KRESTON GLOBAL

Doing Business in Europe

Nearshoring: Reducing supply chain risk

Kreston Global in Europe

Welcome to the latest edition of "Doing Business in Europe," written by Kreston Global experts from across the region. Ranking as the 11th largest network in Europe, Kreston Global has over 8,500 highly qualified staff in 60 member firms working in 33 countries across Europe.

In this issue, we explore the business landscapes of 14 European countries, benefitting from both Eastern and Western perspectives, and a look forward to 2024 and beyond. Our experts share insight on hot topics in the region, such as the EU VAT gap, the Next Generation EU (NGEU) fund supporting ESG initiatives, and the latest on ATAD 3 and the Unshell Directive. Our special report on transfer pricing offers critical insights for businesses, and look into the future with a special feature on the 10 year recovery plan for Ukraine.

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The Next Generation EU (NGEU) Fund

The Next Generation EU (NGEU) fund could be the key to a more sustainable Europe for small to medium enterprises. We asked Kreston Global ESG Committee members Laurent Le Pajolec from Exco Poland and Christina Tsiarta from Kreston ITH in Cyprus to unpack some of the recent incentives given to countries by the NGEU fund, and how it impacts European businesses.

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The Next Generation EU (NGEU) fund is a €750 billion recovery package that aims to help the European Union recover from the COVID-19 pandemic and build a more sustainable and resilient future. The fund includes a number of incentives, tax credits, and grants that are designed to help small and medium-sized enterprises (SMEs) adopt sustainable business practices.

One of the primary objectives of the NGEU Fund incentives is to propel Europe toward achieving a net-zero carbon emissions status by 2050, effectively ensuring that the continent emits no more greenhouse gases than it can sequester. Given the considerable cost of financing in Europe, partly due to inflation, it is imperative for companies to access affordable financing options to facilitate their transition toward sustainable and eco-friendly practices, including new investments. Additionally, governments must extend support to facilitate significant investments, particularly in energy infrastructure, to reduce emissions by optimising their energy mix.

The urgency surrounding the energy mix transformation was further accentuated by the sharp energy price spikes resulting from the Russia-Ukraine conflict.

According to a Deloitte report from July 2023, 62% of European companies express their willingness to embrace mechanisms akin to the NGEU in the face of potential systemic instabilities stemming from geopolitical tensions or energy and environmental crises. The same report indicates that 54% of respondents exhibit optimism about the NGEU's capacity to steer member states' economies toward a growth trajectory, enhance their competitiveness, and foster modernisation within their nations.

Some venture capitalists and investors have made strategic decisions to fund the Greentech sector. Nevertheless, funding startups, especially at their inception, remains a challenging endeavor. Introducing specialised grants for startups would represent a valuable addition. Given the increasing focus on sustainability and energy mix optimisation, fostering innovation is crucial to ensure compliance with the European Union's environmental commitments.

As noted by the European Central Bank (ECB), the NGEU mobilises up to €807 billion in current prices in funding, the equivalent of 6% of 2020 EU GDP. €581 billion from this total amount has been requested by EU Member States. Of the seven NGEU programmes, the Recovery and Resilience Facility (RRF) accounts for 90% of the total amount. About half of the RRF funds are made available in the form of non-repayable grants to Member States, while the other half is in the form of loans. More funding was also made available for countries that have been hit hardest by the pandemic crisis, with lower GDP per capita and/or relatively higher debt-to-GDP levels.

RRF funding was made available to Member States conditional on the implementation of national recovery and resilience plans (RRPs), which set out concrete investments and reforms aligned with EU guidance for each member state. Each RRP was assessed by the European Commission and approved by the Council of the EU.

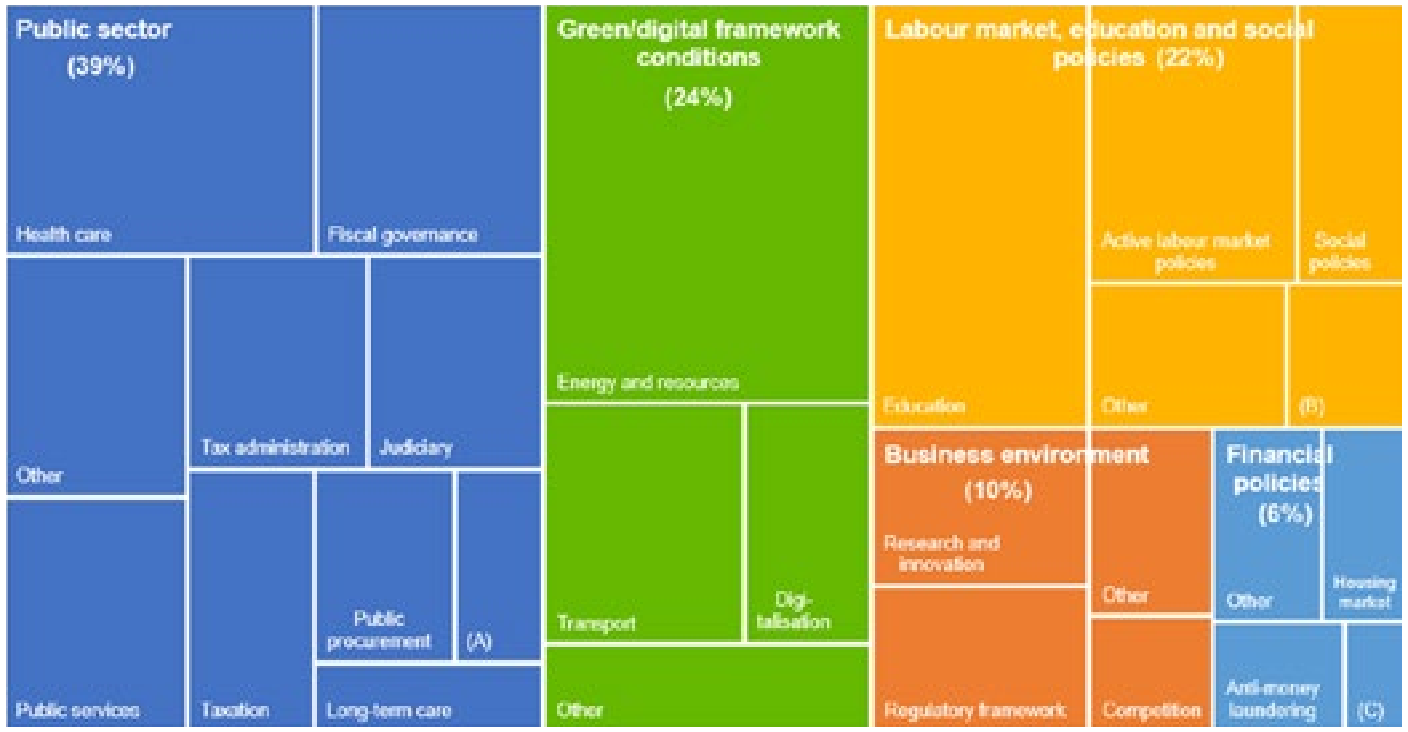
The structural reforms in the RRPs focused on the public sector, framework conditions for the green and digital transitions, and "soft" labour market policies.

Therefore via the RRPs, the NGEU fund incentives, tax credits and grants are shaping sustainable business practices in Europe for nations and companies of all sizes, including SMEs.

Green/digital framework conditions, such as eco-friendly revisions of building codes, account for 24% of the reforms. Public sector reforms also support the green and digital transitions, for example by promoting e-governance. Furthermore, the reform plans have the potential to reduce public sector inefficiencies, including on resource use (e.g. energy, materials, waste, water, etc.) and improve the framework conditions for private investments into green and digital projects, with trickle down effects on various areas.

Figure 1 shows the breakdown of RRP reforms in the EU area by policy area.

Figure 1: Breakdown of RRP reforms in euro area countries by policy area (percentage of total)



Source: ECB staff.
Notes: (A) Pensions; (B) Employment protection legislation, framework for labour contracts; (C) Insolvency frameworks. The classification is based on an ECB staff assessment. It has been applied at the level of individual milestones and targets.

Source: https://www.ecb.europa.eu

Using the NGEU fund for energy solutions

Post-COVID, European businesses are decoupling supply chains away from China, searching for an alternative closer to home. With that, the EU legislation driving ESG reporting has larger businesses looking for good green credentials.

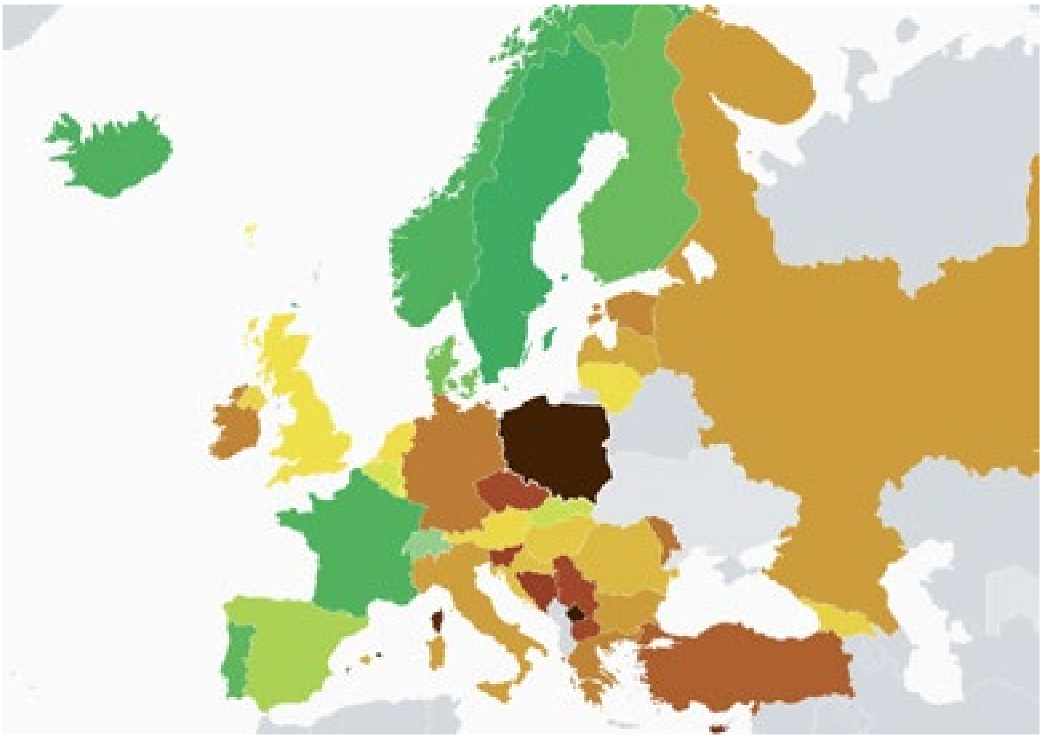
Currently, the energy mix in the region is characterised by a delay in ecological transition. See **Figure 2**.

Many Eastern and Central European countries are currently in the midst of an energy transition, with a significant portion of their energy production still reliant on fossil fuels.

There are challenges in manufacturers benefitting from bringing production into Europe, considering ESG regulations. These include obstacles to achieving an ecological transition include outdated energy infrastructure and challenges related to obtaining energy agreements and quotas for renewable energy projects.

From an ESG perspective, importing goods from regions with different environmental and social standards can have significant implications. This includes concerns about the environmental practices of companies, transparency in CO2 emissions control, transport emissions, and social issues like labor conditions and child labor.

Figure 2: Carbon intensity map of Europe from Electricty Maps
Visit www.app.electricitymaps.com for live data



Some countries, like Poland, which currently rely on a coal-gas energy mix, are actively engaged in ecological transition efforts, including the development of solar, hydro, biogas, and offshore wind projects. Additionally, plans for constructing nuclear power stations are underway to better manage energy resources.

The urgent need for nearshoring within the European Union has been highlighted by events such as the COVID-19 pandemic and geopolitical circumstances. It is especially critical for industries related to medicine, micro components, and electric batteries.

Many companies have chosen to relocate their production to Central and Eastern Europe in recent years given increasing operating costs in the rest of Europe. Many benefits exist for this offshoring, such as a skilled talent pool, increasingly more fluent in English, a growing labour market which means companies do not face a shortage of skilled labour and a lower cost of living, including operating, energy and labour costs, while these regions can boast strict privacy and data security laws for businesses relocating.

However, according to the Envirionment Directorate at the OECD, at the ninth environment for Europe ministerial conference in October 2022, it was noted that even though all the countries of Eastern Europe, the Caucasus and Central Asia (EECCA) have adopted the 2030 Agenda for Sustainable Development and the Paris Agreement and translated them into national strategies and policies, the pace of progress towards a green economy has not been fast enough. The regions' CO2 and energy productivity is much lower than the EU averages. Exposure of the population to fine particulate matter (PM2.5) remains high with associated premature deaths due to PM2.5 pollution. Lack of progress has often been due to political instability or ongoing conflicts, which stifle policy reforms and implementation. So this offshorting of businesses could affect the ESG landscape across the EU.

However, Russia's war in Ukraine provides an additional reason for accelerating the transition to a green and net zero economy in these regions, which could benefit all businesses relocating there. Countries are looking into shifting from the reliance on fossil fuel from Russia to renewables due to high and unpredictable prices and supply issues. This will translate into incentives for companies to invest in operating efficiencies and in renewable energy sourcing and production. The green economy transition requires greater co-operation between different sectors and stakeholders, and across levels of governance. Businesses will benefit from improved relationships with all their stakeholders and enhanced transparency, which could positively impact their brand value. Furthermore, EECCA countries are improving legislation and policy instruments that provide enough incentives for companies to comply with environmental legislation or even go beyond compliance. Part of the financing for this transition will come from public funds and the rest, from the private sector, domestic and international. Businesses will have an opportunity to use these incentives to transition to more sustainable operating practices and to build long-term resilience. All these actions have a positive impact on the ESG landscape across Europe.

The 'S' in ESG

European Union (EU) countries are grappling with an ageing population and a significant shift from industrialisation to a service-based economy in Western Europe, which has already led to a notable uptick in salary inflation.

Traditionally Eastern Europe, with lower variable costs, has been much more competitive, but with labour

shortages, particularly in emerging industries, and stringent labour codes, wages have started to creep up. An illustrative example is the substantial increase in Poland's minimum wage, which has surged from 500 EUR in 2017 to approximately 1,000 EUR starting from January 1, 2024.

Resource efficiency

In the context of the EU Taxonomy, which is indispensable for advancing ecological transition and aligning with the EU's climate-related commitments, the primary determinants of a successful nearshoring process are the composition of the energy mix and a focus on resource efficiency. This approach is vital to meeting CO2 reduction targets and ensuring that the local population benefits from such initiatives.

To an extent, cheaper labour costs are the result of doing business in a country with a lower cost of living and lower operating costs. While this can also be the result of lax legislation, this does not appear to be the case in Central and Eastern Europe.

Eastern Europe ESG targets

According to the OECD and Green Action Task Force, many countries of Eastern Europe, the Caucasus and Central Asia (EECCA) have set and updated national targets to guide their transition towards a green economy, including on environmental protection, climate change and natural resource management. All EECCA countries have adopted their national targets of climate action through their Nationally Determined Contributions (NDCs). There has been progress on development of national-level environmental policy frameworks in the region, accompanied by the creation of several inter-ministerial co-ordination mechanisms. Furthermore, environmental ministries and agencies in some EECCA countries have been strengthened in terms of their remits and responsibilities. EECCA countries have integrated green stimulus measures into their response to the COVID-19 pandemic and their broader recovery packages. Finally, while capital markets in EECCA countries are not yet contributing significantly to financing green investments, green bonds are also becoming an asset class in their own right. In line with those policy reforms, several indicators have shown signs of progress in resource productivity and environmental quality in the EECCA region.

Mutual benefit

So while significant improvement is still needed, the cheaper labour costs do not appear to be the result of lax legislation or unethical operating practices. Quite to the contrary, it appears that in the EECCA region, businesses will be able to benefit from cheaper labour costs while moving to greener and ethical production practices.

ATAD 3

Understanding the Unshell Directive and strategic preparedness for businesses

JELLE R BAKKER

Director of the Global Tax Group Europe at Kreston Global

Anti-Tax Avoidance Directive 3 (ATAD 3), also referred to as the Unshell Directive, is a pivotal proposal by the EU Commission aimed at curbing the misuse of shell entities for tax purposes.The directive received an amended approval from the European Parliament on 17 January 2023. However, the decision now rests with the European Council, which will determine whether to accept or amend the proposal.

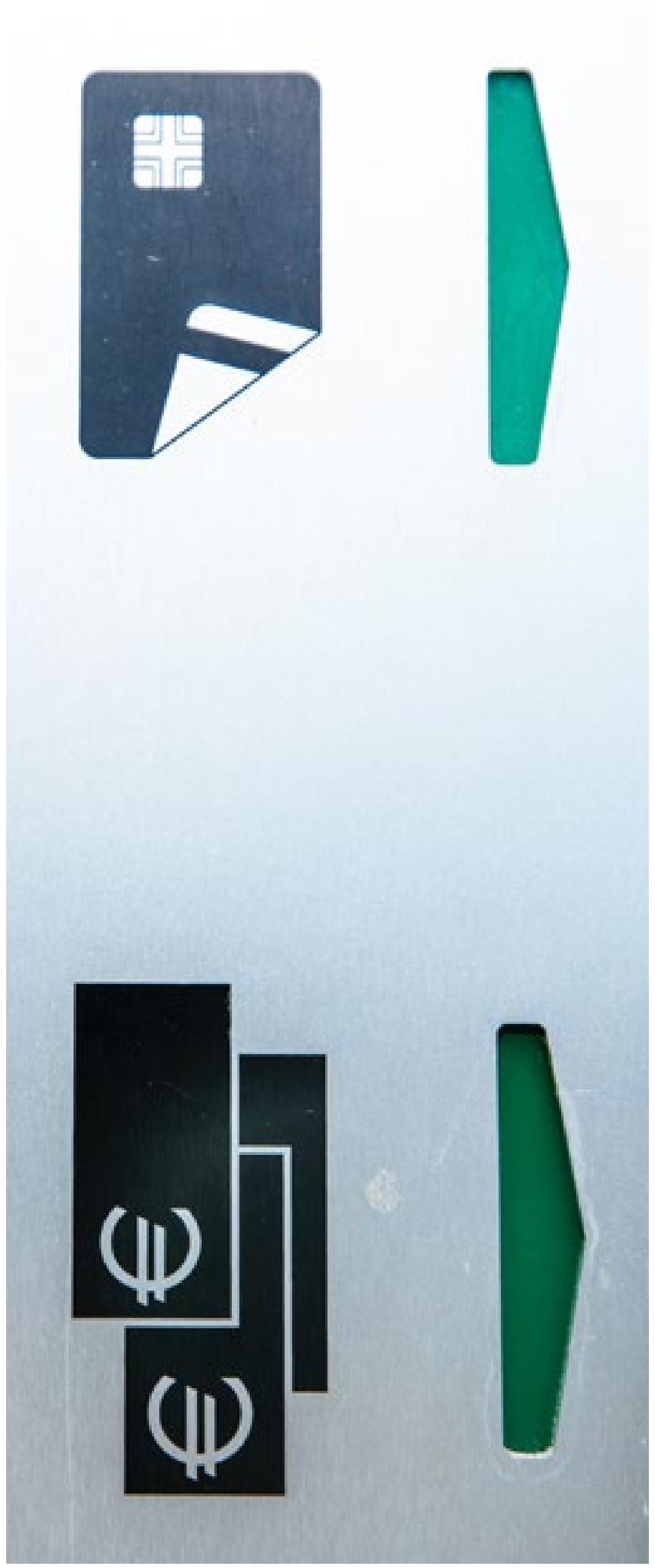
The legislation was slated to come into effect from 1 January 2024, but implementation of the directive could be delayed until January 2026.

It's worth noting that shell entities located outside the EU, particularly in Switzerland, the UK, Dubai, Singapore and Hong Kong, will be covered under ATAD 4.

In a recent interview, Jelle R Bakker, Director of the Global Tax Group Europe at Kreston Global, sheds light on the intricacies of the ATAD 3.

The shell company conundrum

Shell companies have long been a cause for concern, often serving as vehicles for aggressive tax planning or tax evasion. The European Commission's proposal aims to address this issue by ensuring that shell companies within the EU are unable to benefit from tax advantages.



A shell company is a corporation exhibiting little to no economic activity. The EU estimates that 75,000 companies, comprising less than 0.3% of the overall number of active enterprises within the EU, fall within this classification.

The Unshell Directive: A step-by-step guide

Step 1: Gateways

According to Jelle, any entity that is engaged in economic activity, considered a tax resident and eligible to receive a tax residency certificate in a member state falls within the scope of the Unshell Directive.

The entity must meet three cumulative gateways:

1. **Passive income:** Over 65% of revenues in the preceding two tax years must qualify as 'relevant income' under ATAD 3.

2. **Cross-border activity:** At least 55% of relevant income must be earned or paid out via cross-border transactions.

3. **Outsourced administration:** The administration of day-to-day operations and decision-making on significant functions have been outsourced to a third party in the last two tax years.

Step 2: Minimum substance indicators

Entities meeting the gateways without carveouts or temporary exemptions are considered 'at risk.'

Reporting obligations determine if the entity has minimal or no substance, automatically exchanged with other member states.

1. The entity must declare three cumulative 'minimum substance indicators' in its annual tax return:

2. The entity has its own premises (or exclusive use thereof) in its member state.

3. The entity owns at least one active bank account or e-money account within the EU.

The entity has either a qualified and authorised director, or the majority of full-time equivalent employees are tax residents in the entity's member state.

Step 3: Presumption of lack of minimum substance

Entities that do not meet the above minimum substance indicators are presumed to be shell companies. Documentary evidence, including business activities, outsourced activities, resident directors or employees, bank account details, and evidence of bank account activity, must be provided with the tax return.

Step 4: Rebuttal of presumption

An entity can rebut this presumption by providing the following:

- additional supporting evidence of the commercial rationale behind using the entity

- information about employees

- concrete evidence of decision-making in the member state.

The rebuttal, if accepted, may be valid for five years if circumstances remain unchanged.

Step 5: Carve outs and exemption

The following entities are exempt from reporting requirements under the Unshell Directive:

- specific regulated (financial) entities

- alternative investment fund managers

- listed entities

- entities with shareholders and operational businesses in the same member state

- holding companies with shareholders

- parent entities in the same member state

Step 6: Shell company tax consequences

Entities satisfying the three gateways, deemed not to meet minimum substance indicators and unable to rebut the presumption of being a shell company face several tax consequences.

These include denial of a certificate of tax residence, denial of tax benefits under tax treaties and EU tax directives, treatment as a disregarded entity by member states where shareholders are located, and imposition of withholding taxes on payments to the shell entity.

Step 7: Exchange of info and tax audits

Member states gain automatic access to information on shell entities through the automatic exchange of information under the Unshell Directive. Additionally, member states may request tax audits when there is suspicion of non-compliance.

The Unshell Directive imposes non-compliance penalties, with the European Commission proposing an administrative pecuniary sanction of at least 5% of the entity's turnover in the relevant tax year.

ATAD 3 – The EU's approach and recent developments

Jelle provides a critical perspective on the EU's approach, stating that "the EU is using a sledgehammer to crack a nut." With only 0.3% of companies falling within the classification of a shell company, Jelle suggests that the EU's existing anti-abuse rules, including substance concepts and various domestic and treaty provisions, already address tax avoidance concerns.

Recent developments, including a compromise proposal from the EU Council's Spanish presidency, aim to ensure that the Unshell Directive does not undermine existing member states' anti-abuse rules. On 5 September 2023, concerns were raised during a meeting of the EU working party on tax questions. Some countries expressed worries that entities not considered shell companies under the Unshell criteria could be deemed legitimate, thus evading national anti-abuse rules.

The compromise proposal emphasises that the Unshell Directive does not introduce new standards but adds value by identifying "manifest" shell entity cases through a risk-based process and presumption.

Entities not considered manifest shell entities won't be subject to additional obligations and consequences under the Unshell Directive

Entities not considered manifest shell entities won't be subject to additional obligations and consequences under the Unshell Directive. However, the member state where such an entity is located retains the right to conclude otherwise after an audit under its national rules.

Further clarifications ensure that the administration of another member state could consider such an entity as lacking sufficient economic substance under national provisions, even if not under the directive. The compromise proposal aims to prevent Unshell from undermining national anti-abuse or anti-tax-avoidance rules.

Member states are encouraged not to be precluded from applying further consequences to entities considered shells under Unshell or parties not subject to consequences under Unshell.

The proposal also suggests adjustments to the revenue threshold and book value for entities excluded from the directive's scope. Governmental entities fully owned by governments of member states or not considered high-risk entities are excluded from Unshell.

Significant update

However, on 23 November 2023, the Spanish presidency passed the Unshell Directive file to the Belgians. It is now up to EU Council's Belgian presidency to reflect about the way forward. Reportedly, since the member states were generally not enthusiastic about the Spanish Proposal, the Belgians will draft a new proposal based on the so-called two step approach which entails exchanging information on shell entities and on best practices regarding the use of that information. That means that the EU would abandon the Spanish proposal which makes the substance criteria for shell companies a minimum standard which would allow member states to set stricter standards and maintain a toolbox of tax consequences in this Directive

As the directive undergoes further discussions and potential amendments, staying informed and agile will be crucial for businesses operating within the EU.

Closing the gap

The impact of 2024 EU VAT Regulations on the gig economy hit the headlines recently as consumers reacted to the 1 January update. The new regulations, now only partially rolled out across the EU, have been created to fill the VAT shortfall. After a recent landmark court ruling, digital platforms such as Uber and Airbnb are just some businesses responsible for reporting income of individuals using their platforms to sell services.

We spoken to Luc Heylens to explain what it means for businesses with operations in Europe.

LUC HEYLENS

Kreston Global Indirect Tax Group Technical Director and Director of VAT at Kreston VDN, Belgium

VAT in the Digital Age (ViDA)

The digital economy has long been stress-testing antiquated tax systems, set up well before the onset of the Internet. The EU VAT gap has been a focus of the European Commission, with lost revenue in Member States reaching €99 billion in VAT revenues in 2020. ViDA (VAT in the Digital Age) has been part of the response, with the new legislation adopted across the region from 1 January 2024. In regards to the introduction of ViDA. Heylens is resolute about the change,

"Conservative estimates suggest that one-quarter of the missing revenues can be attributed directly to VAT fraud linked to intra-EU trade. The new system introduces real-time digital reporting for VAT purposes based on e-invoicing that will give Member States valuable information they need to step up the fight against VAT fraud, especially carousel fraud."

Shortening the €99 billion VAT gap

The European Commission has already seen impressive reductions in the VAT gap, reducing to €61 billion in 2021. This has been attributed to a number of different environmental factors, not least an improvement in compliance during COVID so business could access support.

Heylens believes that ViDA will be welcomed by businesses,

"VAT arrangements in the EU can still be burdensome for businesses, especially for SMEs, scale-ups and other companies that operate cross-border. There is already a great deal of cost involved when starting the business. ViDA allows businesses to pay VAT in just one member country. The administrative burden is then on that country to share the VAT correctly to other member countries."

The introduction of a single VAT registration across the EU

Building on the already existing 'VAT One Stop Shop' model for online shopping companies, the proposals would allow businesses selling to consumers in another Member State to register only once for VAT purposes for the entire EU, and to fulfil their VAT obligations via a single online portal in one single language. Further measures to improve the collection of VAT include making the 'Import One Stop Shop' mandatory for certain platforms facilitating sales to consumers in the EU.

Digital businesses

New digital economy businesses have also brought in the gig economy, a challenge in terms of understanding what a business is before VAT can be applied. Recent court cases against two global platforms, Airbnb and Uber, have established drivers and home-owners as workers and not contractors, meaning the individuals are now subject to VAT. Uber was ordered to pay the UK HMRC £615 million in outstanding VAT in 2022, opening the door for the European Commission to insist that platform businesses correctly declare on their VAT in member states. Heylens feels the tightening of regulations was inevitable,

"In this digital age, the EU recognises the complexity of identifying who exactly provides services such as accommodation rentals or transport. The crux of the issue lies in distinguishing whether the service provider is an individual, like a driver, or a company, such as Uber. This becomes particularly challenging when individual service providers, who are physical persons, are required to register for VAT in their respective countries. This requirement can lead to a burdensome amount of formalities, often for minimal gain. Therefore, if VAT payments were to be centralised through these platforms, it would streamline the process, reducing the administrative workload for individual service providers and ensuring a simpler method of VAT collection."

Impact on SME businesses

Heylens is hopeful the SME sector will take heed of these developments and prioritise paying the correct VAT,

"Under the new rules, platform economy operators, in particular the short-term rental of tourist accommodation and passenger transport will become responsible for collecting and remitting VAT to tax authorities when their users do not, for example because they are a small business or individual provider (deemed suppliers). From 2025, these platforms will be made responsible for VAT payments in certain situations (C2C and C2B transactions). The implementing regulation stipulates that the platform is subject to VAT in all cases where the provider has not provided a valid VAT number."

Considering readiness for digital VAT

These proposals and possible changes will probably have a significant impact on companies' systems and processes. Businesses operating in the EU should start to consider their readiness for the changes should they come into force, particularly in respect of the systems changes that would be required for standardised e-invoicing. The simplification regime (OSS) if implemented, offers opportunities for businesses to streamline their reporting obligations.

Heylens believes most businesses will cope well with the changes, but warns businesses should be considering these updates in their financial planning,

"Of course, individuals and businesses often seek ways to circumvent paying VAT, which is a typical practice in taxable transactions, such as the Uber case in the UK. It foreshadows the likely penalties for smaller businesses, the magnitude of unpaid taxes and ensuing settlements highlights the significant financial stakes involved. It's crucial for us to guide our clients, especially those in the gig economy or utilising various platforms, towards adhering to VAT regulations. Given the severe financial implications of non-compliance and the impending enforcement of new regulations within a few months to a few years, it's imperative that we inform and prepare our clients promptly."

Doing business in Western Europe

Innovation incentives in The Netherlands

The Netherlands, with a strategic approach to economic development, offers an attractive marketplace for businesses seeking innovation and growth. The Dutch government has implemented an array of incentives to attract and nurture investment across various sectors. These initiatives not only underscore the country's commitment to fostering a competitive business environment but also reflect its commitment to sustainability and technological advancement.

Top sectors and innovation policy

Central to the Dutch strategy is the focus on 10 Top Sectors, areas where the Netherlands boasts significant global relevance. These sectors include AgroFood, Horticulture, High Tech, Energy, and more. The government, through Public Private Partnerships (PPPs), offers substantial support to these sectors. Each sector has an innovation contract that outlines specific goals and strategies, paving the way for enhanced research and development, particularly in tackling societal challenges like climate change.

Dutch Research and Development Act (WBSO)

The WBSO (Dutch Research and Development Act) is a scheme designed to encourage technological innovation by offering tax benefits for R&D expenditure. It provides tax relief for wage costs and other R&D expenses by offsetting a percentage of these costs against wage tax. Initially, the WBSO only covered wage costs, while other R&D expenses, like equipment purchases, were subsidized by the Research & Development Allowance (RDA).

However, since 2016, both the WBSO and RDA have been merged under the WBSO name, with tax benefits now available as a wage tax rebate. The rebate amount depends on total qualifying costs and is applied to different types of R&D projects, including technical-scientific research, product development, and new software development. Specific R&D work in pharmacy also qualifies for the WBSO. The rebate rate is 32% for the first €350,000 and 16% beyond that, with start-up entrepreneurs receiving a 40% rebate on the first €350,000. Applications for the rebate must be submitted online, with varying deadlines depending on the type of enterprise.

Innovation Box

In the Netherlands, companies engaging in qualifying R&D activities can benefit from a reduced 9% effective corporate tax rate under the Innovation Box regime. This incentive is aimed at stimulating innovative research and development.

To qualify, companies must meet certain conditions. For small taxpayers, an R&D statement is sufficient to enter the Innovation Box, which may include unprotected intellectual property (IP). Larger taxpayers require both an R&D statement and a "legal ticket," which could be a patent, software registration, or similar legal acknowledgment.

Small taxpayers are defined as those with gross benefits from all intangible assets under €37.5 million over five fiscal years and a net turnover no more than €250 million. Benefits from innovation or technology are eligible for the Innovation Box if they exceed the total production costs of those assets, known as the box threshold. This threshold includes manufacturing costs but excludes fundamental research costs.

Benefits that can be allocated to the Innovation Box include royalties, sales profits, or part of the proceeds from a product, but they can be reduced if part of the R&D is carried out by an affiliated party. The effective 9% tax rate applies only to qualifying R&D benefits that exceed the production costs.

Taxpayers can annually opt to place qualifying intangible assets in the Innovation Box. However, assets still under development are ineligible. Innovation losses are deductible at the standard tax rate and can be offset against taxable profits from other years.

For small R&D benefits, a lumpsum option allows taxpayers to apply a fixed percentage of the profit (up to 25%, maximum €25,000) for the Innovation Box, simplifying the process for businesses with smaller-scale R&D activities. The lump sum applies to the year of asset production and the following two years.

Regional subsidies

In alignment with the European Fund for Regional Development (EFRD), the Netherlands provides regional subsidies focusing on innovation, research, digital agenda, SME support, and the transition to a low-carbon economy. These subsidies are tailored to address the unique needs and opportunities within different regions of the country.

Investments

The Dutch government's investment incentives encompass a wide range of areas. Three notable schemes are the Environmental Investment Deduction (MIA), the Energy Investment Deduction (EIA) and the Kleinschaligheids-investeringsaftrek (Small-Scale Investment Deduction)

MIA (Milieu Investerings Aftrek) (Environmental Investment Deduction Scheme)

The MIA encourages investments in environmentally-friendly equipment and technologies. It allows companies to claim additional tax deductions based on a percentage of their investment costs in sustainable technologies, supporting the transition to a greener economy.

EIA (Energie Investerings Aftrek) (Energy Investment Deduction Scheme)

Parallel to the MIA, the EIA incentivises investments in energy-efficient technologies and sustainable energy. Companies investing in energy-saving equipment can avail themselves of tax deductions, underscoring the government's commitment to energy conservation and sustainability.

Kleinschaligheids-investeringsaftrek (Small-Scale Investment Deduction)

The Small-scale Investment Deduction allows entrepreneurs to deduct investments in capital equipment ranging from €2,600 to €353,973 in 2023. Deductions are applicable in the year the investment is made, coinciding with the purchase and payment obligation for the capital equipment. If the equipment is not intended for use within the year of investment, a portion of the deduction can be deferred to the following year.

Finance

The Netherlands offers various financing incentives, notably the BMKB (Credit Guarantee Scheme for SMEs) and the GO (Corporate Credit Guarantee).

BMKB (Borgstelling MKB Kredieten) (Credit Guarantee Scheme for SMEs)

The BMKB aims to facilitate credit provision to SMEs, enhancing their ability to secure loans by providing government guarantees for a portion of the credit amount, thereby reducing the risk for banks.

GO (Garantie Ondernemings-financiering) (Corporate Credit Guarantee)

The GO assists larger companies in borrowing significant amounts by offering a government guarantee on a portion of the capital, thereby easing access to financing.

Other Financial Schemes

In addition to the above, the Dutch government provides a range of financial instruments to support the transformation of ideas into profitable new products, services, and processes. These schemes cater to both SMEs and larger companies, facilitating innovation and growth.

Thanks to the Kreston Netherlands team that supplied this information for this article.

Navigating Business in Germany

ANDREAS KATZ

Senior Associate Partner
Kreston Bansbach

Germany is regarded as the European powerhouse of innovation and industrial strength. The first half of the decade has challenged that long-held accolade, with sluggish growth over the last 3 years caused by a struggling manufacturing industry.

However, as we step into 2024, the dynamics of doing business in Germany are shifting, marked by new challenges and opportunities. In a recent interview, Andreas Katz, Senior Associate Partner at Kreston Bansbach in Germany, tells us more.

Cost-saving structures

One of the key questions facing businesses today is whether to pivot away from China towards European suppliers to protect their value chain. Katz notes, "Our clients at Bansbach, mostly medium-sized groups...often contract with third-party suppliers within Europe to save on logistics costs.

Subsidiaries of these medium-sized groups in Asian countries like China are often focused on sales activities and limited assembly work and not on production. While certain clients have pivoted away from certain countries like China within their supplier base now that political risks are more heavily weighted, this is not a major trend within our client base at Bansbach "

Transfer pricing

A significant aspect of doing business across borders, Katz points out an increase in transfer pricing-related tax audit issues, stating, "We expect this trend to continue and that transfer pricing issues will often be the main focus in tax audits." He warns of the financial risks associated with non-compliance, "In case the transfer pricing set-up of a group is not compliant with the applicable international and national standards and a group does not actively monitor its transfer pricing, findings in these tax audits can quickly amount to very significant amounts."

Katz underscores the need for businesses to "actively monitor its transfer pricing." His advice is clear – ensure compliance with international and national standards to mitigate the risk of significant financial repercussions.

Energy crisis

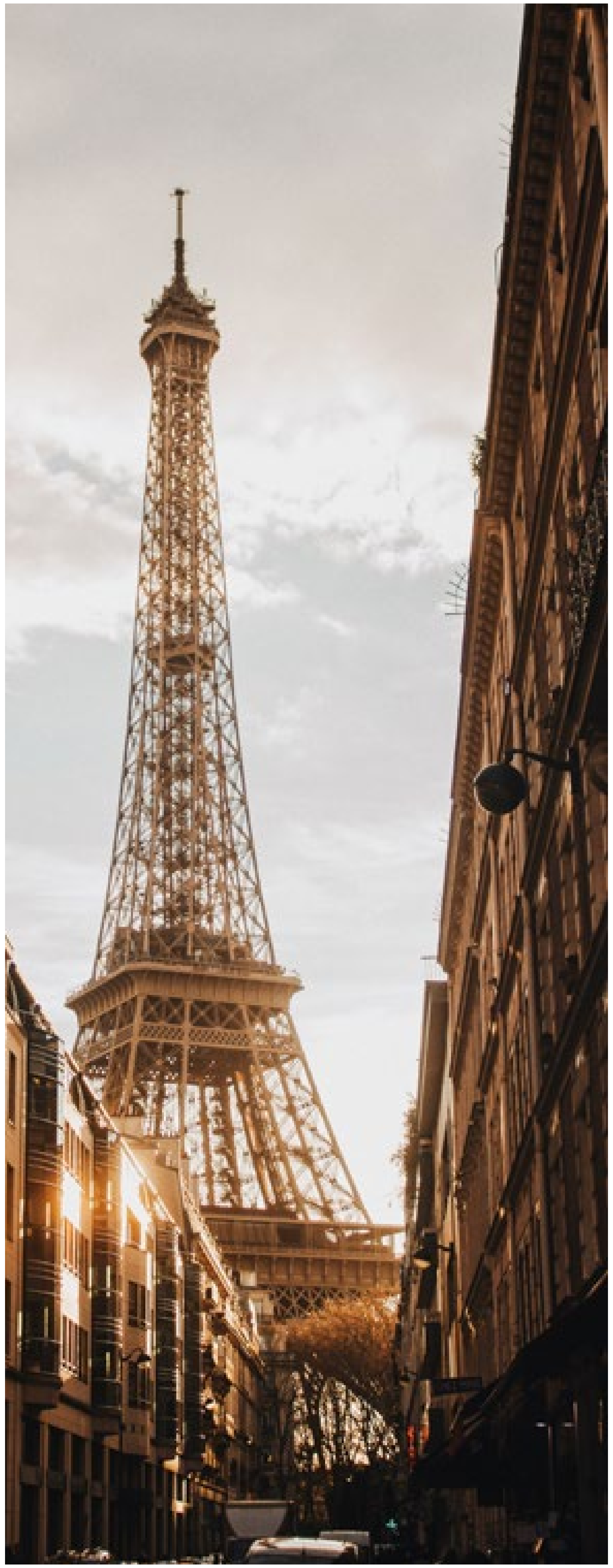
The energy landscape has always been a cornerstone of industrial activity, and recent geopolitical events have brought this into sharp focus. Katz highlights the impact of the Russia-Ukraine war on energy prices, a challenge particularly for energy-intensive industries. He notes, "The loss of [cheap energy from Russian gas] is a major challenge that may very well be one of the defining issues for German industrial development for years to come." This situation demands strategic foresight from businesses, particularly in planning for energy cost fluctuations and exploring sustainable alternatives.

Advice for 2024

For businesses looking to expand into Germany, Katz offers a word of caution and guidance. "Ensure that they are compliant with transfer pricing regulations and actively manage their transfer prices," he advises, "Given that it is not always possible to resolve resulting double taxation with all countries this may lead to final double taxation and therefore is a significant financial risk."

Impact of SME relief package in France

In September 2023, the European Commission announced a relief package to support the 24 million SMEs that represent 99% of all businesses. The package, a mix of streamlining administration processes and a support fund, has been created to support the cornerstone sector, that has felt the turbulence of the last few years keenly. We spoke to Virginie Lopes in France, Directrice Marketing & Communication du réseau Exco, Exco SAS, to get an understanding of how this investment might support doing business in France.



VIRGINIE LOPES

Directrice Marketing & Communication du réseau Exco, Exco SAS

Opportunities for SMEs

Lopes believes the critical development on the horizon is the European Commission's September announcement of a relief package for SMEs offers tangible benefits for their clients, stating, "Reduced administrative hurdles streamline procedures, saving time and costs. This allows for smoother cross-border activities and better resource utilisation."

These improvements are not to be overlooked. Administration costs can eat into cash flow, essential for riding out tough economic times, "Streamlining administrative procedures and facilitating cross-border activities through platforms like "Your Europe" can enable our clients to expand their market reach, tap into new opportunities, and foster international growth."

Funding

In addition, Lopes highlights the access to financing, stating, "The availability of €200 billion in funding until 2027 offers a unique opportunity for our clients to fuel growth, innovation, and resilience within their businesses."

Beyond finances, Lopes shares the significance of addressing skills shortages, saying, "Recognising qualifications from third-country nationals provides our clients with a more skilled workforce, aiding in tackling operational challenges and fostering innovation."

The emphasis on sustainable finance aligns with evolving market demands. As Lopes notes, "Support for SMEs in adopting sustainable practices helps our clients align with consumer expectations and regulatory requirements." Essentially, these measures create an ecosystem fostering growth and sustainability for French clients.

Trends and challenges

Reflecting on the past year, Lopes acknowledges France's continued success in attracting foreign investment, particularly in industrial and R&D projects. However, Lopes cautions that internal and external challenges, such as inflation and geopolitical uncertainties, could impact the nation's competitive standing. "France's capability to attract businesses in innovative sectors is commendable, but challenges like inflation and geopolitical uncertainties add a layer of complexity."

Market knowledge

Lopes offers strategic insights for international businesses eyeing France in 2024, "Understanding the business environment is key. Familiarise yourself with French culture, regulations, and legal frameworks. Consult with local experts to navigate the market effectively."

Familiarise yourself with French culture, regulations, and legal frameworks

She also highlights the importance of local partnerships: "Establish collaborations with local entities. This enhances your understanding of the market and builds a foundation for successful operations."

Adaptation to regulations is a key to success, "Ensure compliance with French business regulations, labour laws, and industry standards. This might involve adapting products, services, or processes to align with local requirements."

Turning to talent acquisition, she advises, "Leverage France's skilled workforce. Explore local talent pools and take advantage of incentives for hiring and training employees."

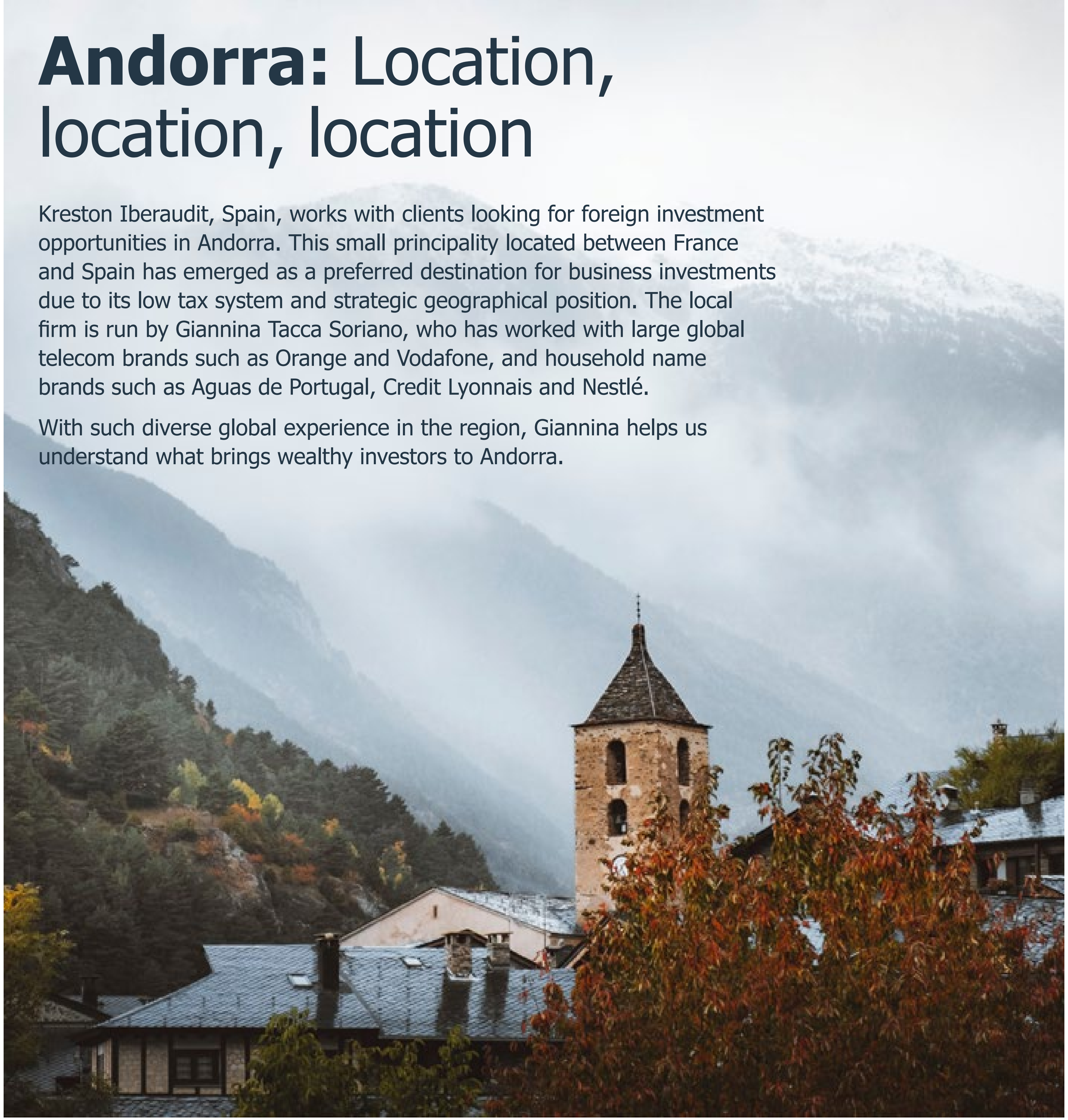
Localisation strategy

"Market Localisation is important to break into the market in France. Tailor your strategies to suit the French audience. Localisation enhances your market penetration and resonates with local consumers."

Highlighting the rising importance of sustainability, Lopes encourages businesses to "Align practices with environmentally friendly approaches. This resonates well with the French market, which values eco-conscious initiatives."

Lopes concludes with a nod to the power of networking, stating, "Engage in local networks, attend industry events, and participate in community initiatives. Building relationships within the French business community opens doors for opportunities."

Andorra: Location, location, location



Kreston Iberaudit, Spain, works with clients looking for foreign investment opportunities in Andorra. This small principality located between France and Spain has emerged as a preferred destination for business investments due to its low tax system and strategic geographical position. The local firm is run by Giannina Tacca Soriano, who has worked with large global telecom brands such as Orange and Vodafone, and household name brands such as Aguas de Portugal, Credit Lyonnais and Nestlé.

With such diverse global experience in the region, Giannina helps us understand what brings wealthy investors to Andorra.

GIANNINA TACCA SORIANO

Partner, Kreston Iberaudit, Andorra

Tax benefits

Explaining the attraction of the country to investors, Giannina highlights the signigicant tax benefits,

“It offers significant tax benefits for companies, helping them reduce their tax burden and enhance competitiveness. The country is within convenient reach of major European cities and ports, such as Barcelona, Madrid, and Marseille.”

This attraction to Andorra for investors is significantly rooted in its tax system, concludes Giannina, “a series of tax benefits that make it an interesting option for companies seeking to optimise their tax burden. This approach to taxation is not about creating a tax haven but about establishing a low-tax regime that aligns with the guidelines of the OECD.”

The government tax on business profits (I.S. Impuesto de Sociedades) is capped at a maximum 10% on EBITDA, making it an economically viable option for businesses. Additionally, the cost of labour and social security contributions are competitive, providing further financial incentives for businesses.”

2012 Foreign Investment Law

Giannina believes a pivotal moment for Andorra’s economic trajectory was the introduction of the Foreign Investment Law in 2012.

“This legislation opened doors for global investors, allowing any foreigner to invest in Andorra. This move, coupled with Andorra’s adherence to international tax standards, has positioned it as a reliable and attractive destination for global capital.”

Geographically, Andorra’s proximity to major European cities is a significant advantage, just 200 km by car from the Port of Barcelona, 5 hours by train from the city of Madrid, and 500 km from the Port of Marseille. This strategic location provides convenient access to key European markets, adding to Andorra’s appeal as a business hub.

Personal tax

Individuals seeking fiscal residence in Andorra are also drawn by the tax benefits, explains Giannina,

“The personal income tax system is simple, with a maximum rate of 10% for personal income above €40.000 and rates as low as 5% for any annual personal income lower than €40,000 or 0% tax if the income is lower than €24.000. This tax structure is attractive compared to many other countries, offering significant savings for residents.

Housing crisis

Andorra's economy has seen growth, particularly in the real estate sector, reflecting its increasing attractiveness as a business and residential destination. The demand for real estate has "had a 25% yearly increase" in recent years, and prices have risen "from an average purchase price of €2,100/m² in 2018 to €4,500 /m² in 2023, expected to be €5.300/m² in 2024."

Andorra's urban development has been responsive to its growing population, which has "increased from 70,000 inhabitants in 2012 to 82,000 in 2022, with an expected 100,000 by 2027." This population growth, driven by new residents, is creating opportunities in construction, services, and real estate sectors.

Recently, Spanish and French Youtubers moving into the area have been blamed for a housing crisis, causing the government to instigate a temporary ban wealthy foreign investors buying property. These investors are attracted by lifestyle benefits and appealing tax system, notes Giannina,

"The digital sector finds Andorra promising due to its commitment to technological infrastructure and favourable tax rates for digital enterprises. In case of being a YouTuber, influencer, or digital content supplier, your income will be taxed in Andorra at 10% EBITDA and 10% Personal Income."

Although this newest move to restrict the sale of property to foreign investors is a temporary measure, it is set to be replaced by a tax on all foreign property purchases. The revenue generated from this tax will be allocated to constructing more affordable rental housing, addressing the needs of local Andorrans.

Passive residence

However, Giannina cautions that there is still ways to by-pass this move;

"The ban applies to non-residents, suggesting that wealthy foreigners might simply respond by applying for residency permits to be treated as residents. A residency option called "passive residence" requires living in Andorra for just 90 days per year. It is an attractive option for affluent individuals, particularly digital nomads, who earn their income abroad.

Passive residents are typically obliged to invest at least €600,000 in the country, with a substantial portion directed towards property. However, this requirement can be waived for individuals earning money outside Andorra. This aspect of the residency program underscores the complexity of addressing housing affordability in a nation where attracting wealthy foreign investors and residents has long been a cornerstone of the economic strategy."

Wealth management

After a housing market stagnation that began in 2008 and started to see changes in 2016, Andorra sees itself in an unusual predicament, a victim the success of its own taxing policies. However, its transformation from a quaint mountain principality to a bustling centre of international business, the country is still keen not to be considered a tax haven,

"Andorra is recognised and accepted by International Tax Institutions of the OECD as not being a tax haven but a low taxes country that applies the OECD procedures. Its low tax policies can still appeal to wealthy investors. Almost 70% of the Moto Grand Prix Teams (competitors and technicians) live in Andorra; as well as cyclist runners who enjoy cycling up and down the different hills of Andorra. In addition, Andorra offers great security with almost nonexistent street robbery.

With a low VAT tax on Capital Sell such as 2.5% tax and 0% tax on capital gains, Andorra has also attracted professional art collectors that live and make businesses in the principality, including Gorgeov, Philippe Shangti and the Thyssen Baroness Carmen Cervera "

With a high quality of life and a favourable tax regime, investors will continue to find Andorra attractive for some time.

Successful M&A strategies in Spain

DAVID OLIVARES MARTÍNEZ

Managing Partner
Kreston Iberaudit, Madrid

David Olivares Martínez Managing Partner at Kreston Iberaudit shares insight from 20 years of developing successful M&A strategies in Spain. David was recently included in the 16th edition of Best Lawyer in Spain™ 2024 in the Corporate and M&A category, making him well-placed to understand the nuances of buying and selling companies is more than just a business necessity – it is an art form, particularly with a volatile M&A market in Spain.

"Corporate professional services in purchase and sale transactions are not just obligations but essential for our clients, especially given the growth in corporate transactions in recent years," says David.

When to sell

Understanding when and why to sell a company is a decision layered with complexities. As David notes, "It could be due to a new competitor altering industry norms, the retirement of an owner, or the challenges of generational replacement." These factors underscore the need for expert guidance in timing and strategy.

The process is far from formulaic. "Not all companies hold the same value or are sold in the same manner," David remarks. Each transaction is unique, influenced by internal dynamics, management styles, sector specifics, and market conditions. This demands a tailored approach, considering factors like speed, confidentiality, and price.

Investment groups

Investment groups, too, face their challenges. "Buying a company at the right time and price, understanding market synergies and strengths, these are strategic issues that require in-depth analysis," David adds. This highlights the importance of expertise in guiding acquisition decisions.

Bringing in all elements of M&A transactions under one roof offers value for money to the client, with the role of the legal team particularly crucial.

"They ensure compliance in various areas like commercial, labor, tax, and financial regulations, while also identifying potential contingencies that could impact a transaction. Our goal is to offer legal coverage in all areas, ensuring our clients always operate within the legal framework," David emphasises.

Ongoing relationships

"Once a transaction is closed, our involvement doesn't end. We continue providing services based on the client's ongoing needs, be it legal, tax, or outsourcing," says David.

This coordinated effort across all business areas ensures that we provide an optimal service focused on our client's best interests."

Spain: A high achiever for 2024

We recently spoke to Elena Ramírez Marín, partner at Kreston Iberaudit about the surging interest in investing in Spain during 2023 and the outlook for 2024. Spain attracts international businesses from the USA, UK and Germany, a trend underscored by striking figures: a gross foreign investment exceeding €34,178 million in 2022, marking the second highest since records began in 1993. With record FDI coming in, exports going out also hit a record €319.86 billion. This good news is underlined by the European Commission's prediction that Spain will continue to outperform the German economy almost 2:1 for the next 2 years.

"In the first three months of 2023, Spain saw an 8.1% increase in gross foreign investment compared to the same period in 2022, with non-ETVE (holding) investment growing by 20.3% to reach 9,912 million euros. This marks a 50.8% rise from the five-year average. Industry emerged as a key sector, attracting 48.8% of total foreign investment, almost equal to the 48.5% garnered by the services sector, while construction received 2.6%."

Strategic location

Ramírez highlights Spain's unique geographical position: "at the crossroads of Europe, Africa, and Latin America." This strategic placement not only facilitates entry into diverse markets but also enables companies to establish robust international business connections. The time zone advantage is a cherry on top, allowing for efficient global coordination, which is vital in today's interconnected business world.

Talent pool and quality of life

The availability of a skilled workforce is a crucial asset for any country aiming to attract businesses. Ramírez emphasises Spain's strength in this regard, citing its "internationally renowned universities and specialised training centres." This, coupled with Spain's high quality of life, positions it as an attractive destination for both businesses and talented professionals from around the globe.

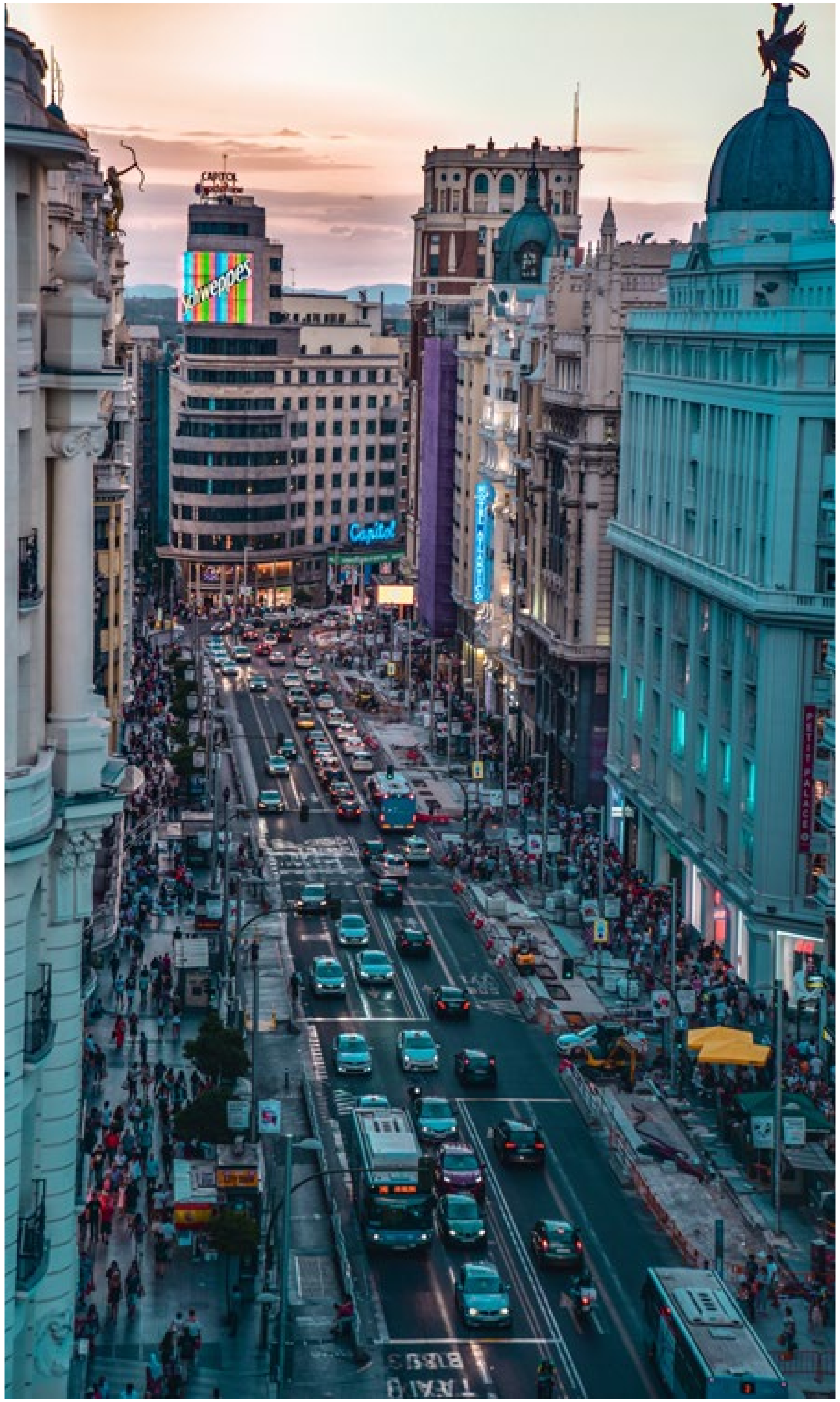
Economic stability

Spain's economic resilience, particularly in overcoming recent challenges, cannot be overstated. Ramírez points out that this stability creates "an enabling environment for companies seeking to grow and expand in a climate of certainty." In an era marked by global economic volatility, this stability is a beacon for companies seeking a secure environment for their investments.

"Despite a challenging international environment, Spain's foreign trade remains robust, particularly in exports, which have grown faster than those in neighbouring countries. In 2022, Spain ranked as the fourth largest exporter of agri-food and fisheries products in the European Union, trailing only the Netherlands, Germany, and France. Globally, it stood as the eighth largest exporter in this sector, with the top three being the United States, Brazil, and the Netherlands."

Financial incentives

The country's fiscal policies are strategically designed to attract investment.



ELENA RAMÍREZ MARÍN
Partner
Kreston Iberaudit

Ramírez notes the "various tax incentives and benefits to companies, including patent box, digital nomad incentives, holding companies and tax exemption on digital innvoation within the Spanish tax system. These incentives, along with accessible financing and attractive banking conditions, lower the barriers to entry for businesses and stimulate job creation, vital for any thriving economy."

Robust infrastructure and connectivity

Spain's infrastructure plays a significant role in its business appeal. Ramírez underscores this, pointing to the country's "modern infrastructure and efficient transport network." From extensive road and motorway networks to advanced rail systems and strategic seaports, Spain offers seamless connectivity essential for business operations and logistics.

Spain in the European and global context

As a member of the European Union, Spain offers businesses key access to the single market and a network of international trade agreements. This access is invaluable for companies looking to expand within the EU or establish global operations. The significant foreign investment and dynamic foreign trade, particularly in the agri-food sector, underline Spain's role as a pivotal player in the global economy.

A family success

Famatel is one such success story of the rapidly growing Spanish economy. A Spanish multinational with a global presence experienced a rapid expansion. As a family business, Famatel needed flexible and adaptive support.

Kreston Iberaudit's supported restructuring the group for optimal taxation, along with providing expert advice on Transfer Pricing and compliance with Spain's tax obligations, underlines the critical support local expertise can offer in the complex arena of international business expansion.

Famatel's satisfaction with Kreston Iberaudit, leading to subsequent collaborations in other countries. Montse Duran, CFO at Famatel, attests to Kreston Iberaudit's ability to "quickly detect and satisfy the needs" of Famatel in areas like accounting, tax, and finance, highlighting the importance of close attention and customised solutions in international business.'

Cross-border working in Europe

Martin Bonner, partner at AREA Bollenberger in Austria, shares his insights into the trends, challenges, and recommendations shaping the world of transfer pricing and cross-border operations.

MARTIN BONNER
Partner
AREA Bollenberger, Austria

Supply chain security

As businesses look for cost and risk saving opportunities, safeguarding supply chains comes first. Martin Bonner sheds light on this shift, "Companies are increasingly practising nearshoring where feasible."

"The motivation for this move is multifaceted. Supply chain security, compliance considerations, and cultural compatibility are key drivers." However, the shift is challenging. Bonner acknowledges challenges such as the availability of European suppliers and the persistent need to source from regions like Asia due to cost considerations. "If sourcing from the Far East proves significantly cheaper, it remains a viable option," pointing to regulatory measures like the Carbon Border Adjustment Mechanism (CBAM), prompting a shift towards EU sourcing to sidestep compliance and import costs.

Transfer pricing dynamics

The relocation of production from Asia to Eastern Europe brings new opportunities and challenges in transfer pricing. Bonner explains, "Transfer pricing setups generally simplify when production shifts from Asia to Eastern Europe."

However, the simplicity comes with a caveat. Tax audits in the Far East often deviate from understanding European transfer pricing regulations, raising the spectre of double taxation. Bonner emphasises the importance of assessing transfer pricing setups locally in all regions involved.

Bonner highlights the value of leveraging the Kreston network to mitigate this risk. "Our Kreston network is beneficial, with local TP experts reducing the risk of double taxation," he states, underlining the significance of a global support system in navigating the intricacies of cross-border operations.

Risky business

Reflecting on the past 12 months, Bonner observes a shift in the dynamics for international clients doing business in Austria. "Compliance work has increased, and economic, geopolitical, and global political risks have led to a decreased willingness to invest," he notes. Investments, when made, are now more strategically focused on domestic or closer markets, mirroring a trend of risk aversion and heightened scrutiny in the current geopolitical climate.

Advice for 2024

As businesses contemplate expansion into Austria in 2024, Bonner offers a comprehensive set of recommendations. "Our experience shows that even smaller companies are increasingly subject to transfer pricing audits," he warns. Bonner stresses the importance of proactive engagement with tax aspects from day one, encompassing transfer pricing and withholding tax, VAT, customs, and the implications of regulatory measures like CBAM.

"With the extensive resources and expertise of the Kreston network at our disposal, we are well-equipped to provide top-tier services addressing all these aspects," assures Bonner. His advice underscores the necessity for a holistic approach and strategic foresight to navigate the intricate web of cross-border business operations. As businesses chart their course through the challenges and opportunities of international trade, insights from experts like Martin Bonner offer a valuable compass, guiding enterprises towards success in an increasingly complex global landscape.

Investing in Italy

To understand more about foreign investment in Italy, we talked with Claudio Legnazzi, partner at Legnazzi & Partners, a consultancy firm based in Italy specialising in legal and financial advisory services.

CLAUDIO LEGNAZZI

Partner
Legnazzi & Partners, Italy

Routine legislation

Understanding the regulatory climate is crucial for potential investors eyeing Italy. Claudio Legnazzi states, "Normally in Italy, two 'Finanziarie - Financial Laws' are issued yearly. However, the laws 2023 have not introduced any significant innovations or exciting aspects for any foreign companies/ individuals interested in operating in Italy."

While lacking groundbreaking changes, this regulatory stability presents an environment of predictability—a factor highly valued by investors seeking assurance in their business endeavours. Italy upholds its established legal framework, fostering an atmosphere conducive to foreign investment.

A focus on food and tourism

The service sector, a basis of Italy's economic framework, has witnessed notable changes in the past year. According to Legnazzi, "I believe the greatest growth during 2023 in the world of services concerns the food sector and tourism." In the food sector, a surge in new establishments, both small and large, reflects the enduring popularity of Italian cuisine. Renowned restaurateurs have extended their influence abroad, showcasing the global appeal of Italy's culinary offerings.

Simultaneously, tourism demand has experienced a pronounced shift, with certain regions gaining prominence. Legnazzi notes, "The islands are always in vogue, but the demand also continues to grow for Puglia, in particular." This diversification in tourism interests presents opportunities for investors exploring different facets of Italy's service economy.

Outlook for the next 12 months

Looking ahead, Claudio Legnazzi adopts a cautious stance for the next 12 months. He states, "As far as the next 12 months are concerned, I don't believe we will see significant growth." The ongoing geopolitical landscape, marked by global conflicts, contributes to a climate of uncertainty. This uncertainty, Legnazzi suggests, is likely to keep the market relatively stagnant as investors adopt a wait-and-see approach.

ESG policies: a growing conversation

Environmental, Social, and Governance (ESG) policies are gaining prominence globally, but their impact in Italy is still evolving. Legnazzi observes, "At the moment in Italy, there is much talk about 'ESG', but few companies are already prepared for ESG policies." He highlights that only some large groups are presenting their first sustainability reports, emphasising that the journey toward comprehensive ESG integration is still in its early stages.

The regulatory push for ESG is evident, with Legnazzi noting, "The Bank of Italy itself has asked companies operating in the banking and insurance world to fill out a questionnaire indicating the steps envisaged in the three years 2023-2025." This signals a growing awareness of the importance of sustainability practices, with regulatory bodies taking steps to encourage corporate responsibility.

While challenges are evident, the allure of Italy's cultural and economic offerings continues to interest investors, urging them to navigate through uncertainties with a strategic approach. Although Legnazzi believes Italy in a holding pattern for now, ESG regulation and supporting funding initiatives could still see Italian businesses considering restructuring to meet these new standards.

Doing business in Portugal

Investing in Portugal is on the rise, particularly in Lisbon. Outperforming cities like Budapest and Rio in the Cities of Economic Influence Index, Lisbon offers a mix of economic promise and a conducive regulatory landscape. Kreston Iberaudit in Portugal, guided by João Lopes da Silva's leadership, provides essential services from financial consulting to tax advisories for expatriates. We asked him to walk us through the essentials of setting up a business in Portugal.

JOÃO LOPES DA SILVA

Managing Partner
Kreston Iberaudit, Portugal

Expanding into Portugal

Lopes da Silva's expertise and Kreston's guidance are invaluable for businesses aiming to thrive in Portugal's promising market, where understanding the economic, regulatory, and tax environments is crucial for successful expansion. Lopes da Silva expands,

"Portugal appears among the best countries to invest in. Lisbon is one of the most influential cities in economic terms. It is the only Portuguese destination present in the Cities of Economic Influence Index, ahead of Budapest and Rio de Janeiro. Portugal's capital city scored 72,4 points in the Economic Power category and 78,86 points in the People and Politics indicator, according to CEOWorld's magazine. In short, all these reasons make Portugal well placed for the future growth of its economy"

Business structuring in Portugal

However, venturing into the Portuguese market requires careful navigation through various business considerations. Kreston Iberaudit stands at the forefront of this journey, offering expertise in areas ranging from administrative services, and financial consulting, to tax regime advisories for expatriate personnel. Lopes da Silva warns that the regulatory landscape can be tricky for new businesses to navigate,

"For entrepreneurs, understanding the investment landscape is crucial. Incorporating a Limited Liability Company (Lda.) in Portugal can start with as little as 1 Euro, whereas a Limited Company (S.A.) demands a minimum capital of 50,000 Euros. The process, ranging from 15 to 45 days, is streamlined,

but demands adherence to local regulations including obtaining a tax identification number for foreign investors and directors."

Business structure selection is pivotal, balancing between Limited Companies, which offer limited liability and local business perception, and Establishments, serving as extensions of overseas parent companies without separate legal identities. Each structure bears its unique tax and audit obligations, influencing the decision-making process. Lopes da Silva recommends following advice from a tax expert before entering the country, where possible,

"The intricacies of tax and regulatory frameworks are equally important. Portugal's tax landscape encompasses Corporate Income Tax, Personal Income Tax, and Value Added Tax (VAT), with varying rates across the mainland and autonomous regions. The country's tax regime is nuanced, with specific considerations for social security payments, VAT registrations, and compliance requirements."

Incentives

Lopes da Silva is keen to emphasise that it is not just red tape waiting for investors,

"Beyond taxation, Portugal offers enticing incentives, including the SIFID II for I&D expenses, DLRR and RFAI for technological and industrial investments." These incentives, coupled with the favourable conditions for setting up holding companies, make Portugal an interesting destination for international businesses."

Doing business in Sweden

ERIKA LARSDOTTER HED

CEO
Finnhammars, Stockholm

Investing in Sweden, where two banks were ranked among the top 20 in Global Finance Magazine's 2023 list of the world's 100 safest banks, is widely regarded as a forward-thinking decision. This view arises from the country's strong commitment to social equality and increasing focus on sustainability.

As we round the corner into 2024, Erika Larsdotter Hed, the CEO of Finnhammars in Stockholm, offers an understanding into why Sweden's economy is considered a such a safe pair of hands and whether she considers that might change in 2024 under a turbulent few years across the global economy.

The shift to digital

Digital business could consider Sweden as a useful European base. Often cited as one of the happiest countries in the world to live in, Sweden offers a preferential tax regime for investors, a well-educated workforce and remote-working friendly infrastructure. Hed points out this significant trend that has reshaped the Swedish business landscape: "The COVID-19 pandemic has expedited the transition to the digital economy in Sweden." This shift has opened new avenues for foreign companies to enter the market, especially through online and digital channels. It's a change that's likely to stay and continue shaping how businesses operate in Sweden.

Investor confidence amid currency changes

Despite the Swedish Krona's recent decline in value, Hed notes that investors are still looking towards Sweden with confidence.

"The Swedish Krona has experienced a significant depreciation against major currencies in recent months. Surprisingly, a recent survey by the Swedish Trade & Investment Council indicates that foreign investors remain optimistic about Sweden. The country's robust economic fundamentals continue to attract foreign investment."

Sustainability hub

Sweden has set ambitious sustainability goals, ranking 5th in the global environmental performance index, with a core objective to be fossil fuel free by 2045. Hed recognises this as an attractive proposition for forward-thinking businesses,

Sweden is dedicated to innovation and sustainability, making it appealing to businesses striving for responsible growth

"Sweden is dedicated to innovation and sustainability, making it appealing to businesses striving for responsible growth. In addition, Swedish consumers are increasingly demanding sustainable products and services. Companies demonstrating a commitment to sustainability have a competitive advantage."

Challenges and opportunities

Expanding into Sweden does not comes without its set of challenges and opportunities. Hed acknowledges issues like a shortage of skilled workers in certain sectors, technology, healthcare, and engineering, posing recruitment challenges for some industries. Hed recognises that other workforce challenges may cause investors to take another look at the numbers,

"Sweden is relatively expensive, which can be a hurdle for companies aiming to attract and retain employees.

It seems that such favourable environmental and social conditions, have a more challenging set of governance,

"Sweden has a comprehensive regulatory framework to protect consumers and employees. Companies need to be well-versed in these regulations before entering the market."

Making the move

Hed suggests that companies should do their homework before expanding to Sweden.

"Before making any expansion decisions, conduct comprehensive research." She stresses the importance of understanding the local market, regulatory environment, and cultural norms.

Building connections through Swedish business networks can also be a crucial step in establishing a presence in the market. "Sweden offers numerous business organisations and networks that facilitate connections with other companies and provide insights into the local market. Engaging in the Swedish business community can help in building relationships and establishing a presence in the market."

Investing in the United Kingdom

Sharon Omer-Kaye, partner at James Cowper Kreston, shares her insights on the challenges and opportunities in the UK market.

SHARON OMER-KAYE

Partner
James Cowper Kreston

Investment landscape: A delicate balance

As economic uncertainties loom over the UK, the investment landscape has witnessed a level of unpredictability between risk appetite and caution among HNWIs. Sharon Omer-Kaye notes, "It's a balance. People have a widespread investment appetite, and some are more comfortable taking a degree of risk." While some investors seek perceived safer options, enticed by higher interest rates on cash returns reaching up to 6%, a more sophisticated perspective recognises elevated inflation's impact on such returns' attractiveness.

Government gilts, particularly appealing to those subject to higher tax rates, have emerged as a short-term strategic option, offering a potential compound return of over 8%

Government gilts, particularly appealing to those subject to higher tax rates, have emerged as a strategic option, offering a potential compound return of over 8%. Meanwhile, investment managers appear to be tactically diverting funds towards commodities, such as gold and silver, to hedge against equity downturns amid market volatility.

In the equities space, the volatility in the FTSE is viewed as an opportunity for investments in undervalued UK companies. The property market undergoes a distinctive transformation, with a division in investor sentiment. While some divest from property portfolios anticipating a decline, others view the correction as an opportunity to acquire properties at discounted rates, especially in the residential market facing a correction in the imbalance between wages and property prices.

Restoring confidence and stability

Amid the challenging economic environment, the focus shifts to factors that HNWIs seek, to restore confidence and stability. Omer-Kaye emphasises the importance of recognising the broader global challenges, extending beyond the UK. Political stability becomes a critical factor influencing market sentiment, with frequent changes in leadership creating market nervousness.

She notes, "Achieving political stability and clarity is essential to calming the markets." Lack of clarity creates a void in decision-making and restoring confidence hinges on resolving uncertainty about the future landscape and regulatory framework.

Mitigating risks

In navigating risks associated with the UK's economic challenges, HNWIs adopt strategic approaches, assessing the current climate for potential investment opportunities. Omer-Kaye highlights the importance of a holistic view, considering exposure to cash, various investments, and tax-efficient instruments.

The strategic examination of the tax landscape becomes a crucial avenue for risk mitigation. Leveraging tax wrappers such as ISAs, EIS, and VCT investments provides a framework for strategic tax planning, aligning with the UK's favourable tax regime for investing in high-growth companies.

Uncertainty: Challenges and opportunities

Addressing the question of whether uncertainty is chasing away investors, Omer-Kaye suggests that the situation is nuanced. While some individuals may find the risks unappealing, uncertainty can create opportunities for confident investors. Political uncertainty contributes to hesitation, but the speaker dismisses the idea of investors being chased away, emphasising a wait-and-see approach.

The fluidity of the situation is acknowledged, with high-net-worth individuals exploring options without an immediate exodus. Commitment to the UK is highlighted, focusing on planning to navigate potential changes rather than an immediate departure.

A cautious optimism

High-net-worth individuals are encouraged to approach change flexibly, recognising that economic, political, and personal landscapes constantly change. In the face of uncertainty, innovation and adaptability become the guiding principles for navigating the economic landscape, demonstrating high-net-worth individuals' resilience and strategic acumen in challenging times.

Sharon states, 'As doors close, others open, prompting a need for innovative thinking and adaptability.'

Doing business in Eastern Europe

Transfer Pricing in Eastern Europe

BILJANA SPARAVALO

Head of Transfer Pricing
Kreston MDM, Serbia

In a post-COVID world, a remarkable shift is underway as 77% of European countries opt to outsource within the continent. This move aims to fortify the global value chain (GVC) and reduce over-reliance on traditional outsourcing partners like China and Russia.

The spotlight is now on Eastern Europe, prompting questions about its potential to capitalise on this emerging trend and the intricate transfer pricing challenges that lie on the horizon. We spoke to Biljana Sparavalo, head of transfer pricing at Kreston MDM, to unravel the nuances of this evolving landscape.

A win-win for accountants and clients

From an accountant's perspective, outsourcing to Eastern Europe presents an array of advantages. Primarily, it offers cost-effectiveness and enhanced profitability, as labour costs in these regions are notably lower than in Western countries. This enables accountants to access and onboard new team members with specialised skills and knowledge that might be scarce in-house. Flexibility and scalability also contribute to the allure of outsourcing, empowering accountants to navigate varying workloads and adapt to changing demands more efficiently.

For clients of accountants, the benefits are equally compelling. Outsourcing translates into potential cost savings, which can lead to reduced accountancy fees. Clients can still expect high service quality due to the access to skills and modern technologies offered by the outsourcing team. The direct infusion of expertise and diverse perspectives brought by outsourced teams can significantly enhance the client experience. Furthermore, outsourcing can usher in innovative practices and technologies, contributing to improved service delivery.

However, while the advantages are significant, the actual benefits of hiring a European outsourcing partner may vary based on factors such as compliance, data protection, quality control, and cultural and language diversities.

Signs of the shift: Businesses moving towards Eastern Europe

"Before businesses embark on outsourcing in Eastern Europe, they typically explore opportunities in the region", notes Sparavalo. A noticeable increase in collaborations and partnerships between businesses and European outsourcing companies serves as a tangible sign of this shift. This can be observed through official announcements, press releases, and discussions at industry events.

An additional indicator is the active participation of business representatives in conferences, forums, and industry events hosted in Eastern Europe. This demonstrates a palpable interest in leveraging the local outsourcing options available. Expansion strategies, including the opening of offices or expanding existing ones in Eastern European countries, further underline a commitment to establishing a physical presence that facilitates outsourcing activities.

Strategically, businesses align their service offerings with the strengths and specialisations of outsourcing entities in Eastern Europe. This includes areas such as IT services, software development and customer support. Investment patterns may also shift as businesses allocate funds towards infrastructures that support remote collaboration, showcasing their readiness to work seamlessly with teams spread across regions.

Companies engaged in outsourcing exploration often conduct consultations and market research specifically focused on Eastern Europe. Proactive measures such as adapting business operations to incorporate languages commonly used in the region and an increased emphasis on social responsibility initiatives illustrate a commitment to understanding and navigating the local outsourcing landscape effectively.

Opportunities for Eastern European businesses

For businesses in Eastern Europe, this paradigm shift represents a golden opportunity to actively participate in the global outsourcing market. The region's strengths lie in its multilingual workforce, shared time zone, cost-effectiveness, and highly educated talent pool. Eastern Europe has become renowned for its expertise in the IT and technology sectors, making it a hotspot for outsourcing contracts in software and web development, as well as IT support.

The potential for European businesses to excel in outsourcing is not just limited to cost-effectiveness but extends to their commitment to delivering high-quality services. To fully capitalise on this opportunity, businesses should strategically develop their expertise to align with changing client needs. A strong focus on marketing and branding to showcase achievements and unique selling points becomes paramount.

Continuous learning and improvement, coupled with staying abreast of industry practices and trends, can make businesses more competitive. Establishing an industry presence through networking is also crucial. Active participation in conferences and engagement with clients and partners contribute significantly to achieving this goal.

Infrastructure also requires attention as businesses must ensure they have the technological and physical resources to deliver high-quality services. Implementing processes that demonstrate a commitment to providing services, flexibility and customisation can further enhance the appeal of the business. Building trust is of utmost importance when handling outsourcing projects involving confidential information. Developing a culture centred around client satisfaction and long-term relationships becomes a strategic approach in this context.

Key transfer pricing regulations in Eastern Europe

"While the rules for transfer pricing in Eastern Europe generally follow the standards set by the OECD, it's crucial to recognise that specific laws can vary from country to country within the region", says Sparavalo. A comprehensive understanding of the common aspects and essential regulations is pivotal for businesses navigating the complexities of transfer pricing laws in European countries, she notes.

Documentation requirements:

- **Country-by-Country Reporting (CbCR):** Multinational enterprises (MNEs) might be required to submit CbCR based on OECD guidelines.
- **Local file and Master file:** Companies may need to prepare documentation, including a detailed record of transaction-level transfer pricing (local file) and an overview of global business operations (master file).

Arm's length principle

Transactions between related entities should be analysed at 'arm's length,' meaning that the prices should be consistent with what would be agreed upon between unrelated companies.

Pricing methods

Regulations typically allow for various methods to define the arm's length price, such as Comparable Uncontrolled Price (CUP), Resale Price Method (RPM),

Cost Plus Method, and Transactional Net Margin Method (TNMM).

Advance Pricing Agreements (APAs)

In some countries, businesses may have the opportunity to make Advanced Pricing Agreements (APAs) with tax authorities. APAs enable taxpayers and tax authorities to agree on the methodology for determining transfer pricing, avoiding disputes in the future.

Resolving disputes

Various countries have established mechanisms for resolving transfer pricing disputes, including agreement procedures (MAP) with other nations.

Consequences of non-compliance

Not adhering to transfer pricing regulations can lead to penalties. The severity of consequences depends on the nature of non-compliance.

Documentation thresholds

Certain criteria may exist to determine which entities are obligated to adhere to documentation requirements.

It's important to note that the development stages of transfer pricing regulations still vary in Eastern European countries, and practices differ. Therefore, conducting individual assessments in each country is advisable.

Common transfer pricing challenges faced by companies in Eastern Europe

Companies operating in Eastern Europe encounter a range of transfer pricing challenges that mirror the intricacies of the business landscape and regulatory characteristics of the region. One major hurdle is the complexity and variability of regulations. Each European country having its own tax laws means that businesses must carefully align their operations with numerous jurisdictional requirements.

In terms of documentation and compliance, companies bear the responsibility of maintaining accurate records to support their transfer pricing strategies. They must navigate through reporting requirements imposed by countries, presenting an added layer of complexity. Accessing comparable data is another significant obstacle, as relevant financial information or transactions for validation purposes can be challenging to find.

Regional economic climates introduce an additional layer of complexity, as market conditions and currency fluctuations impact border transactions and the determination of transfer prices.

To successfully manage these challenges, companies should consider leveraging the expertise of transfer pricing consultants. Investing in solutions, continuous learning, and proactive risk management tailored to their industry and the unique transfer pricing landscapes in the Eastern European jurisdictions they operate in can also be instrumental.

Adaptation and awareness: Navigating the changing landscape

In conclusion, when dealing with transfer pricing in Eastern Europe, companies need to adopt a flexible mindset and thoroughly understand how local regulations and economic conditions can affect their finances. Keeping up with updates in transfer pricing rules and engaging with tax authorities are imperative steps.

The outsourcing landscape in Eastern Europe presents not just challenges, but substantial opportunities for businesses and accountants alike. Successfully taking part in this evolving trend requires strategic planning, a commitment to learning, and a proactive approach to region-specific transfer pricing challenges.

By embracing these principles, companies can navigate the changing landscape and leverage outsourcing to their advantage.

Doing business in Albania

In the heart of the Balkans, Albania is transforming into a destination for foreign investments. At the heart of this change is a move to reposition Albanian resorts, such as Ksamil, as more affordable alternatives to popular European destinations.

REZAR LLUKAÇEJ
Managing partner
Kreston Albania,Tirana

Rezar Llukaçej, managing partner at the Kreston Albania office in Tirana, offers an in-depth local perspective on the nation's evolving economic landscape, providing insight into the factors laying the foundations for Albania's accession into the EU.

Regulatory developments

Albania's investment appeal has been significantly bolstered by proactive regulatory developments in the past year, offering preferential changes to some sectors they are keen to see grow. Rezar Llukaçej stresses that these sectors have seen the adoption of special legislation aimed at encouraging strategic investments, crucial for the nation's economic development, "Albania maintains a liberal foreign investment regime to attract Foreign Direct Investment (FDI). The FDI flow in 2022 exceeded EUR 1.37 billion, thanks to the government prioritising sectors like tourism, manufacturing, energy, agriculture, oil and mining, and ICT."

Llukaçej identifies the key to the success of these improvements has been special legislation aiming to encourage and incentivise strategic investments.

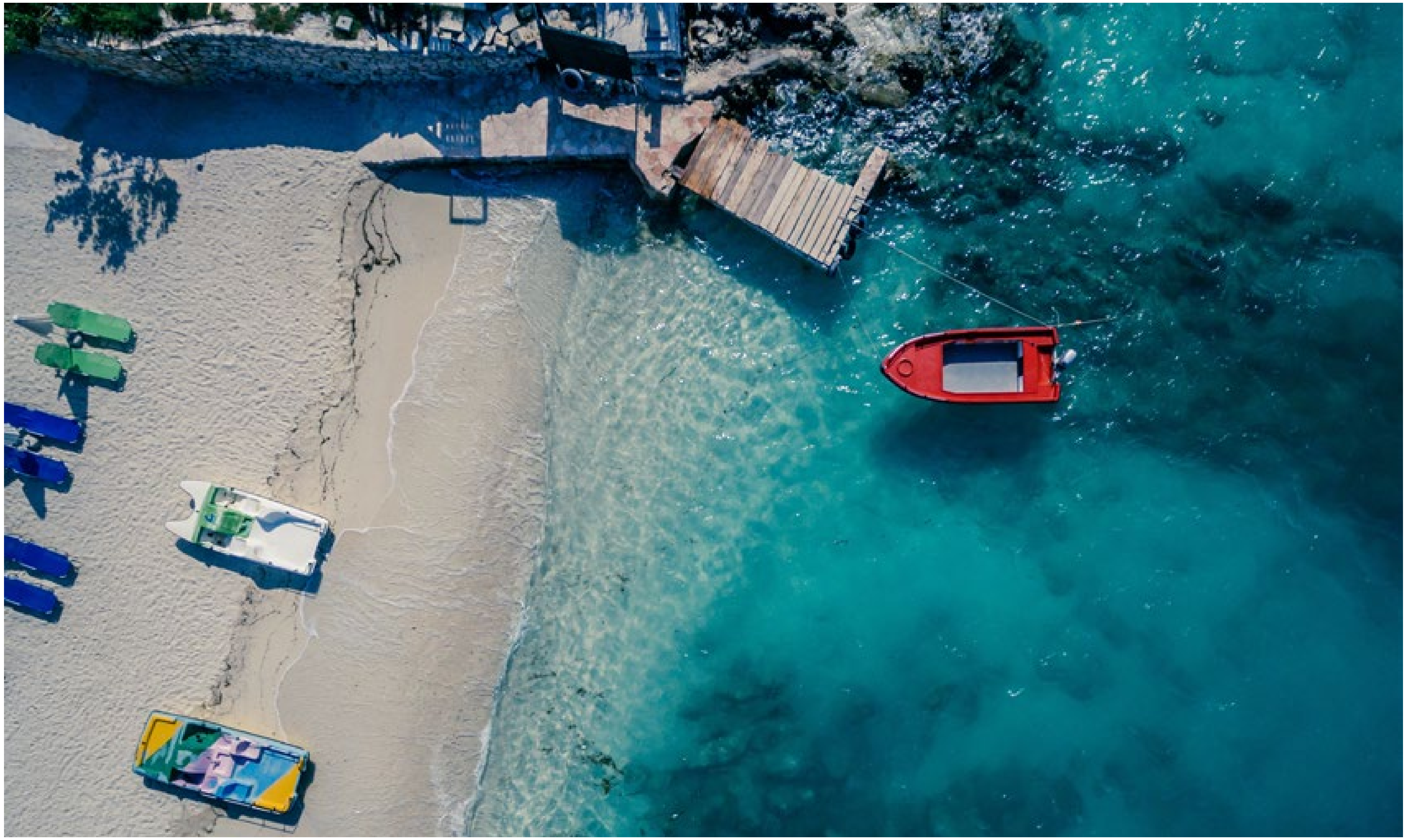
"It calls for important capital investments that are implemented in key economic sectors, strategic for the development of the country."

FDI safeguards

"The Law on Foreign Investment provides comprehensive safeguards for foreign investors," Llukaçej says. He explains that it permits 100% foreign ownership in most industries, with only minor restrictions in areas like air transport and television broadcasting. He further highlights the pivotal role of the Albanian Investment Development Agency (AIDA), which guides foreign investors through the application process and confers the status of strategic investment/investor.

Llukaçej highlights it is not all smooth sailing, but the Albanian government has not taken its eye off the ultimate goal,

"There is always a demand for improvement in the regulatory framework and the government is actively working in that direction of maximising the opportunities to attract investors in the country due to the twining transition impact in the economy and industrial transformation."



Sector-specific trends

Llukaçej notes significant growth in energy and tourism.

"Albania has worked on various energy projects to diversify and improve its energy infrastructure, developing the potential to improve its energy efficiency. There has been an increase in interest from investors regarding solar and wind projects, plus the development of hydropower projects, as Albania has significant hydroelectric potential. The country has also worked on interconnection projects with neighbouring countries to increase energy security."

Tourism, has also seen remarkable development. "The Bank of Albania has even announced recently that in the first 6 months of 2023, the expenses of foreigners who travelled to Albania reached a total of EUR 1.55 billion. This is the highest figure recorded after the 1990s. Due to this interest from investors continues to be high, as the need for new accommodation structures will enable investors to explore new investments in this sector."

Llukaçej paints a picture of a country on the cusp of a tourism boom. "The plan for large infrastructure projects is not just about enhancing tourist experience but also about consolidating growth in this sector," he explains.

In parallel, the real estate and construction sectors are buzzing with potential. Llukaçej's insights reveal a nuanced investment climate, particularly appealing due to Albania's favorable legislation for property investment. "There's an intriguing interplay between the opportunities for foreign investors in real estate, whether it's through leasing agricultural land or the strategic purchase of commercial properties," he notes. This sector's growth is intricately linked to the burgeoning tourism industry, creating a symbiotic relationship between the two.

Business development support

Llukaçej also touches on the growing importance of business skills training and education. The demand for programs focusing on business management, corporate governance, and navigating the challenges of green and digital transformations points to a burgeoning market in educational services. "This is about preparing the workforce for the future, aligning skills with the evolving demands of our economy," he asserts.

Support for small and medium-sized enterprises (SMEs) is another key focus. Llukaçej envisions a landscape where digital and social media platforms play a crucial role in promoting and inspiring SMEs. "There's immense potential in empowering SMEs, driving innovation and growth through digital engagement," he observes. This trend speaks to the broader digital transformation underway in Albania, emphasising the country's commitment to embracing technology and innovation.

Looking forward, Llukaçej anticipates continued government engagement in enhancing the attractiveness for foreign investments. "There's a marked focus on streamlining processes for investors, particularly in strategic sectors," he notes. Digital transformation across various industries is a key trend, with companies increasingly adopting digital marketing, e-commerce, data analysis, and robotic process automation.

"Digital skills development is targeting not only the supply side, the ICT sector, but also the demand side, the different economic sectors, to tap into the opportunities of digitalisation."

Albania 2030

Unsurprisingly, the impact of ESG movement in Europe is profound, according to Llukaçej. "International organisations and businesses are integrating ESG standards into their development strategies," he states. He emphasises the government's commitment to green transition, digital transformation, and energy security as part of its broader economic strategy.

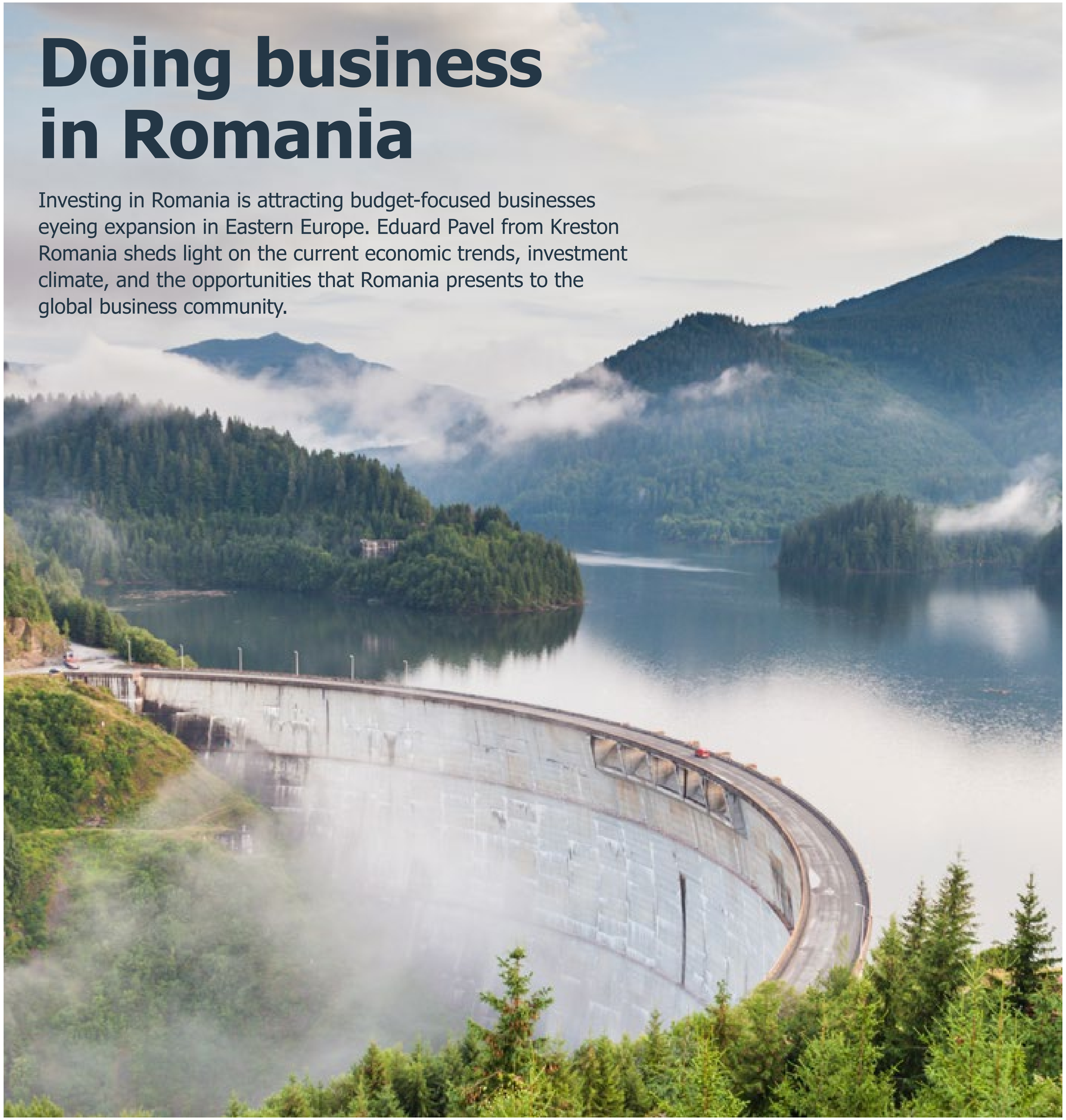
Llukaçej discusses the evolution in social corporate governance. With a global movement towards sustainable and ethical business practices, Albania is no exception. "We're witnessing a shift towards a more competitive and resilient business environment," he states. This trend indicates a growing demand for advisory services in corporate governance and ESG compliance, aligning Albania with international standards of business conduct.

Conclusion

With a smaller, more agile economy able to put digital, environmental and economic policies into practice more quickly, the IMF recently upgraded the 2023 economic growth forecast to 3.6%. A similar growth forecast for 2024, and an EU accession status that seems on track to happen at the beginning of the next decade, both suggest that the Albanian economy could deliver well on any investments.

Doing business in Romania

Investing in Romania is attracting budget-focused businesses eyeing expansion in Eastern Europe. Eduard Pavel from Kreston Romania sheds light on the current economic trends, investment climate, and the opportunities that Romania presents to the global business community.



EDUARD PAVEL

Kreston Romania

Foreign Direct Investment

In 2022, Romania witnessed a rise in foreign direct investment (FDI), marking a phase of steady economic growth. Despite this progress, Pavel points out a significant gap when compared to Germany's FDI inflows. He states, "Romania did experience growth in 2022, but the amount is still significantly less than that of Germany." This observation highlights Romania's growing, yet comparatively modest, position in the European investment landscape.

Shifting investment trends

After a shift in investment patterns, Pavel provides a cautious assessment of the general trend towards diversifying supply chains, a direct pivot from China to Europe, specifically Romania, isn't definitively established.

"We cannot confirm that [clients] have shifted away from China and towards European suppliers."

Embracing green energy

Romania's green energy initiatives, while not the primary attractor, are influencing business decisions. According to Pavel, these initiatives are a contributing factor, albeit not the main reason behind multinational corporations' interest in Romania. "The country's green initiatives do play a role in attracting businesses," he notes, indicating that Romania's environmental commitments are resonating with the global business ethos.

"Despite the emphasis on green energy, there hasn't been a significant increase in inquiries from multinationals looking to relocate or start businesses in Romania due to these initiatives."

Digitalisation and automation

One of the most pronounced trends observed in the past year is the shift towards automation and digitalisation. Pavel attributes this change to the pandemic, which has altered business practices globally. "Clients are paying more attention to automation and digitalisation," he remarks, highlighting a broader trend that is influencing business strategies in Romania and beyond.

2024 predictions

Looking ahead to 2024, Pavel offers practical advice for international businesses considering expansion into Romania. He emphasises the importance of understanding local market dynamics and the regulatory environment. "Make sure to research the market, understand the legislation, and pay attention even to the nuances," Eduard advises, underlining the need for a well-informed approach. He also stresses the significance of building long-term relationships in Romania's relationship-driven business culture.

EU sustainability challenges in Eastern Europe

Július Činčala
Július is a partner at Kreston Slovakia, leading risk advisory and management consulting practices

JÚLIUS ČINČALA
Partner, Kreston Slovakia

Zuzana Sidorová
Zuzana has expertise in financial audits, corporate and personal taxation, international taxation, value-added taxation, and transfer pricing across multiple sectors.

ZUZANA SIDOROVÁ
Tax Manager, Tax Advisor and Transfer pricing specialist, Kreston Slovakia

Central Europe's manufacturing sector is being reshaped by EU Sustainability regulations, impacting countries like Slovakia, Romania, and Hungary.

We inteviewed Július Činčala and Zuzana Sidorová of Kreston Slovakia, about how EU regulations affect doing business in the region.

Higher prices and new carbon reduction regulations favourably reposition countries like Slovakia, Romania and Hungary who have some of the highest shares of electricity from clean sources well above the West European average.

As the European Union grapples with balancing new environmental standards and maintaining its competitive edge on the global market, ambitious countries like Slovakia are becoming test beds for the new sustainability-focused landscape. With the advent of carbon emissions reporting within the EU, will listed and large companies be relocating in droves to save money and carbon?

Driving carbon emissions down and costs up

The EU's commitment to environmental sustainability is not without its challenges. Činčala believes that it will be easier to relocate manufacturing outside of Europe, rather than deal with the complexity of carbon emission reporting, while the process is being established, "Slovakia has always been an industrial country. However, the higher power costs have seen companies seek to relocate manufacturing operations to China. We see this with our clients now. They are freezing operations as transforming their business to meet carbon emissions far outweighs any cost saving or carbon saving they receive from being in Slovakia.

Tax on imports

Although alarming, Činčala has been advising the Slovak government on dealing with these challenges for over

25 years, so has a clear view on the options available to the EU.

"If we want higher investments in green energy and business transformation we have to invest more in education, people, and transformation models. Currently, products that are manufactured outside of the European Union are cheaper because they're not subject to the same level of regulation and transformation costs we face in the EU. This is why we need to find a way to fortify ourselves and our market. For example, by introducing new tax regulations on products made in third countries and imported into the EU."

Transfer pricing compliance

With some unrest in the region, Činčala's colleague, tax expert Zuzana Sidorová, has advice for any businesses moving operations around Europe, specifically into Slovakia,

"In recent months, a number of companies have approached us to transfer their business from Ukraine territory to Slovakia or to another European country."

In Slovakia, any company that does transactions within its group, either locally or across borders, must follow transfer pricing rules, in line with the OECD (Organization for Economic Co-operation and Development) guidelines.

Common transfer pricing challenges in Slovakia

In Slovakia, many international companies are considered "limited risk," like manufacturers, distributors, or service providers. These companies often report losses despite having little decision-making power. Sidorová has clear advice for companies with limited risk businesses in satellite European countries;

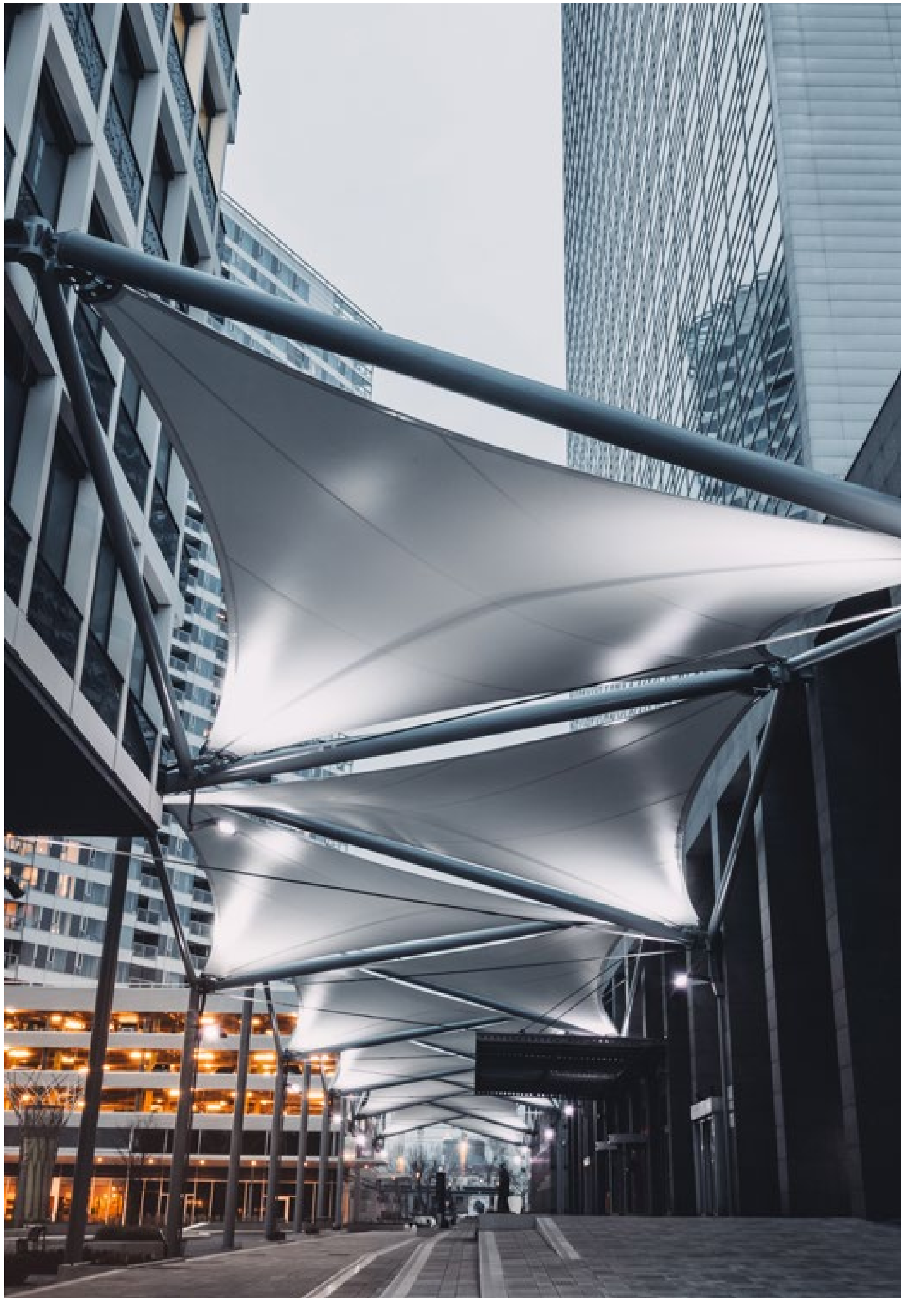
"From a transfer pricing perspective, they shouldn't be reporting losses. Tax authorities often investigate these loss-reporting, internationally-owned companies, leading to lengthy and difficult tax audits. These audits can result in extra corporate taxes and can be extended to cover multiple tax periods."

Transfer pricing benchmarks

Sidorová advises her clients making cross-border or local (Slovak) intra-group transactions needs to review and update its transfer pricing file on a yearly basis. The benchmarking analysis must be prepared every three years, with annual financial updates of comparables (compliance with OECD transfer pricing guidelines).

Staying competitive

As the EU intensifies its sustainability focus, companies in Slovakia must adapt quickly. Success hinges on embracing green technology and understanding local tax and transfer pricing rules. It's essential for businesses to align their operations with EU environmental goals, not just to comply with regulations, but to stay competitive and sustainable in the long run. Keeping up to date with any rapid tax updates in response to competitive markets is vital to maintain the viability of companies based in Slovakia. This strategic alignment by Slovakian companies is not only crucial for their own sustainability but also serves as a model for the wider European Union, demonstrating how economic resilience and environmental responsibility can coexist and drive progress across the continent.



Ukraine's first steps to recovery

Signs of Ukraine's economic recovery may come as a surprise to some. Since February 2022, the global economy has felt the impact of the Russia-Ukraine war. From oil prices to the lack of grain, many countries have been grappling with supply chain issues.

Sergey Atamas, from Kreston Ukraine, explains the future of doing business in Ukraine.

SERGEY ATAMAS

Managing Partner,
Kreston Ukraine

Unsurprisingly, it has been Ukraine's economy that has felt the keenest impact. Atamas presents a narrative of resilience and strategic redirection. "Initially, we lost about 50% of our clients almost overnight," highlighting the immediate impact of the conflict on Ukrainian businesses. However, the response was swift and transformative. Kreston Ukraine, for instance, reclaimed 90% of its pre-war income within one and a half years.

Allies support resilient economy

Contrary to the grim forecast of a 50% GDP plummet, Ukraine managed a more modest decline to 29% in 2022, with projections of a 4.7% growth in 2023. This surprising resilience, Atamas notes, is credited to "unprecedented financial assistance from allies, increased government spending, and the liberation of territories." Domestic borrowing and international support have played crucial roles, with the former surpassing $11 billion and the latter reaching $33.8 billion in 2023.

Ukrainian businesses redesigned their models almost overnight, Atamas explains,

"To stay afloat, Ukrainian businesses had to reconfigure internal processes and resort to crisis management. Some popular measures include adapting business strategies and focus to current market needs, expanding the customer base and target audience, going to international markets and seeking financing/ investments or new partners."

Atamas also highlights the role of technology in Ukraine's adaptive strategies. Significant resources are

being funnelled into military technologies and security projects. Additionally, he mentions Growexa, a SaaS start-up, recently launched by his team, "Growexa is a SaaS platform oriented towards sourcing projects globally, providing investors with a detailed search system and in-depth AI-based analytics."

Industry-specific impacts

Despite intervention, certain sectors have borne the brunt of the conflict more than others, Atamas explains,

"The metallurgical industry, a cornerstone of Ukraine's economy, saw a 70% reduction in 2022. The energy sector, targeted heavily since late 2022, experienced a 90% drop in electricity exports. Agriculture, another key sector, faced losses exceeding $40 billion."

Atamas points out the necessity of "adapting business strategies and expanding the customer base" as vital survival tactics for businesses."

Foreign investment

Aside from the challenge of keeping the Ukraine economy moving in order to not adversely affect citizens already dealing with the challenges of living with war, Atamas explains, international investors paused activity, but did not stop entirely,

"In 2022, foreign direct investment inflows were 5.8 times lower than in 2021, amounting to $1.1 billion, with an outflow of $529 million. In 2023, the situation significantly improved, with inflows reaching $2.4 billion in six months and outflows totalling only $19 million.

Despite the wartime risks, investors are willing to invest in new Ukrainian projects. Polish logistics operator Laude relocated assets worth €100 million to Ukraine after closing its business in Russia and plans to increase investments. German company Pfeifer & Langen will acquire its sixth sugar plant in Ukraine and German company Bayer is investing €60 million to expand its facilities in the Zhytomyr region.

Allies have also been particularly supportive in encouraging Foreign Direct Investment,

"Bpifrance Assurance Export will provide insurance for French businesses investing in Ukraine, covering up to 95% of investor asset losses or debtor obligations. The main condition is active participation in Ukraine's reconstruction before the end of the full-scale war."

Advice for Foreign Businesses

For foreign entities looking to invest in Ukraine, Atamas advises leveraging the country's investment incentives, including substantial state support and tax exemptions. "Investing in Ukraine can still be pragmatic even during wartime," he asserts. The recovery process, he suggests, will be bolstered by international efforts like the European Commission's Ukraine Assistance Fund and collaborations with firms like BlackRock and JPMorgan Chase in establishing a reconstruction bank to attract $400 billion.

Atamas highlights that the government is also being assertive with incentives, to tempt investors back into Ukraine, with "up to 30% state support for capital investment, infrastructure development, and corporate income tax exemptions for up to 10 years."

10-year recovery plan

Despite the encouraging first signs, Atamas is clear that the road to recovery for Ukraine is still in its infancy.

"In early 2023, the World Bank estimated Ukraine's reconstruction and recovery needs at around $411 billion for the next decade. Ukrainian and international private companies are expected to contribute to infrastructure development and economic revival in Ukraine.

The European Parliament has supported the European Commission's initiative to create a special Ukraine Assistance Fund of up to €50 billion. This fund is intended to provide stable and predictable financial support to Ukraine from 2024 to 2027, including direct grants, credits, mobilisation of private investments through guarantees and blended financing."

Anticipated boom

There has been sobering scenario planning to shore up the economy whilst there is still active combat, Atamas describes the most likely as, "Active combat with Russia until 2025 with minimal front-line changes. In this scenario, Ukraine's economy will continue to recover over the next two years, with modest GDP growth. However, the approaches to transforming the economy and creating conditions for foreign private capital to drive Ukrainian investment projects are currently being developed. An economic boom is expected from 2026 onwards."

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