchange Commission.[2]

Investigating current practices

To improve outcomes, says FVLS, US investors should:

- Review the business, legal and cultural factors that will impact the investment
- Ensure proper diligence before making the investment
- Develop a plan to ensure compliance with US and Mexican anti-corruption laws after the investment has been made.

Any company conducting business in Mexico, whether directly or through agents or distributors, should periodically conduct a multi-step investigation of its in-country operations. The system of internal controls should be reviewed both in terms of its overall adequacy, areas of weakness, the potential for collusive behaviour, and the level of consistent enforcement with stated anti-corruption policies and procedures.

The first step involves developing a detailed understanding of the business, including the nature of its customers, the channels used to go to market, the competitive landscape of the industry in which it operates, and the factors (both internal and external) that are exerting pressure on the company.

Next, a detailed review of financial records is performed using forensic tools to identify, among other factors, potentially anomalous transactions, including payments with unusual attributes, vendors with suspect origins, atypical travel and entertainment expenses, and reimbursements without proper documentation and back up.

Intelligence is gathered by experienced investigators on all of the suspected participants in the business to determine backgrounds, connections, ownership of entities and other suspicious affiliations.

Local professionals are employed to address unique accounting issues, local customs and cultural aspects of the case, and to present reputational information that may only be known locally.

The whereabouts of the company's electronically stored information is identified, categorised, and where pertinent, collected in a forensically sound manner, in case future analysis is needed.

Connections are made between the financial data uncovered and those involved to determine whether a deeper review should be undertaken and in which direction it should go.

All investigations are carried out through an attorney to protect all available privileges.

Once the investigation is completed, it is up to the company and its lawyers to determine whether to report any findings of problematic behaviours to government agencies; and to correct any weaknesses found in financial controls.

Conclusion

As world trade grows and barriers come down, corruption is gradually being eliminated in even the most troubling countries. "It may never disappear," says Harfenist, "but countries like Mexico are working diligently to improve international trade opportunities by making it a safer and a more ethical place to operate."

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1 DoJ Release: http://www.usdoj.gov/opa/pr/2007/September/07_crm_751.html
The FCPA Blog: http://fcpablog.blogspot.com/2007/09/paradigms-pre-ipo-due-diligence-reveals.html
2 The FCPA Blog: http://fcpablog.blogspot.com/2008/03/pride-discloses-global-corruption.html

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The taxman cometh offshore

Initiatives from the Organisation for Economic Co-operation and Development, the G20 and various national governments have been portrayed in the business press as an assault on low-tax jurisdictions.

It has been suggested that taxpayers with offshore investments cannot afford to 'lie low' for much longer as the regulatory noose tightens.

But we've heard this before. The question is: Will governments back off after legislating, granting amnesties and demanding identity disclosures? Or, in economic hardship times, will these cash-strapped governments become energised still further as they see offshore regulation as a means of trawling for increased revenues without having to fear backlash from their electorates?

Whether individual national government intent on this issue is materialising into global or regional action (particularly within the European Union) is also ripe for discussion; as well as what restructuring and new tax planning can be adopted for clients in what may become a more transparent offshore age.

National offshore initiatives

One of the more structured national initiatives targeting offshore is being promoted by the UK government where Her Majesty's Revenue & Customs (HMRC) is warning: "This will be the last opportunity of its kind." In its sights are taxpayers with offshore investments who, it believes, may not be disclosing, in full, income from abroad. They now have an NDO – a New Disclosure Opportunity.

The NDO 'carrot' is a low penalty rate of 10% of the tax not declared (unless the taxpayer is shown to have ignored 2007 Offshore Disclosure Facility (ODF) warnings, where the penalty will be 20%).

Ignore the new scheme, says the government, and you run the risk of prosecution and heavier penalties.

The UK government has added muscle to its threat by, using groundbreaking legal procedures, obtaining details of interest arising offshore to British account holders of 300 financial institutions.

Its previous ODF campaign, which ran until November 2007, raised about £450 million (USD 750m) from 45,000 individuals – lower than the HMRC had hoped.

Spurred on by economic necessity, the UK government is now pinpointing these 300 banks and building societies (savings organisations) in the UK with offshore operations, and has been aided by the signing of agreements between the UK and other countries allowing exchange of information.

The HMRC's controversial purchase of information on Liechtenstein accounts resulted in investigations into hundreds of UK taxpayers. It has also carried out raids on several London safety deposit facilities.

HMRC set a deadline for individuals to notify their intention to disclose online under the NDO scheme at the end of November 2009. The disclosure itself then has to be made by the middle of March 2010. A disclosure has to include a calculation of all taxes, interest and penalties payable, together with details of all offshore bank accounts and assets held offshore since April 2008. Prosecution will be avoided unless tax evasion is connected with a serious crime beyond taxation.

Meanwhile, in italy, a tax amnesty on money illegally held abroad, valid till mid-December 2009, is a desperate attempt by the government to attract capital home in a time of economic crisis, not least to boost tax revenue.

The Scudo-Fiscale (fiscal shield) programme allows citizens to bring money from offshore tax havens while remaining anonymous and avoiding sanctions for past tax evasion. All they have to do is move their money to an Italian account within two months and pay a 5% fee.

But critics say the plan is the latest in a long line of amnesties that have created a culture of tax evasion for wealthy Italians.

"The idea, in theory, is to give people a last chance," says Paolo Guerrieri, who teaches international economics at La Sapienza University, Rome. "But, in practice, this is an incitement to tax evasion. Here in Italy these kinds of 'emergency measures' are so frequent that people know they can just wait for the next amnesty. It's an insult to honest citizens."

However, whether in the UK, Italy or any other global jurisdiction, those who have avoided tax illegally through offshore investments may have an extra incentive to take advantage of an amnesty this time: the Swiss have relaxed their banking secrecy rules, and the odds are being heightened that tax evaders may be disclosed.

During the G20 summit in March 2009, Swiss authorities agreed to cooperate more with other nations in tracking down tax evasion. The move followed pressure from the US and European countries worried about the impact of tax evasion on their economies.

Most European nations need extra cash now, Guerrieri says, but Italy's situation is unique: "We're openly surrendering the possibility to build a sound fiscal system [in exchange] for an immediate profit. And eventually we'll pay the price. No wonder Italy has one of the highest tax evasion rates in the continent."

Italian capital held illegally abroad is estimated at about 300 billion euros (USD 450 billion), according to government figures. At least one-third of that money is thought to be in Swiss banks.

The Italian government expects 100 billion euros (USD 150 billion) abroad to re-enter Italy through its amnesty, which would mean an extra 5 billion euros (USD 7.5 billion) of tax income for the state.

Demand for wealth management

The upsurge of government regulations, designed to flush out a minority engaged in evasion, has brought about increased demand from tax-compliant individuals looking to manage their assets internationally, says STEP (Society of Trust and Estate Practitioners), which has canvassed views of its members – lawyers, accountants and bankers worldwide.

Their clients are feeling victimised and want their personal data to be better protected "from corrupt institutions and careless governments", says STEP director of policy Keith Johnston. "They want compliant confidentiality."

STEP's two surveys *(Offshore Evolution: The STEP Membership Perspective,* building on a parent report, *Offshore Evolution: Transparency and Solutions in Cross Border Wealth Structuring:* see: **www.step.org**) highlight the growing need for professional advisers who have the capability to give tax advice on a global, not just local, basis.

"Much more sophisticated advice is needed to manage the complexity of tax issues wherever a client may have assets or connections," says STEP. "Clients want home country compliance and international tax neutrality to avoid additional layers of tax.

Three key trends are identified:
Economic conditions will mean tax competition between countries will increase and the distinction between offshore and onshore will fade.

Investors and their advisors will choose jurisdictions for tax neutrality, so that investors from several jurisdictions are not subject to the additional layers of tax that sometimes arise in a cross-border context.

"All this requires much more sophisticated tax and regulatory advice where integration is key," says STEP. "This means bringing together the advice from country A and country B to achieve the best outcome overall."

Modernising practices are integrating trust and estate planning into a wider wealth management business. Trustees are adopting best practices in investment management and enhancing compliance processes to reduce risk.

Products and services are being combined together to create new revenue opportunities for wealth-structuring professionals. New strategies are being added to the toolbox and existing strategies are being combined in new ways to create customised solutions in higher-value structures.

Offshore investment needs

Ongoing consultation and advice is fundamental to offshore investment – and even more so now that governments are targeting offshore, says UHY's offshore trust and fiduciary member firm, The Louvre Group.

Louvre is a privately-owned trust and fiduciary company that has been established for more than 35 years and employs over 65 staff in 'white-listed', offshore jurisdictions – it has six strategically placed, interactive offices in Guernsey, Geneva, London, Hong Kong, Dubai and the Cayman Islands.

The group provides trust, fiduciary and fund services for international, private and corporate clients.

"Offshore markets have changed significantly over the past two or three years," says Louvre director Geoff Trebert. "Clients' needs have become much more complex and international. Traditional private and company structures and trusts, although still required, are no longer always appropriate: clients need effective solutions to highly complex issues.

"We have applied our core skills and knowledge to providing a range of new services, including QROPS (Qualifying Recognised Overseas Pensions Schemes) and EBTs (Employee Benefit Trusts), to clients who have global interests and wish to preserve and grow their wealth in these challenging economic times."

QROPS and EBTs have been combined in an innovative approach by Louvre on behalf of high-net-worth clients.

EBTs are a useful vehicle whilst the client is working, and QROPS comes into its own when retirement planning is on the agenda. Combining the two, for one client in a lifetime solution, is an area that Louvre is deploying more frequently.

What was known as 'A-Day' ('Appointed-Day') – 6 April 2006 – produced radical changes in respect of the rules governing transfers from UK-registered pension schemes to offshore pension schemes. Individuals are now able to transfer their UK pension funds to an overseas pension scheme, provided it is a 'Qualifying Recognised Overseas Pension Scheme', and it is registered with HMRC.

The scheme is available for UK residents planning to leave the UK, already living overseas, or internationally mobile employees who plan to live overseas. Its benefits include the ability to receive transfers from UK-approved pension schemes, with no need to purchase an annuity. The plan also provides flexibility in taking benefits and managing investments, potentially reducing exposure to UK taxes.

Employee Benefit Trusts are another growth area. An EBT is a trust set up by an employer for the benefit of employees (including directors) and former employees, their spouses and dependants. Such trusts may be established within or outside the UK under UK or foreign law. An EBT is normally funded by an initial contribution (usually nominal) plus a series of periodic contributions. Such contributions are at the discretion of the employing company.

As well as receiving contributions from the sponsoring company, EBT trustees are usually empowered to augment trust funds by borrowing from the employer or from third parties (banks, etc) and by accumulating income.

EBTs are used for various purposes, including where an unquoted company wants to make share ownership more meaningful for its employees, warehouse shares for future distribution to employees, or facilitate exit strategies for company owners who wish

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to transfer ownership to employees over a period of time – rather than just sell the business on the open market. EBTs can also be used in respect of private share plans.

"We always think strategically for our clients when managing their wealth, and using a variety of structures at different times of the client's life-cycle is a crucial part of our service," says Trebert.

"A typical example of this was where a UK-based client had, for a number of years, been a member of an EBT which was administered by us. On retirement the client decided he wanted to relocate to South Africa. Benefits that were in the EBT were used to acquire several business interests in South Africa for which Louvre provided the company administration and directors.

"Our company administration and management experience means that the client could enjoy his retirement at the same time as knowing his finances would be managed for his family to enjoy. In addition, we also transferred five of his UK-based pensions into the Louvre QROPS."

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Private client expertise

Among UHY's wealth management services offered globally by UHY member firms for international clients is Private Client Services, London, UK, which supports individuals in their personal tax affairs when they develop UK interests.

Partner Jeremy Herridge, who heads up the operation, moved to London from the Isle of Man where he developed expertise in offshore and international tax planning.

"Our typical clients are private individuals, executives and employees, including high-net-worth individuals and entrepreneurs," says Herridge. "We also offer services to companies sending employees to the UK."

Practical needs of clients worldwide moving to the UK include consultancy on residence, domicile issues and tax compliance.

For example, if clients plan to go to the UK with the intention of spending more than an average of 90 days per tax year there, they risk becoming 'tax-resident' on arrival – with significant implications for tax payments.

'Domicile' has a technical meaning for tax purposes, and is not the same as residence or nationality. It is not easy for a client to change his/her domicile, but it can be done if they make their main home in another country and make a firm decision to keep it there permanently or indefinitely.

If they are UK-resident, but non-UK domiciled, they can apply to be taxed on a 'remittance basis', which means they will not be taxed on non-UK income and gains if they leave them outside the UK.

The benefits of getting it right from the outset are significant: once clients have been UK-resident for at least seven of the previous nine tax years, they would need to pay a charge of £30,000 to claim the remittance basis, or else pay tax on their worldwide income and gains.

Similarly, benefits may accrue from limits on salary tax in the UK. A client's salary for working in the UK will generally be taxable in the UK regardless of residence status, but if he/she is also resident in another country, there may be a tax treaty with the UK that limits the UK tax.

If a client will be working in the UK, and also outside the UK, it may be possible to arrange affairs so his/her non-UK work is not taxed.

Within Private Client Services' portfolio:

- A UK property developer wanted to take advantage of a downturn in the property market to take a long holiday in Malta and cash in on some of his investments. UHY's firm in Malta, UHY Pace, Galea Musù & Co, helped him take advantage of the country's favourable remittance rules to extract profits from the UK with significant tax advantage.
- A client wanted to expand his food wholesale business into mainland Europe. Private Client Services advised him on a tax-efficient holding structure for the business. UHY's firm in France, GVA, advised on the establishment of a French company and how the transactions with the UK should be structured.

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