Corporates on the move
Why companies are moving their headquarters overseas

Switzerland keeps up the competition for corporate migrants

A clampdown on tax havens forces companies back onshore

How policy and market factors are driving corporate migration
Imprint

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Marketing Director: Alfred Raucheisen
Program Manager: Alexander Lorimer
Content Advisor: Monica Kremer

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Publishing Director: Elmar zur Bonsen
Editor-in-Chief: Rob Mitchell
Art Director: Guido Von Deschwanden
Editor: Fergal Byrne
Project Manager: Michèle Meissner
Picture Editor: Diana Ulrich

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Dear Reader

Globalization has transformed the way in which business is conducted. Companies have expanded around the world and responded to economic shifts by reallocating resources and capital. Economies that were once viewed as sources of low-cost labor or resources are now seen as among the most promising growth markets, establishing greater demand for the world’s products. Meanwhile, information technology has enabled the virtualization of business, so that many functions and processes can now be located in whichever region of the world they can be best handled.

But while markets have become global, regulation and taxation have for a long time remained national concerns. Companies find themselves subject to a wide range of rules and regulations with their own advantages and disadvantages. In a highly competitive environment, it has become essential for firms to structure their business in such a way that they benefit from the advantages of certain jurisdictions and minimize the downsides associated with others.

For a growing number of companies, this means re-thinking not just their supply chain and operations but relocating their corporate headquarters. Just a few decades ago, companies would only move their headquarters under extreme circumstances. Today, however, it has become a legitimate business decision for companies seeking to compete in fast-moving, turbulent markets.

In this issue of T Magazine, we look at the growing phenomenon of corporate migration. We explore the reasons why it is becoming increasingly commonplace and look at the steps companies need to take in order to move their headquarters from one jurisdiction to another.

While corporate migration can bring significant benefits, it is a complex process. The decision over where to locate the headquarters requires a careful evaluation of multiple jurisdictions and an assessment of how those business environments might evolve over time. Success depends on getting the structure right, ensuring that management reality meets regulatory requirements and communicating clearly with internal and external stakeholders.

For governments, the trend for corporate migration should serve as a reminder that companies will vote with their feet if the domestic policy environment no longer meets their business needs. At a time when many countries must restore public finances to health, it may seem that there is limited scope for tax competition. Building walls by implementing exit taxes is an emerging trend. It seems, however, that these are temporary barriers. If the tax cost-benefit analysis is considered unfavorable for a tax payer in a specific jurisdiction, they will find ways to overcome those barriers. It is, therefore, very clear that governments must do all they can to control spending in a way that taxes are widely acceptable and can be enforced in the business community. Only then can they ensure that they attract and retain the companies that generate tax revenues, employ the domestic workforce and create sustainable economic growth.

Stephan Kuhn

Stephan Kuhn is Area Tax Leader for the Europe, Middle East, India and Africa (EMEIA) region at Ernst & Young.
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Cover

Doris Leuthard, President of the Swiss Confederation
“The highly competitive nature of business today demands a sophisticated European and worldwide market strategy. The choice of location is a key element of such a strategy. Your decision must take into consideration a location’s advantages and benefits, which offer the highest chances of success and minimize risks and uncertainties,” Doris Leuthard, Head of the Federal Department of Economic Affairs, recently said. Leuthard is a member of the Federal Council, Switzerland’s executive authority and was elected President of the Swiss Confederation for 2010.
Global tax news
A roundup of recent developments from major governments and tax administrations

1. **Australia:**
   - July 2010
   - Australia abandoned the “catch all” Resource Super Profits Tax and has proposed a new profits tax applicable to the coal and iron ore sectors, to be known as the Minerals Resource Rent.

2. **India:**
   - September 2010
   - The Bombay High Court ruled against Vodafone in the landmark US$2.6b (£1.6b) tax case relating to the US$11.1b purchase of a controlling stake in local telecoms operator Hutchison Essar in 2007.

3. **Japan:**
   - September 2010
   - Japan's Ministry of Economics, Trade and Industry proposed a series of tax reforms that would include cutting the corporate tax rate by 5% from 42% to 37% in order to improve the country's overall competitiveness.

4. **China:**
   - July 2010
   - China’s Ministry of Finance announced semiannual tax revenue of RMB3.86 trillion (US$571b), a 30.8% increase compared with the same period last year.

5. **France:**
   - July 2010
   - President Nicolas Sarkozy announced a tax comparative “inventory of fixtures” to reinforce the tax convergence between Germany and France. According to a Tax Administration activity report, tax audits have brought €15b in 2009.

6. **United Kingdom:**
   - September 2010
   - The new Government announced that it would be expanding its high-net worth unit, a dedicated team within HMRC aimed at dealing with the tax affairs of the UK’s wealthiest citizens. A Treasury spokesperson said he hoped that the initiative would raise up to £7bn from 2014-15.

7. **Turkey:**
   - September 2010
   - The OECD Forum on Tax Administration (FTA) published its Istanbul Communiqué following a meeting held in the Turkish city. It discussed ways in which two or more tax administrations could conduct a joint audit of a single company or individual with interests in multiple countries.

8. **United States:**
   - August 2010
   - The President's Economic Recovery Advisory Board (PERAB) released a long-awaited report that provides a menu of tax reform options, including lowering the corporate tax rate and broadening the tax base, as well as a host of international tax proposals.
A world of migration

The past few years have seen a steady increase in corporate migration levels around the world, although to date, only a relatively small number of companies have taken this step. Enabled by technology, globalization and the liberalization of financial markets, companies from a wide range of sectors are evaluating the pros and cons of moving their corporate headquarters to another jurisdiction. Shifting markets are often a key factor behind the decision, but so too are changing regulatory structures and taxation environments, and the need to gain access to specialist skills and expertise. Countries that are particularly “active” in terms of migration include the United States, United Kingdom, Bermuda, Switzerland, the Netherlands and Ireland.

Headquarter location of Fortune Global 500 companies and tax treatment, 2000 and 2009

The past few years have seen a steady increase in corporate migration levels around the world, although to date, only a relatively small number of companies have taken this step. Enabled by technology, globalization and the liberalization of financial markets, companies from a wide range of sectors are evaluating the pros and cons of moving their corporate headquarters to another jurisdiction. Shifting markets are often a key factor behind the decision, but so too are changing regulatory structures and taxation environments, and the need to gain access to specialist skills and expertise. Countries that are particularly “active” in terms of migration include the United States, United Kingdom, Bermuda, Switzerland, the Netherlands and Ireland.

Number of FDI projects into Europe

Despite suffering a long recession, the United Kingdom remains the most frequently chosen destination for Foreign Direct Investments into Europe.

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>FDI projects in 2009</th>
<th>Market share 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>UK</td>
<td>678</td>
<td>21%</td>
</tr>
<tr>
<td>2</td>
<td>France</td>
<td>529</td>
<td>16%</td>
</tr>
<tr>
<td>3</td>
<td>Germany</td>
<td>418</td>
<td>13%</td>
</tr>
<tr>
<td>4</td>
<td>Spain</td>
<td>173</td>
<td>5%</td>
</tr>
<tr>
<td>5</td>
<td>Russia</td>
<td>170</td>
<td>5%</td>
</tr>
<tr>
<td>6</td>
<td>Belgium</td>
<td>146</td>
<td>4%</td>
</tr>
<tr>
<td>7</td>
<td>Netherlands</td>
<td>108</td>
<td>3%</td>
</tr>
<tr>
<td>8</td>
<td>Poland</td>
<td>102</td>
<td>3%</td>
</tr>
<tr>
<td>9</td>
<td>Italy</td>
<td>100</td>
<td>3%</td>
</tr>
<tr>
<td>10</td>
<td>Ireland</td>
<td>84</td>
<td>3%</td>
</tr>
<tr>
<td>11</td>
<td>Romania</td>
<td>75</td>
<td>2%</td>
</tr>
<tr>
<td>12</td>
<td>Switzerland</td>
<td>69</td>
<td>2%</td>
</tr>
<tr>
<td>13</td>
<td>Hungary</td>
<td>64</td>
<td>2%</td>
</tr>
<tr>
<td>14</td>
<td>Czech Republic</td>
<td>61</td>
<td>2%</td>
</tr>
<tr>
<td>15</td>
<td>Sweden</td>
<td>58</td>
<td>2%</td>
</tr>
<tr>
<td>16</td>
<td>Turkey</td>
<td>58</td>
<td>2%</td>
</tr>
<tr>
<td>17</td>
<td>Ukraine</td>
<td>46</td>
<td>1%</td>
</tr>
<tr>
<td>18</td>
<td>Portugal</td>
<td>42</td>
<td>1%</td>
</tr>
<tr>
<td>19</td>
<td>Austria</td>
<td>41</td>
<td>1%</td>
</tr>
<tr>
<td>20</td>
<td>Denmark</td>
<td>34</td>
<td>1%</td>
</tr>
</tbody>
</table>

Source: Ernst & Young European Investment Monitor 2010

2005

<table>
<thead>
<tr>
<th>Country</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shell (Petroleum)</td>
<td>from UK to Netherlands</td>
</tr>
<tr>
<td>COLT Telecom</td>
<td>from UK to Luxembourg</td>
</tr>
<tr>
<td>Experian</td>
<td>from UK to Ireland</td>
</tr>
<tr>
<td>Swicorp</td>
<td>from Switzerland to Saudi Arabia</td>
</tr>
</tbody>
</table>

2006

<table>
<thead>
<tr>
<th>Company</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pacific Life</td>
<td>from US (California) to US (Nebraska)</td>
</tr>
<tr>
<td>ACE Limited</td>
<td>from Cayman Islands to Switzerland</td>
</tr>
<tr>
<td>Regus</td>
<td>from UK to Luxembourg</td>
</tr>
<tr>
<td>Transocean</td>
<td>from Cayman Islands to Switzerland</td>
</tr>
</tbody>
</table>

2007

<table>
<thead>
<tr>
<th>Company</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ingersoll–Rand</td>
<td>from Bermuda to Ireland</td>
</tr>
<tr>
<td>UBM</td>
<td>from UK to Ireland</td>
</tr>
</tbody>
</table>
“One of the keys to job creation is to encourage companies to invest more in the United States. But for years, our tax code has actually given billions of dollars in tax breaks that encourage companies to create jobs and profits in other countries.”

Barack Obama, President of the United States

Zurich __ Switzerland
A report from OSEC, a Swiss business membership organization, estimates that between 1,400 and 3,200 companies from China, Taiwan, South Korea and India may consider moving to Europe over the next 10 to 15 years.

Istanbul __ Turkey
The September 2010 Istanbul Communiqué from the OECD’s Forum on Tax Administration reinforced the organization’s commitment to improving offshore tax compliance and moving to greater co-ordination. “We plan to increase international cooperation by putting renewed emphasis on programs to recover revenues lost through offshore arrangements and to ensure that offshore arrangements no longer offer an avenue of escape from legitimate taxation,” it said.

Hedge fund migration
__ The proportion of funds domiciled in the Cayman Islands has fallen from 40.1% to 37.3% since the end of 2008.
__ Recent moves include Marshall Wace, which redomiciled its funds from the Cayman Islands to Ireland, and Aquila Capital, which moved from the Cayman Islands to Malta.
__ A 2010 survey by property advisor Cushman and Wakefield revealed that just 1 in 10 UK-based hedge funds consider tax policy or government incentives as an “absolutely essential” factor when selecting their headquarters location.

2008

Accenture from Bermuda to Ireland
Brit Insurance from UK to Netherlands
Covidien from Bermuda to Ireland
EnSCO from US to UK
Foster Wheeler from Bermuda to Switzerland
Hoya Vision Care from Netherlands to Thailand
Informa from UK to Switzerland
Noble Drilling from US to Switzerland
Waraner Chilcott from Bermuda to Luxembourg
Weatherford from Bermuda to Switzerland
Flagstone Re from Bermuda to Luxembourg
XL from Cayman Islands to Ireland

2009

2010

Ineos from UK to Switzerland
Northrop from US (California) to US (Washington, D.C., area)

Research by Johannes Voget, a professor at Tilburg University (Netherlands), has concluded that an increase in parent country tax on foreign-source income by 10% induces an additional 2% of multinationals to relocate to an exemption country.

Foreign affiliates of US companies reported 15% of their net income in 2008 from the Netherlands, higher than any other country.

When companies announce plans to undertake a corporate inversion, this leads to an average increase in the stock price of 1.7% within a five-day window, according to a 2002 research paper from Mihir Desai, a professor at Harvard University, and James Hines of the University of Michigan.

2%
Globalization, technology and shifting legal and regulatory environments are encouraging a growing number of companies to consider moving their corporate headquarters to a new jurisdiction.

By Rob Mitchell

Throughout history, the human propensity to trade and barter has propelled companies on longer and longer journeys to seek out new business opportunities. But although markets became global and technology increasingly eroded geographical boundaries, there was one function that has traditionally remained anchored in the home country: the corporate headquarters. Indeed, it is only fairly recently that companies have willingly considered moving their headquarters to a new country and, even today, it remains the exception rather than the rule.

But while corporate migration remains relatively rare, there are several trends that are combining to suggest that the relocation of corporate headquarters will become increasingly commonplace. The overarching driver is globalization. As supply chains become more dispersed, as markets and investor bases become global, and as firms increasingly relocate core functions such as manufacturing, R&D and finance, the argument for a strong headquarters in one country that serves as the primary location for management decision-making becomes less compelling.

Communications technology has been another important factor in increasing the potential for mobility. By facilitating a separation between operations and management, and enabling business processes to be conducted anywhere in the world, the internet, mobile telephony and other technologies have brought about what Anil Gupta, a Professor of Strategy at INSEAD in Singapore, calls the “virtualization” of business. “The global dispersion of business units and functions is being entirely driven by business logic,” he explains.
What was the aim of moving headquarters to Luxembourg?
The move facilitated our overall strategic plan and increased our capital flexibility while requiring no changes to our operating model or global platform. By moving our holding company to Luxembourg and having our principal operating company in Switzerland, we have settled our identity as a European company.

Have you achieved your aims?
Yes, our brand has been enhanced and our clients have been supportive of the change. This has enabled us to further expand our opportunities and continue to maximize value for all our stakeholders: clients; intermediaries; and investors.
Variation in the pace of globalization has also had an impact. The liberalization of trade and markets may have raced ahead in recent years, but taxation systems and regulatory regimes have been much slower to harmonize. “Companies may be able to structure themselves and operate globally but they can still find themselves constrained by the taxation regime of their headquarters,” says Matt Mealey, leader of Ernst & Young’s International Tax Services group for UK & Ireland. “With that in mind, companies are looking for locations that are not going to create the same kind of headache that they’ve been having at their previous home.”

In the United Kingdom, for example, uncertainty over the taxation of foreign dividends and the prospect of a more stringent controlled foreign companies (CFC) regime prompted a mini-exodus of corporates through-out 2007 and 2008. The announcement from the Treasury in late 2008 that UK companies would receive a dividend exemption did go some way towards stemming the flow, but did not stop it entirely. In April 2010, the petrochemical manufacturer Ineos, which is the UK’s largest private firm, announced that it would move headquarters to Switzerland. The company estimated that this would save €450m (US$600m) over the next five years.

It was uncertainty, rather than a desire to generate tax savings, that was behind the 2009 announcement by Brit Insurance that it would relocate its corporate headquarters from the UK to the Netherlands. “This decision was much more about the CFC legislation rather than trying to achieve any particular level of tax savings,” says Neil Sharman, Tax Director at Brit Insurance. “A change in the UK legislation a couple of years ago removed an opportunity that had been there for some 20 years. All of a sudden, things turned upside down. It was an uncertain period. What we really wanted was to have security and certainty as to what the tax environment would be for the next ten years or so.”

In some cases, the decision to relocate the corporate headquarters can be driven by a combination of personal and business logic. With many developed countries looking to plug deficits and restore public finances to health, personal income tax increases, along with increases in capital gains tax, are a frequently chosen solution. The tax authorities in a number of countries are increasing their focus on high-net worth individuals (HNWIs), and this trend has been given extra impetus by a 2009 report from the Organization for Economic Co-operation and Development (OECD), which recommends that countries create dedicated units within tax administrations to handle HNWIs. For highly mobile industries that are characterized by a significant investment of the owner’s wealth in the business, such as hedge funds or private equity, these changes can be another driver of corporate migration as executives seek to minimize the impact on their own personal wealth.

This is not the only way in which the economic crisis has affected corporate migration trends. Following the April 2009 G20 summit in London, government leaders from the world’s largest economies pledged to clamp down on offshore financial centers that facilitate tax evasion. A flurry of bilateral tax information exchange agreements ensued and, along with them, the prospect of much greater transparency and disclosure between jurisdictions. Although offshore centers remain entirely legitimate places in which to locate a headquarters, some companies in these jurisdictions have become uncomfortable about the growing uncertainty that they faced, and decided to relocate from countries such as the Cayman Islands or Bermuda to Ireland, Switzerland or Luxembourg.

David Brown, Chief Executive Officer of Flagstone Re, a (re)insurance company, attributes a similar yearning for stability to his company’s 2010 decision to move its holding company from Bermuda to Luxembourg. “Our decision was more about anticipating problems, rather than curing them,” he explains. “The benefits of the migration are mostly in

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**40%**

Forty percent of Chinese red chip companies listed in Hong Kong are legally domiciled in the Caribbean.

**58**

Brazil, Russia, India and China have seen substantial growth in the number of headquartered Fortune Global 500 companies, rising from 16 in 2000 to 58 in 2009. The growth of India and particularly China - with its 25% corporate tax rate - is particularly notable.

__As Mihir Desai, a professor at Harvard Business School has noted, the structure of the multinational headquarters is increasingly being “decentered”. The financial home, legal home and locus of managerial control can now be relocated and unbundled according to where they can best be performed.__

Source: Mihir Desai, The decentering of the global firm
A special relationship?
In recent months, differences in opinion over how to deal with the aftermath of the financial crisis have emerged between the United States and United Kingdom. While the UK’s Coalition Government, led by David Cameron, like other European governments, has proposed deep public spending cuts to bring down the deficit, the Democrats in the US continue to support the idea of monetary stimulus in order to kickstart the economy.

terms of more security of treaties, regulatory sophistication and regulation and stability. Being domiciled in what we consider a strong legal and treaty jurisdiction diminishes the chances of problems when conducting business internationally. The probability of something going wrong in terms of a treaty with another country are diminished now that we are in what we think of as a stronger jurisdiction.”

In 2008, the company moved its operating company from Bermuda to Switzerland. The decision to split the operating and corporate headquarters between two countries was driven, in part, by a desire to diversify risk. “Having a holding company and an operating company in different jurisdictions provides an extra layer of stability,” says Brown. “Jurisdictions change their rules, treaties with other countries change, and to some extent if you have everything in one country, perhaps you are more exposed to change because it affects all of your key entities, not just one of them.” While the location of the operating headquarters is driven by a range of business and market factors, he believes that the location of the corporate headquarters is increasingly “irrelevant”. “If you are our client, it doesn’t matter whether we are a Bermuda holding and operating company, a branch of a Swiss company or UK-headquartered with a branch in Bermuda,” he explains. “What they care about is that they can walk into a room with a lot of underwriters and get their business done.”

Mihir Desai, Mizuho Financial Group Professor of Finance and the Chair of Doctoral Programs at Harvard Business School, argues that there has been a “decentering” of global firms, whereby companies have separated and reallocated their legal, financial and managerial homes according to where these activities can be run most advantageously (see chart). “To my mind, headquarters historically meant the co-location of where senior management worked, where companies were domiciled for legal and regulatory purposes, and where companies listed their securities,” he explains. “Increasingly, firms have figured out how to unbundle these and have a legal home that is distinct from a financial home, and that is distinct from the multiple homes where senior management work. The idea of a Bermuda-domiciled company whose primary listing is on the New York Stock Exchange with a CEO in London, a CTO in Bangalore and a COO in Shanghai is just not fanciful any more.” In some cases, companies can even choose to have more
Asian Appeal
In September 2009, HSBC announced that its Chief Executive, Michael Geoghegan, would relocate from London to Hong Kong. The move was a clear indication that the bank saw Asia as its number one priority for long-term growth.

than one home through a dual-listed structure, a phenomenon that often arises following a cross-border merger or acquisition. The publishing firm Reed Elsevier, for example, maintains headquarters in both the United Kingdom and the Netherlands through a dual listing structure.

Yet although migration is now more possible than ever, it remains a relatively rare occurrence. One reason is that many companies still place considerable importance in the location of their headquarters and see it as a key source of their culture and values. It is difficult to imagine, for example, Wal-mart deciding to move from Bentonville, Arkansas, or Mercedes-Benz leaving Stuttgart, Germany.

Another brake on migration, however, has been concern about the negative impact on reputation. In 2002, there was an outcry in the US when Stanley Works, a toolmaker, announced its intention to move its headquarters to Bermuda. The negative reaction, which included a Securities and Exchange Commission enquiry and protests from unions, ultimately forced the company to cancel its plans and led to a series of bills in Congress designed to prevent further corporate inversions. The extent to which a company will suffer negative reaction to corporate migration is likely to depend on its profile, its perceived cultural link to the country from which it plans to move, and the reasons for the move. For example, large consumer goods companies or those with significant government contracts may struggle while business-to-business firms with a less prominent public profile may not.

**Most attractive regions for FDI projects over the next three years**

<table>
<thead>
<tr>
<th>Region</th>
<th>In Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>66%</td>
</tr>
<tr>
<td>India</td>
<td>61%</td>
</tr>
<tr>
<td>Central Eastern Europe</td>
<td>59%</td>
</tr>
<tr>
<td>Brazil</td>
<td>53%</td>
</tr>
<tr>
<td>Western Europe</td>
<td>50%</td>
</tr>
<tr>
<td>North America</td>
<td>49%</td>
</tr>
<tr>
<td>Russia</td>
<td>48%</td>
</tr>
<tr>
<td>Middle East</td>
<td>42%</td>
</tr>
<tr>
<td>South Mediterranean Region</td>
<td>36%</td>
</tr>
<tr>
<td>Japan</td>
<td>35%</td>
</tr>
<tr>
<td>Oceania</td>
<td>32%</td>
</tr>
<tr>
<td>South Africa</td>
<td>29%</td>
</tr>
</tbody>
</table>

Source: Ernst & Young’s 2010 European attractiveness survey.
Prof Desai notes, for example, that relocation is more common among younger companies because they may not yet have the kind of public profile that can stimulate a backlash. But Mealey of Ernst & Young thinks that a negative reaction is becoming less likely, and that both markets and governments are becoming more accustomed to the idea of corporate migration. “I think it’s become far more acceptable for businesses to decide that they want to be located elsewhere,” he says. “And fear over market sentiment had been one of the largest inertia factors acting against moving.”

Certainly, governments are watching this trend closely and, in some cases, expressing growing concern about the potential for companies to leave their borders. In recent years, some clear winners and losers have emerged in the battle for corporate headquarters, with the UK and US, in particular, seeing companies leave, and Ireland, the Netherlands and Switzerland being among the most likely recipients. Among offshore financial centers, such as Bermuda and the Cayman Islands, the picture is more mixed, with some companies leaving and others continuing to arrive.

A key concern for countries is that outward migration, if sustained over a period of time, starts to break down clusters of human capital. “Countries that have high numbers of headquarters also have a huge amount of infrastructure and support facilities that ensure that those businesses can flourish,” explains Mealey. “When a company leaves, it takes with it the management and the infrastructure that is necessary to go with it, and as time goes on, this will dissipate the power of one cluster and increase the power of clusters elsewhere.”

Even if a company wants to move its headquarters, the challenges and change management issues associated with the move can be so daunting that they never actually take the plunge. “The thing to remember about corporate migration is that it involves some very real aspects of change,” says Mealey. “This can lead to opportunities but there are also very real challenges that need to be overcome.”

In addition to dealing with reputational and communication issues, companies must deal with a mountain of regulatory, accounting, finance and legal changes. “You really have to understand what the move implies and have a careful plan to make sure you check the regulations, the documents you have to produce, and assess the impact of any rules or regulations to which you may become subject,” says Brown. In the longer term, structural shifts in the global economy may lead to further migration, first of management teams and then of corporate headquarters. In 2006, IBM decided to move its Chief Procurement Officer, John Paterson, from New York to Shenzhen, China. This would enable Mr Paterson to be closer to the company’s key suppliers and build relationships with them that could not be conducted as effectively from the US. “The world is becoming much more multipolar, and as a company’s customers, operations, laboratories and other critical resources become distributed to a larger number of locations, there is a growing realization that you cannot manage these operations from 10,000 miles away,” says Professor Gupta.

Three years later, the rationale for moving executives to Asia was not just about procurement, but a structural shift in the global economy. In September 2009, HSBC announced that its CEO, Michael Geoghegan, would move to Hong Kong in order to be closer to the bank’s fastest-growing markets. “West is coming East and we want to be at the gate into China and be in China itself, and the most logical place to work on that strategy is Hong Kong,” he told reporters in a conference call. HSBC also plans to list its shares on the Shanghai stock exchange to further its Asian expansion plans, although its corporate headquarters will remain in London.

Mergers and acquisitions activity may accelerate the shift of corporate headquarters from West to East. Although it was ultimately unsuccessful, Prudential’s bid for the Asian business of AIG in early 2010 was a clear signal about where the company thought its long-term future lay. Over the next few years, we will surely see similar attempts that will lead to management teams and headquarters leaving slow-growing developed economies for faster-growing emerging ones. The relocation of corporate headquarters, then, is not just about shopping for low tax rates, but a complex decision that takes in market, regulatory, economic, human capital and geographical factors. The location of a corporate headquarters may increasingly be an irrelevance, but this does not mean that the decision to move is one that can be taken lightly.
Corporate migration is nothing new. Throughout history, traders and businesses have looked beyond the horizon in search of new opportunities or to minimize risks.

By Morgen Witzel

Corporate executives with an itch to invest in new markets or move their business operations overseas might recognize a kindred soul in Francesco Datini, an Italian trader who lived in the 14th century. At a young age, Datini moved from his home city of Prato to Avignon in France, the seat of the papal court. In later life, he expanded his business, trading in everything from weapons and armor to textiles and food. Datini spent much of his time in correspondence with agents and friends around the Mediterranean and Western Europe. As soon as he became aware of a market opportunity, no matter how distant, he set up a business there.

Throughout history, traders have roamed the world in search of resources, new markets and, in some cases, adventure. This willingness to explore and invest in unfamiliar territories seems to be an inherent human trait that has manifested itself for as long as people had surplus goods to sell or services to offer. Some migration takes place because companies are attracted by overseas opportunities - what we might term “pull” factors, while other moves may be undertaken because of an unfavorable domestic environment, or what we might call “push” factors. According to Professor Karl Moore of McGill University in Canada, there are two pull factors that are largely responsible for overseas migration. The first is the desire to take advantage of new markets. In centuries past, business owners and managers spent a great deal of their time gathering information on markets in other cities and countries. In many cases, they could move surprisingly swiftly to take advantage of new opportunities, despite the slow speed of communications and transport. Prof Moore cites the example of a Roman building firm in the second century that learned of a building boom in the province of Gaul (modern France). Its response was to set up a brick-making operation there, an operation that, given the number of bricks stamped with the firm’s name that still survive, must have been highly successful.

The second pull factor that leads to expansion and migration, says Prof Moore, is the need for resources. For example, in the 16th and 17th centuries, England was running a substantial balance of payments deficit. At times, it was so severe that there was a shortage of money circulating in the country. Eminent economists of the day, such as Josiah Child and Charles Davenant, argued that the solution lay in the development of overseas trade. Trading companies could procure resources cheaply in other parts of the world, which could then be re-exported at a profit. This philosophy, known today as mercantilism, was responsible for the creation of the so-called “chartered companies”. These were private companies that were closely allied to the state, and that had a dual purpose of earning profits for shareholders and bolstering the national economy. The most famous examples are the English and Dutch East India Companies, but there are many others, including the Hudson's Bay Company, which controlled the fur trade with Canada, or the Merchant Adventurers, which developed an early trade route with Russia. The result was what Professor Moore describes as one of the “waves of globalization” that have swept periodically over the world economy. In this case, national and commercial interests coincided, and European businesses suddenly became globetrotters. A similar wave happened in the late 19th and early 20th centuries, in the period just before the First World War. William Lever of Lever Brothers, the ancestor of today's Unilever, was one of the most ambitious of these leaders.

Summary

Companies have moved overseas for as long as there have been traders. As today, the reasons for their migration tend to comprise “pull” factors, such as the lure of new markets, and “push” factors, such as war, persecution or environmental disasters. Successive waves of globalization created the first multinationals, although strong national identities meant that it was extremely rare for them to move their headquarters overseas.
1 Francesco Datini
This Italian-born merchant created an international trading empire that spanned Europe in the 14th century.

2 East India Company
Formed to take advantage of emerging trade routes in the East Indies, this joint-stock company was granted Royal Charter in 1600.

3 Giovanni di Bicci de Medici
This Italian banker was the founder of the Medici Bank, based in Florence, the most respected 15th-century bank in Europe.

4 Jacob Fugger
Sometimes known as Jacob the Rich, Fugger was a prominent banker in 15th-century Europe.

5 Nathan Rothschild
Born in 1777, Rothschild was the founder of the banking dynasty that bears his name.
Although best remembered for his exploration, this 13th-century figure was first and foremost a merchant.

A Czech entrepreneur, born in 1876, who founded Bat'a Shoes, a multinational shoe company.

Born in 1851, Lever was an English industrialist whose business concerns went on to form the basis of Unilever.

Seeking high-grade palm oil for his soap products, he set up businesses first in Africa and later in the Solomon Islands.

Managing risk
American companies expanded in the same way, Professor George Smith of the Stern School of Business at New York University and a partner in the Winthrop Group of business historians, cites the example of United Fruit Company, which established banana plantations in Central America and the Caribbean in the early 20th century. United Fruit was an American company in name only. “Their headquarters were in the United States,” says Professor Smith, “but operational control was located entirely in Central America.” But there were also “push” factors that led companies to migrate. War, revolution, piracy, environmental disasters and bioplagues could strike at any time, and the consequences could be catastrophic. Geographical diversification was a popular way of spreading risk. If a business had all its operations in Rome, and Rome was stricken by plague or convulsed by revolution, then the business could lose everything. If, however, it had operations in several different cities and countries, the loss of one branch could be covered by profits from others. Big banking and trading concerns like the Medici bank of Florence or the House of Fugger, based in Augsburg, followed this principle and expanded as widely as they could. The Frankfurt banker Mayer Rothschild took a similar approach and sent his sons to open branches of the bank in London, Paris, Naples and Vienna.
Persecution and fear could also be important drivers for migration and relocation. Jewish bankers were not always as respected as the Rothschilds were and, in earlier times, pogroms and persecution often forced Jewish communities to move. In the 14th century, King Casimir III of Poland opened his doors to Jewish refugees in Western Europe and made them welcome. The result was the establishment of a number of Jewish-owned commercial concerns that greatly strengthened the Polish economy.

In the late 19th century, pogroms or violent attacks forced the descendants of those same refugees to the United States, where they again played a major role in building the economy.

Domestic politics was another push factor that often played a role in forcing businesses to migrate. The Bat’a shoemaking firm, founded in what is now the Czech Republic in 1894, was nationalized by the communist regime after the Second World War. Members of the Bat’a family who had fled abroad before the war then established the Bata International Company in Toronto. Similarly, the optical engineering company Carl Zeiss Jena was taken over by the East German authorities after the war, but former managers and staff founded a new Zeiss company in West Germany.

And lastly, we should not forget that at least some merchants were motivated by the spirit of adventure. William Lever once wrote that in business “one has room to breathe, to grow, to expand, and the possibilities are boundless.” Often, it was the desire to see what the possibilities were, to see what lay over the horizon, that led many of the early merchant adventurers to travel the globe in search of the new. Marco Polo was not an explorer: he was a businessman seeking new opportunities.

**Barriers of the mind**

Business leaders seeking to move overseas faced many barriers. Before the early 19th century, most countries were strongly protectionist, and foreign companies were not welcomed. “Corporate migration and international expansion can only really happen when there is free trade,” says Prof Smith. He points out that, in the period up to the First World War, corporations could move around the world and expand fairly freely. Then came the protectionism of the 1930s, and corporate migration virtually stopped. Since the 1980s, the pace has been increasing again. But Prof Smith warns that the 1930s provide an important historical precedent. If the current economic crisis leads to a new round of protectionist measures, then it will become much harder for companies to expand and relocate.

Even more important, however, were the barriers that existed in people’s minds. “National belonging and identity played powerful roles,” says Prof Moore. “People felt very deeply about their own national identity, and were not willing to change it.” An employee of the British East India Company might spend 30 years in India or China; a manager for the United Fruit Company might spend a similar period in Central America. Yet these men and they were all men always thought of themselves as British or American.

The businesses that employed them shared that same identity. Take for example the case of the Hongkong and Shanghai Bank, ancestor of HSBC, which was founded in Hong Kong and was run operationally from there. Local general managers like the famous “Lucky” Tom Jackson had near-total operational autonomy over the bank. But the board of directors remained in London, and the bank remained both legally and culturally a British firm. The same was true at the East India Company. Throughout its 250-year history, almost all its operations were in India or the Far East, but the court of directors, the equivalent to the board, remained in London.

Big businesses tended to maintain their headquarters in the country where they were founded and then expand overseas. In some cases, as with the chartered companies, United Fruit or Hongkong and Shanghai bank, that presence was very tenuous. Only the board of directors and a small headquarters function remained in the country of domicile; all operational and marketing functions were overseas. Others, like the Rothschilds, remained strong in their home markets but expanded sideways into other markets. Only in extreme cases of political or religious persecution were large businesses likely to migrate completely and take on a new identity.

Although it was rare for large businesses to undertake full-scale migration, the same was not always true for more modest businesses. As Prof Moore points out, owners of small companies, especially young ones keen to start a new business, could and did migrate around the Roman Empire, and later in Europe where laws allowed them to do so. But even these individuals tended to return home once they had achieved success. The Italian trader Francesco Datini, having made his fortune in Avignon, returned to his native city of Prato and invested his money in manufacturing and trading businesses there. This tendency to keep the headquarters at home, however, should not prevent us from recognizing just how courageous these early business leaders were. They saw profit seeking and adventure as two sides of the same coin. When businesses moved around the world and entered new markets, they did so not to seek out tax havens or to find legal loopholes, but because of the promise of what lay over the horizon. For Francesco Datini, and his successors across the centuries who have inherited the same spirit of adventure, corporate migration is all about opportunity and the possibility of something better.
On the map of migration

The decision to move a corporate headquarters overseas is driven by a combination of factors, but regulatory and taxation policy undoubtedly play a part. Here, we assess the policy environment in five countries in terms of corporate migration.

In the center of Europe’s economy

Companies continue to be drawn to the Netherlands as a location for their corporate headquarters, thanks to its robust economic, tax, regulatory and infrastructure environment.

A recent study by Ernst & Young cited four dominant factors behind companies’ decisions to locate their headquarters in the Netherlands: proximity to markets/customers; transport and accessibility; quality and availability of labor; and taxes. On all four factors, the Netherlands scores high marks. Located in the center of the three largest economies in Europe – Germany, France and the UK – the country boasts a high-quality transportation infrastructure. The expansion of European Union (EU) membership to Central and Eastern European nations in 2004 and 2007 contributed further to the attractiveness of the Netherlands as a location for implementing and developing pan-European strategies. The World Bank’s Doing Business report ranks the Netherlands 30th in the world in terms of ease of doing business. It scores highly for the ease of trading across borders – it is ranked 13th in the world. On the tax front, the Netherlands has a 25.5% base corporate income tax and a lower 20% for smaller companies, which are below the equivalent rates in many of its EU partners. Dividends from subsidiaries will be generally excluded from the basis for taxation. This Dutch participation exemption system for avoidance of double taxation has over the past few years found followers in many of the governments around the globe, with the United States being one exception. Yet for the many companies that choose the Netherlands as their headquarters location, it is the country’s highly skilled, multilingual and well educated labor force in a population of 16.5m that holds particular appeal. Not only does an estimated 87% of the Dutch workforce speak English, they also speak many of the European languages of core markets in the region, including French and German.

The Netherlands provides a 100% exemption for dividends and capital gains from subsidiaries

The country’s long history of international trade and commerce permeates the Dutch culture, making any transition or move to the Netherlands an easy one for most executives.
Business-friendly policies on taxes, foreign investment and trade make the United Arab Emirates (UAE) an attractive destination for international companies seeking a headquarters location. The UAE already hosts global or regional headquarters for a large number of multinational corporations, including Halliburton, Mitsubishi and Hitachi Data Systems. The number of multinationals choosing the UAE, particularly for their regional headquarters, continues to grow. The country benefits from a stable political environment, along with an emerging reputation as a central hub for trade, financial services, the media and tourism in the Gulf region. High per capita wealth levels offer an attractive local consumer market, while an abundance of foreign workers – almost 80% of the workforce – reinforces the country’s openness and diversity. As home to approximately 8% of the world’s proven oil reserves, the UAE enjoys prosperity as an oil-rich nation, while plans to diversify the economy and encourage growth of its non-oil revenues should cushion the country from commodity price volatility and expand investment opportunities in other areas, such as infrastructure. Despite its wealth, the UAE’s economy was hit hard by the recent global downturn, with the economy contracting by 2.7% in 2009. In particular, the property crash in Dubai led to the postponement or cancellation of a large range of construction and infrastructure projects. Since then, the situation has improved. New legislation limiting the amount of debt that government bodies can borrow has helped alleviate the situation. Furthermore, the macroeconomic environment looks set to improve, thanks largely to higher oil revenues. The Economist Intelligence Unit forecasts that the UAE will grow by an average of 5.2% between 2011 and 2014. The tax regime remains a key factor behind the country’s attractiveness. For both the EIU and World Bank global rankings for tax environments, the UAE scored in the top five, earning the second and fourth spots respectively. Estimated at 1.7% of GDP, the UAE has one of the lowest tax burdens in the world. There is no personal income tax and most companies, with the exception of foreign banks and foreign energy companies, do not pay any corporate income tax. While the Government may implement new indirect taxes and a value added tax to seek additional revenue for financing infrastructure projects, the UAE’s overall tax structure is highly competitive. Elements of the investment climate in the UAE are not completely liberalized, however. Caps on foreign ownership are one example and are often viewed as an added cost to doing business. However there are approximately 40 free zones in the UAE which permit 100% foreign investment, among other incentives, which combine to make the UAE an attractive hub location, particularly for expansion into the rest of the Middle East. In the years ahead, the UAE is likely to remain an attractive destination for foreign investors.
The quality of life

Luxembourg offers many advantages as a headquarters location: an open economy, stability, a favorable tax regime, and liveability. As a result, it is attracting a growing number of multinationals to base themselves there.

Luxembourg has become a favorite destination for many companies as a headquarters location. Already, the country serves as the host for firms in diverse industrial and service sectors, including global steel giant ArcelorMittal. Among the many benefits on offer include Luxembourg’s favorable tax regime as well as its stability, international focus and thriving global financial and business hubs.

Luxembourg’s overall corporate tax rate, estimated by the World Bank at 20.9%, is frequently cited as a main attraction. Its open economy – along with a multicultural and multilingual population – also facilitates doing business on a regional or global basis. In addition, the government allows for an 80% tax exemption for net income or capital gains made from intellectual property. Furthermore, Luxembourg’s reputation and strength as a global financial center offers companies access to first-class financial, legal and tax services.

Indeed, the financial services sector represents a key driver behind the Luxembourg economy. The sector has, however, come under greater international scrutiny and pressure to amend banking secrecy laws. In response, the Luxembourg government, a centre-left coalition, has modified its banking secrecy regulations and signed various agreements in order to remove itself from the OECD’s “grey list” of countries that have not fully implemented international standards on the exchange of tax information. Plus, in an effort to reduce its independency on the financial services sector, the government has made a concerted effort to diversify and expand its manufacturing and services industries through various tax and spending initiatives.

One of the factors weighing against Luxembourg in the World Bank ranking concerns labor, with the country ranking 170th in the category of employing workers. Both the OECD and the IMF in their May 2010 economic surveys pointed out how Luxembourg’s labor costs are not aligned with those of neighboring countries. Much of the problem stems from an inflationary salary indexation system, which tends to push up wages. The Finance Minister, Luc Frieden, is lobbying to modify the mechanism. However, he faces opposition to these reforms. A compromise among the different stakeholders – government, unions and employers – is likely, with a decision expected in the fourth quarter of 2010.

Luxembourg, however, offers other advantages as a headquarters site. The country’s quality of life and liveability is certainly an attraction. In the 2010 liveability rankings from the Economist Intelligence Unit, the city of Luxembourg scored 93.3 points out of total of 100, placing it in the top quintile of the 140 cities surveyed.
The United Kingdom

The likelihood of Groups planning to relocate away from the UK

- Definitely not
- Probably not
- Can’t say
- Yes, probably
- Yes, definitely

Source: Ernst & Young's 2010 UK Attractiveness Survey

GDP growth forecast 2010: 1.4%
GDP per head: US$35,481
EIU Global Bus. En. rank: 21
WB Doing Business rank: 5
Public debt as % GDP: 77.1%
Unemployment: 7.9%

A small, but steady exodus

A reputation as a business-friendly location makes the United Kingdom an attractive destination for corporates, but concerns about the tax environment have prompted the departure of some high-profile firms.

The United Kingdom’s longstanding open policies toward foreign investment, accommodating pro-business stance and flexible labor and market environments have made the country a top destination for headquarters, particularly for US companies. Nevertheless, the UK’s popularity and success over the years have not gone unnoticed by rival European countries. Indeed, in the competition to attract and retain corporate headquarters, the United Kingdom has recently found itself losing out to other European destinations, such as Ireland, the Netherlands and Switzerland. As a result, the past five years have seen a small, but steady exodus of corporates from the United Kingdom.

According to the Economist Intelligence Unit’s Business Environment Rankings, the UK slipped from 18th to 21st place in the global rankings of 82 countries for the forecast period of 2010-2014. Among the weaknesses cited by the EIU are two important decision-making factors for companies when choosing a headquarters location: the UK’s complex tax regime, and an ageing and congested transport infrastructure.

Moreover, the UK’s largest-ever peacetime budget deficit, representing over 11% of GDP in 2009, limits the fiscal and investment options for the new Coalition Government. An emergency budget announced in June 2010 focused on deep spending cuts. But the approach taken by the Government is controversial and opponents fear that the cuts will reduce growth and lead to a decline in public services that could result in pressure to seek further tax rises in the future.

Thus far, however, tax increases proposed by the new Coalition Government have been focused on the banks and Value Added Tax. Multinational companies still continue to benefit from tax relief on interest on debt used to fund their overseas subsidiaries and secured a one percentage point reduction in corporation tax to 27% on UK profits, with further cuts to 24% by 2014-15. However, these rate cuts are offset in part by the deferral of tax relief in the form of capital allowances. Moreover, despite these cuts, the UK’s tax regime maintains a reputation for complexity and unpredictability. As for infrastructure, fiscal strains and the need to reduce the budget deficit leave little room for improving the country’s highly congested road and rail networks.

On the plus side, however, the new Coalition Government has a solid foundation with which to attract and retain corporates. In the 2010 Doing Business Rankings from the World Bank, the UK ranked fifth out of 183 countries in terms of overall ease of doing business. The country is also responsive to signs of corporate defections. In 2008, a number of corporates announced plans to move their headquarters from the UK in response to the Government’s intention to tighten its controlled foreign corporation (CFC) rules, which tax the profits of foreign subsidiaries of UK-resident companies. Faced with this mini-exodus, the Government quickly shelved the proposal to tighten the CFC rules. Instead, in July 2009, it introduced an exemption for various types of dividend distribution from foreign subsidiaries in an attempt to improve the international competitiveness and investment attractiveness of the United Kingdom.

More action, though, may be needed. In early 2010, the chemicals company Ineos announced plans to move from the UK to Switzerland, citing the tax benefits of doing so as one consideration in their decision. While the number of companies leaving the UK may still be a trickle, the trend highlights the importance of increasing the UK’s appeal as a business environment.
Beating the storm

The financial crisis had a dramatic impact on the Irish economy, but the country's business-friendly policies and tax environment continue to hold strong appeal for companies seeking to relocate their headquarters.

_Ireland may be suffering a severe economic slump but it nevertheless remains a popular destination for corporate migrants. Over the years, many companies, particularly those in high technology sectors, have established and expanded operations there, citing a well educated and talented workforce, favorable regulatory, legal and tax regimes, and close proximity to major markets as key factors behind their preference. According to IDA Ireland, the country’s inward investment agency, the first half of 2010 has seen a wave of companies moving their European or global headquarters to Ireland, including Freund Corporation (Japan); Gala Networks (Japan); Straker (New Zealand); Warner Chilcott (US); LinkedIn (US); Webroot (US); and Seagate Technology (US). Two core urban areas - Dublin and Cork - are top choices for corporate headquarters, although the Government is offering various incentives to attract corporate migrants to other parts of the country. Ireland’s appeal as an investment destination stems largely from its accommodating business environment. The World Bank's Doing Business report ranks Ireland seventh out of 183 countries for ease of doing business, while the Economist Intelligence Unit’s Business Environment Rankings place Ireland top out of 82 countries for its openness to foreign investment.

A well-educated, English-speaking workforce also adds to the appeal, although in the years leading up to the financial crisis, labor costs were starting to rise. More recently, however, higher levels of unemployment have led to greater workforce flexibility and a decline in wage costs, which have improved overall competitiveness. Ireland also boasts a pro-business tax environment, including a 12.5% corporate tax rate and an overall tax rate of 26.5%, which is the second lowest in Europe after Luxembourg. The World Bank study ranked Ireland sixth worldwide for the ease and timeliness of its system for paying taxes. Complementing the favorable tax system are double taxation treaties with 56 countries, of which 48 are in force and another eight pending ratification. At the macroeconomic level, Ireland suffered worse than many of its EU partners during the recent global economic crisis. Growth, however, is trickling back - the EIU forecasts GDP growth of 1% in 2011 and 1.6% in 2012. The country’s export-oriented high-tech sector, including communications, IT, pharmaceuticals and biotechnology industries, is an important driver of this growth. Ireland’s strong track record in technology means that companies within the sector are especially likely to favor the country when seeking a location to conduct research and development or manufacturing. The government has put in place a range of policies aimed at attracting high-tech companies, including an R&D tax credits regime, along with depreciation allowances for computer software and a new intellectual property regime that allows for Irish tax depreciation on a broad range of intangible assets. In combination, these policies make Ireland a very favorable site for holding and exploiting IP._

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Top choice for foreign investments

Geography, business-friendly policies and quality of life combine to make Switzerland among the world’s most coveted destinations for companies seeking a new global or European headquarters.

At the heart of Western Europe, Switzerland is a leading choice for corporate migrants. Not only does the country boast proximity to Europe’s largest markets, it also offers political stability, a sound economy, open trade policies, a solid intellectual property framework and a favorable tax regime. In 2002, Switzerland was ranked 15th in the World Economic Forum’s Global Competitive Index, but by 2009, it topped the list. This transformation has led to a steady flow of corporates either setting up global or regional headquarters in the country. A 2008 study from the Swiss-American Chamber of Commerce indicates that close to 200 companies have set up corporate headquarters or other significant operations in Switzerland over the past decade. Although Switzerland possesses a small domestic market, it remains a top choice for foreign direct investment. A 2009 Ernst & Young survey of 700 multinational companies ranked it second in the world behind Germany. Its open trade policies and broad array of agreements, including longstanding pacts with the European Union and the more recent September 2009 free trade agreement with Japan, reinforce its favorable foreign investment climate.

The most recent Business Environment Rankings by The Economist Intelligence Unit (EIU) place Switzerland in second place worldwide among 82 countries and in first place in the regional ranking of 18 European countries. Low tax rates and an efficient tax system are key factors in creating a favorable business environment. Switzerland has a flat federal corporate income tax of 8.5% but its cantonal and municipal taxes are the most important consideration since they vary considerably and may have a significant impact on a company’s choice of location within the country. The cantonal tax burden ranges from a low of 6% to 12.45%, with Geneva having the highest rate.

But while tax is important, respondents to the Ernst & Young survey say that it is Switzerland’s political and legal stability, quality of life and social climate that they find most appealing. A 2010 global liveability survey of 140 cities by the Economist Intelligence Unit places Zurich in 11th place and Geneva in 12th. Not only does Zurich score high marks in terms of quality of life but the city – along with Zug – has low tax rates. Policy-makers in Switzerland are keen to build on this reputation. The Government is actively courting foreign companies and promoting the benefits of locating either a global or regional headquarters in Switzerland. Asian companies are seen as a particularly important target. The 2008 Swiss-American Chamber of Commerce study estimated that between 1,400 and 3,000 companies from China, Taiwan, South Korea and India may consider moving to Europe over the next 10 to 15 years. At the same time, the tax advantages and benefits offered by Switzerland are coming under increasing international scrutiny. The OECD and EU have criticized the special corporate tax rates and perks offered by the cantons as unfair, with the EU claiming that the schemes violate the 1972 Swiss-EU Trade Agreement. At a broader level, an association with incidences of tax evasion by foreign clients of Swiss banks has damaged Switzerland’s reputation. In 2009, the US launched a tax evasion investigation of a number of financial institutions, which forced them to turn over client information. Further investigations are still possible. The OECD has also placed Switzerland on its “grey list”, which led Switzerland to renegotiate many of its double tax treaties in 2009 to include the OECD criteria on sharing data. Such action by Switzerland, and other European and Asian countries, has resulted in their removal from the “grey list”.

Global Competitiveness rankings 2010–2011

1 Switzerland
2 Sweden
3 Singapore
4 USA
5 Germany
6 Japan
7 Finland
8 Netherlands
9 Denmark
10 Canada


GDP growth forecast 2010 ............................................. 2.2%
GDP per head ............................................................ US$62,706
EIU Global Bus.En.rank .................................................. 2
WB Doing Business rank ................................................... 21
Public debt as % GDP ...................................................... 39.30%
Unemployment ............................................................... 3.9%
The Celtic tiger regaining its roar?

Ireland has long been a favored investment destination but the financial crisis has left it facing severe economic headwinds. Barry O’Leary of IDA Ireland explains why the country remains on the map for corporate migrants. Interview by Fergal Byrne

According to forecasts from the European Commission, cumulative Irish unit labor costs will fall by 9% in the period 2008-2011.

What has been the impact of the financial crisis on Ireland’s attraction as a location for foreign companies?

A lot of Ireland’s problems are in relation to an overpriced, overbanked property sector. But not only were property costs too high, in competitive terms, but also labor and energy costs were identified as being under pressure when companies were benchmarking it against other sites around the world. So one of the good outcomes of the current downturn, if you can actually say that, is that the cost of construction, the cost of rents, the cost of labor, energy, and even hotels and restaurants has fallen. But we still have more to do.

What is it about the Irish tax system that is attractive to companies locating in Ireland?

The low rate of taxation is certainly important. But I think one of the things that impresses companies about our tax system is that it’s simple to understand. We regularly get feedback from companies that are concerned about being tied into certain performance measurements in other countries that are not necessarily easy to manage. Simplicity, transparency and the ease of dealing with the tax authorities are areas where Ireland scores well.

How important is tax as part of your overall offering?

It’s important of course. But tax is an entry-level factor when it comes to attracting foreign companies to locate in Ireland. If you were really going for tax as the driving reason for the decision, then countries like Singapore and Switzerland would win. Our job is to make sure that our entire value proposition is attractive to potential investors.

But Irish corporation tax policy is certainly one factor that makes the country attractive from a competitiveness point of view. And we have had a continuous movement to enhance the corporate tax environment. We now have 12.5% corporate tax, but we are always looking at how to get a more effective tax rate. Take, for example, R&D tax credits that have been improved as time goes on.
Transferring operations without substance is certainly a high-risk strategy.

**What are your future plans?**

Our new plan, Horizon 2020, sets out the key sectors that will be our focus for attracting foreign direct investment. It splits into three general business models: services; research and development; and high-end manufacturing. We’ve been focusing a lot on the combination of Ireland’s improving competitiveness and the global growth in services. But we also want to diversify the sources of FDI. We have, for example, set a target of 20% of all greenfield investment to come from the emerging markets or the growth economies of the world.
The European Company

Across Europe, a growing number of companies are finding that the Societas Europaea legal form provides a simple way of bypassing complex national legal differences when conducting cross-border transactions or effecting corporate migration.

By Luc Julien-Saint-Amand and Cornelius Grossmann

In 2004, the European Commission introduced legislation that would enable companies to register as a European Company, or Societas Europaea (SE). The aim was to create a model whereby companies would be subject to European, rather than national, law. Companies incorporated in one member state could merge, form holding companies or move their headquarters across the region without the complexity of navigating multiple legal systems.

Although the SE model initially got off to a sluggish start, it has since gathered momentum. In 2005, there were only 16 SEs but, by mid 2010, this had increased to approximately 600.

Well-known companies incorporated as SEs include Allianz, the insurance company, and BASF, the chemicals manufacturer. Nordea Bank, the financial services firm, has also announced its intention to change its status. There are numerous reasons why companies might choose to adopt the SE legal form. For example, companies may be seeking to rationalize the structure of the group, benefit from a more attractive tax or legal regime, optimize the
corporate governance of a cross-border group, or deal with specific regulatory provisions, particularly in the banking and insurance sectors. Allianz, for example, initially chose the SE route because it was the most efficient means of completing the merger with its Italian subsidiary, RAS. Speaking at the time, the CEO of Allianz, Michael Diekmann, outlined the rationale for the change in structure. “By fully integrating RAS into Allianz, we simplify our operating structures in Europe, and this in turn means that we are better positioned to capture the long-term business opportunities in Europe.”

A common driver for any company that adopts the SE form is the strong European identity that this presents to the outside world. In 2006, the reinsurance company SCOR became the first French listed company to incorporate as an SE. In an official statement, Jim Root, former Director for Investor Relations at the company, cited this factor as a key reason for the change of legal form. “Societas Europaea status will in particular enable the SCOR Group to strengthen its multinational and European identity, to facilitate its acquisition transactions in Europe, to improve its financial flexibility and also to increase its flexibility with regard to capital allocation,” he said.

In a recent study requested by the European Commission and carried out by Ernst & Young and various partners, many SEs cited mobility as the main advantage offered by the model. An SE can change its registered corporate head office within the European Economic Area (EEA) beyond a national border, without having to wind up and engage in cumbersome changes to its corporate governance. If prepared well, such a migration may bring the company substantial economic advantages.

To date, only around 40 SEs have actually transferred their registered offices across borders. Most, however, continue to keep a close watch on tax and legal developments in the various Member States, bearing in mind that the transfer of their registered office is possible. Although the SE model is becoming increasingly common, the absolute number of European Companies is still relatively low compared with the total number of public companies in Europe. One explanation is a lack of public awareness. More importantly, behind the unified image of the SE, different national legislation in areas such as company law, taxation and insolvency still applies. This creates uncertainty and diminishes the attractiveness of the structure. Further harmonization of company and tax law in the EU would reduce this complexity and could increase the adoption of the SE model.

Another important factor impacting the formation of SEs is employee involvement. When incorporating as an SE, a company is obliged to enter into negotiations with employees to establish the degree of employee involvement in decision-making. This allows tailor-made, flexible alternatives to more rigid mandatory legal rules in some European countries and makes the SE model relatively attractive in countries such as Germany, the Netherlands and Austria. But in countries without a compulsory employee involvement regime, SE status is often seen as less attractive, because it forces companies to enter into negotiations with employees to establish their involvement.

The EC Cross-Border Merger Directive has also influenced the appeal of the SE. This Directive has solved some of the issues of cross-border EU mergers for which the SE was, until December 2007 (the deadline for implementation of the Directive), the only solution. In addition, and contrary to the SE Statute, the Merger Directive does not establish a mandatory process to negotiate arrangements for the involvement of employees in the post-merger company. Thus, the Merger Directive provides the flexibility for the merging entities to apply standard rules on employee participation without first having to set up and start negotiations.

To enhance the attractiveness of the European Company, it would be advisable to make the rules governing employee involvement more flexible. This could be achieved by simplifying the negotiation procedures, which are sometimes circumvented in practice through the creation of shelf SEs, which conduct no business activity themselves. These SEs, in the absence of employees, are not capable of opening negotiations. Thus, the requirement to conduct negotiations on employee involvement could be triggered by the “activation” of the SE. The concept of “activation” would need to be defined by the European legislator and could, for instance, be linked to the reaching of a certain number of employees.

“A long time coming
It took 30 years for negotiations to be concluded, but in 2004, the Societas Europaea statute became law. The SE is intended to provide a structure that has its own legislative framework at the level of the European Union. By adopting the SE form, the company is subject to European, rather than national law and can merge or move headquarters without managing multiple national legal frameworks.

“Societas Europaea status will in particular enable the SCOR group to strengthen its multinational and European identity, to facilitate its acquisition transactions in Europe, to improve its financial flexibility and also to increase its flexibility with regard to capital allocation.”

Jim Root, former Director for Investor Relations of SCOR Group

Luc Julien-Saint-Amand is a Tax and Law Partner and Cornelius Grossmann is Corporate Law Leader for Europe, Middle East, India and Africa at Ernst & Young
## Hong Kong

<table>
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<th>Total market capitalization (US$m)</th>
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<td>2009</td>
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Credit: iStockphoto.com / Travellinglight
Traditional financial centers like London, Frankfurt and New York are not about to lose their spots as the world's leading centers but they are being challenged by emerging market rivals.

As economies and regions develop and grow, new financial centers emerge and expand to meet their needs. Amsterdam, Frankfurt, London, New York, Paris, Tokyo: each has emerged in their turn to meet the financial needs of their economies, and their geographic hinterlands. Today, the focus is on the East. With the alignment of the global economy towards Asia, emerging financial centers, such as Singapore, a global leader in wealth management, and Shanghai, the leading source of finance for fast-growing Chinese businesses, are accelerating their growth. Meanwhile, established centers, suffering the fallout from the financial crisis, are under pressure to maintain their position. Financial centers come in many different shapes and sizes. Over the past decade, New York and London have established themselves as the world's truly global financial hubs - one stop shops that offer a complete range of financial services, each with their own areas of special expertise. At the same time, an array of smaller, more specialized financial hubs have emerged, each with their own focus: Geneva (private banking), Zurich (insurance), Singapore (gateway to Southeast Asia) and Bahrain (Islamic finance).

There is no single path to success - but there are some common ingredients that contribute to a financial center's strength and importance: plentiful supply of capital; availability of talent; a good regulatory structure; absence of corruption; infrastructure; and lifestyle factors, such as quality of life. Some of these factors change slowly over time, while others can change dramatically, as happened during the financial crisis in 2008. Financial services companies, among the most mobile in the world, have been able to respond rapidly to changes in the financial and regulatory landscape, allocating resources and capital to wherever in the world the best opportunities lie.

With the fall-out from the crisis still unfolding, a new landscape for global financial centers is starting to emerge. Traditional centers, such as Wall Street and London, have been bruised by the experience of the crisis and are overshadowed by regulatory concerns. While they are unlikely to lose their overall primacy in the near term, emerging financial centers are developing rapidly in Asia. These changes may herald a situation where Asian savings no longer flow to developed markets in the United States and Europe, but instead to those places where growth is strongest.

The financial crisis has added momentum to an emphasis of the global economy towards Asia, reflecting the increased financial importance of developing markets like China and India. Indeed, many financial services companies from Europe and the United States have been drawn to these markets, attracted by the sheer scale of the opportunities and are setting up headquarters in these Asian financial hotspots. Together with rising levels of trade and M&A between emerging economies themselves, all these factors are helping to stimulate growth in these financial centers.

We chart the changing fortunes of key financial centres over the past few years across two broad indicators: total market capitalization and total value of shares traded (source: World Federation of Exchanges). A shift in economic weight from West to East is being reflected in the growth of Hong Kong, Mumbai and Shanghai, which are growing rapidly in relation to the more traditional financial centers, such as London or Frankfurt.

Singapore posted 18.1% GDP growth in the first half of 2010. An expanding financial services sector was one factor behind this huge increase, along with a recovery in export levels.
### Shanghai

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Credit: GettyImages.com / Hiroyuki Matsumoto
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### Mumbai

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Corporate migration is a complex process. Before embarking on a move, companies need to think carefully about the steps that will be required and how to achieve the move without encountering problems.

By William Millar

The process of moving from one jurisdiction to another is a complex one that involves many risks. While the move may achieve the goal of getting the company closer to its markets, create availability of a more specialized workforce or achieve operational savings, it can have knock-on effects in terms of stakeholder relations, and may prove extremely costly in the short term if poorly planned.

Choosing the right destination is an important first step. Executives at Brit Insurance, which relocated its corporate headquarters from the UK to the Netherlands in November 2009, spent a lot of time evaluating possible jurisdictions. “We started to put the various potential locations into different groups,” says Neil Sharman, Head of Tax at Brit Insurance. “As far as tax is concerned, we distinguished between those focused on a smaller tax base and which taxed on a territorial basis, and those jurisdictions that had a low tax rate worldwide.” It is important to consider not just the current situation, but how this might change over the long term. New regulations can come into force, while tax rates can also change. “Taxation on a worldwide basis with a low tax rate is fine until the rate of tax changes,” continues Sharman. “We didn’t want to expose ourselves to a rate change – and we wanted to make sure that we could get certainty over the long term.”

A company also needs to consider how a new domicile might affect its ability to raise, invest and optimize its capital. This begins with a closer look at withholding taxes on various cashflows between the new host country and existing operations. But it continues with a comparison of the after-tax financing costs in the current and the proposed domicile. “If the

“Clients need to be informed that the move will have no impact on the way we do business”

A closer look at withholding taxes on various cashflows between the new host country and existing operations. But it continues with a comparison of the after-tax financing costs in the current and the proposed domicile. “If the

Methods of migrations – an outline of some options

A transfer of mind and management entails relocation of management and control from one country to another. Such a migration is usually fairly easy to implement, and this sort of transfer is typically not taxable at the shareholder level. Furthermore, there is normally no need to prepare new legal documents, such as articles of association.

A transfer of legal domicile is a transfer of the legal seat of a company, usually without the company being liquidated. This type of transfer must be accepted by the country to which the migration is made and by the country from which the legal domicile is migrated. In most cases, the advantage of a transfer of legal domicile is that it can avoid the triggering of any real estate transfer tax or cancellation of tax loss carryforwards, because the transaction implies a legal continuance without interruptions of the legal persona of the company.

A share-for-share transaction involves shareholders exchanging their shares in a company A resident in country X for shares in a company B resident in country Y. As a consequence, the shareholders come to own shares in company B, the new parent company, and company B holds 100% of the shares in company A. Thus, the effect of a share-for-share transaction is that a group comes to have a parent company resident in country Y rather than in country X. An advantage of a share-for-share transaction could be that a new company is established without any history, combined with a step-up in tax basis.

A disadvantage could be that the transaction is a taxable event for some shareholders.

Sometimes, corporate migration may occur as a result of a cross-border merger. For companies within the European Union, this may be a good alternative because the EU Cross-Border Mergers Directive should – in principle at least – be applicable to the transaction, thereby mitigating adverse tax consequences.
competition can raise capital at a lower after-tax rate, that puts you at a severe disadvantage,” says Sharman.

The general business environment in the new jurisdiction is also an important factor. Countries in which there are already “clusters” of similar companies can have significant advantages. Companies also need to understand how the cost of office space and utilities will affect the bottom line, and must ensure that the local workforce has the right balance of cost, availability and flexibility. “Comparisons between the employment environment of different countries are often more complex than first appears,” says Caroline Rodenburg, a Senior Manager with Ernst & Young’s International Location Advisory Services. “You have to look at the all-in cost of workers, which includes benefits, and you also have to think about what it takes to terminate employment if someone is not performing.”

Once a destination has been chosen, a company needs to consider the structure by which it will achieve the move (see box). It is important to evaluate each option and assess what impact each will have on the company’s relationships with stakeholders, and its ability to run the business from an operational, regulatory and accounting perspective.

Before a migration is carried out, it is important to determine whether or not the move could trigger a realization event for shareholders, as this might entail an immediate tax cost for them. It is also important to consider the risk of triggering real estate transfer taxes and possible cancellation of the migrating company’s net operating losses.

Whatever the goals of the migration, it is essential that the move does not adversely affect the company’s business operations. “You have to work out what the relevance of being parented or having operations in a different jurisdiction will be,” says Sharman. “The central principle for us was that we didn’t want to do anything that would upset our trading business. This was absolutely critical and we really had to make the management team comfortable that this was going to be the case.”

“There is a huge amount of documentation required that must be filed at the right time”

Managing the process of corporate migration requires careful and sustained communication with key stakeholders, including the board, shareholders, stock exchanges, rating agencies, regulators, customers and staff. David Brown, Chief Executive of Flagstone Re, which moved its holding company from Bermuda to Luxembourg in early 2010, highlights the importance of engaging each group of stakeholders at the right time. “Once we’d made the decision at board level and had got the indication from the regulators that this was going to be acceptable, then we effectively notified all the important parties at the same time,” he explains. “Trying to tell staff, clients and shareholders at different times is likely to cause problems.”

Although communication with stakeholder groups was held simultaneously, it was important to tailor the message to suit the audience. “Clients need to be informed that this will have no impact on security or the way we do business, shareholders need to understand why we are doing this and what the benefits and risks are,” says Brown.

Communication with staff is particularly important. “You need to carry staff with you, in theory as well as in practice,” says Sharman. “Most staff have one immediate question in their mind: what does it mean for me? And that’s a question that has to be answered very quickly. Because some people will worry that they are going to lose their job.” In addition to ensuring that there is clear communication throughout the process, the company must ensure that it maintains a rigorous approach to documentation and due diligence.

“There is a huge amount of documentation required that must all be filed at the right time to the correct authorities,” says Brown. “You have to be extremely careful to make sure that you have completed all the necessary steps, checked the regulations, and thought through the implications of any rules or regulations to which you may become subject in the new jurisdiction.”

The decision to move the corporate headquarters overseas is a highly complex one. Not only must a company ensure that it is making the right decision – both to move in the first place and in terms of the jurisdiction that it selects – it must also ensure that the process itself runs smoothly and meets the needs of its many different stakeholders. The benefits of migration may be substantial but so too are the risks of getting it wrong. 

Amsterdam, the new home to Brit Insurance, welcomed 105 foreign companies last year. 18 of these businesses have made the Dutch capital their European headquarters. The city is now home to 19,000 international firms.

Trends in corporate organization
According to a Roland Berger study, top executives expected a definite return to centralization.
Personal factors lead to a rush for the exits

Wealthy individuals have become a key target for tax increases and this is becoming a growing factor in relocation decisions.

Attracting high earners: Florida, the “Sunshine State”, offers beneficial tax incentives; there is no personal income tax.
By William Millar

In 2007, Alice Smith (not her real name) decided it was time to move. For six years, Smith, a private equity general partner, had been based in an office just off Park Avenue in midtown Manhattan. But after weighing up the decision carefully, she suggested to her fellow partners that she relocate her place of employment from New York to Florida.

Smith had family in Florida — her parents and a sibling. But the key driver, she explains, is that while New York collects a 10% tax on ordinary income, Florida (along with a handful of other states such as Texas, Nevada and New Hampshire) exacts no such personal levy. Applied to her earnings, the savings would be very substantial. Meanwhile, although her company would continue to be based in New York, Smith was able to make a case that only a small proportion of her work actually required her presence in the state. So following several rounds of discussions, she was on her way. Moreover, within two years, five other executives followed suit. Today, the entire firm operates from a major Florida city.

Not everyone has this degree of latitude over where they work but, in highly mobile industries such as financial services and private equity, personal considerations are playing a growing role in relocation decisions. “Corporations value talent and the market for talent is extremely competitive,” says Christopher Price, Head of Tax for Ernst & Young’s EMEIA Financial Services Tax Practice. “If an individual is talented enough and can make a case for why he or she should be allowed to work from somewhere other than the headquarters, then corporations are going to do what they can to make that happen.”

Technology has been an important enabler of this trend. In this age of mobile communications, the argument that employees need to be located centrally in one office has become more difficult to make. Indeed, some financial institutions are even taking active steps to enable such relocations as a way of retaining key staff. “A number of major investment banks have offshore IT facilities that will allow star performers to live and work where they choose,” says Price.

But if technology is a facilitator of migration, it is tax that is often the spur behind individual relocation decisions. As governments struggle to restore public finances to health and maintain popularity in the polls, high earners have become a convenient political target for tax hikes and this is prompting a growing number of individuals to consider moving overseas. “Rising tax rates and changing legislation in the US, UK and elsewhere are causing people, particularly high wage earners in the financial services industry, to take a look at what other options might be available,” says Robert Russo, a partner in International Tax Services at Ernst & Young.

Recent months have seen a flurry of proposals aimed at increasing tax revenues from financial services participants, particularly alternative asset managers. In June 2010, the New York State Legislature and governor suggested that hedge fund managers who work in the state but live elsewhere should be subject to New York taxes. Although the plan was ultimately shelved, it highlights the extent to which the industry in the United States has come under scrutiny both at a national and local level. In yet another lurking threat to hedge fund and private equity managers, certain legislators in the US Congress and Senate continue to discuss the idea of taxing hedge fund or private equity revenues as income rather than capital gains. This would make it subject to the United States top rate (2010: 35%), rather than the capital gains rate of only 15% currently, or 20% from 2011.

Changes to individual tax rates and policies in the United Kingdom could also encourage greater levels of migration. Following an earlier clampdown on non-domiciled residents that watered down their previously favorable tax treatment, April 2010 saw the introduction of a new rate of tax for the highest earners, with those earning more than £150,000 (US$ 232,755) paying 50% rather than 40%. Then in June, the new Coalition Government introduced a new rate of capital gains tax of 28% for those earning more than £43,875 (US$68,130), compared with the previous flat rate of 18%. The UK Government may reason that these increases are necessary in order to improve the country’s fiscal position, but it seems aware of the impact that the trend might have on the outward migration of wealthy individuals. This may be one reason why it has been reluctant to support the European Union’s draft directive on alternative investment managers. “One of the reasons the government is dragging their feet on the directive could be that after raising the tax rates, they figured they needed to do something to keep too many of the hedge funds from leaving,” says Russo.

Whatever the outcome, it is clear that many governments now recognize the need to strike a careful balance between fiscal discipline, political expediency and the need to retain a strong and dynamic financial services industry. Satisfying all three will be a highly difficult goal to achieve — and, in all likelihood, means that corporate migration arising from personal considerations will become increasingly commonplace in future. ❅
How low can they go?

Tax competition between Swiss cantons has created an attractive environment for corporates but doubts are growing over whether this approach is sustainable over the long term.

By Sandra Willmeroth

Tourists, for a long time, have been travelling to the picture postcard medieval city of Lucerne to enjoy the spectacular scenery and well-preserved medieval buildings. Even Mark Twain paid a visit in the 1870s and wrote about it in his travel book A Tramp Abroad. More recently, however, the canton of Lucerne has been attracting a new type of visitor – multinational companies in search of a low rate of tax. In September 2009, voters in the canton of Lucerne approved a revision of their tax legislation that would cut the corporate income tax from January 2012 to a record low of 4% to 6.5%, depending on the municipality. “We view tax relief as an investment in our canton’s competitiveness,” explains Hansruedi Buob, senior manager at the Lucerne Tax Office. He is convinced that, besides attracting new taxpayers, a consistent tax policy oriented towards promoting the attractiveness of Lucerne as a location will also provide significant benefit for private individuals and companies already resident there.

In some other parts of central Switzerland, this tax offensive caused considerable unease. The neighboring canton of Obwalden, which previously offered the lowest taxes in Switzerland as well as a flat personal income tax rate, quickly found itself under pressure to follow suit. The cantonal government in Obwalden is now contemplating cutting corporate tax rates even further from 2012 in order to compete with Lucerne. “Only the top position garners favorable publicity, which you don’t get if you’re ranked third or fourth,” says Marianne Nufer-Brändle, head of the tax authority in Obwalden. In other words, Obwalden does not want lose its crown as the Swiss canton with the lowest tax rate to Lucerne. In recent years,
Martin Naville
Director of the Swiss-American Chamber of Commerce

How does tax competition between cantons affect multinationals?
Tax competition between cantons is first and foremost an advantage to international companies. It gives the companies assurance that their chosen location will continuously strive for advantageous fiscal conditions. But such competition is also a disadvantage with cantons trying to outdo each other, instead of making sure that companies choose Switzerland overall.

Does the current situation affect the willingness of companies to move to Switzerland?
The ongoing discussions with the EU regarding cantonal tax regimes create great uncertainties about future taxation, and, as we all know, certainty is a key success factor for Switzerland. More co-operation is needed; otherwise foreign companies will be confused by the divergent messages coming from this little landlocked country in the Alps.
Headquarter relocations: Swiss cantons are very competitive in attracting foreign companies

Hot spots for headquarters in Switzerland

- **High level** (60% of total relocated companies):
  - Zurich (ZH), Zug (ZG), Geneva (GE), Fribourg (FR), Vaud (VD)

- **Medium level** (29% of total relocated companies):
  - Lucerne (LU), Glarus (GL), Schaffhausen (SH), Appenzell Ausserrhoden (AR), Appenzell Innerroden (AI), Basel-Stadt (BS), Basel-Land (BL), St. Gallen (SG)

- **Low level** (11% of total relocated companies):
  - Bern (BE), Jura (JU), Neuenburg (NE), Schwyz (SZ), Aargau (AG), Graubunden (GR), Obwalden (OW), Solothurn (SO), Thurgau (TG), Tessin (TI), Uri (UR), Wallis (VS)

- **n.a.** Nidwalden (NW)

Obwalden's low tax policy has had a significant effect on its register of companies. Indeed, as Nufer-Brändle points out, the number of registered companies in the canton rose from 2,000 to 3,500 in the four years since the first income tax cut to 6.6%.

Other cantons are gaining in popularity such as Fribourg with its tax regimes governed by a flexible Administration. Schaffhausen offers a combination of proximity to the international airport and the city of Zurich, a low corporate tax rate and a quality of life enhanced by both its geographical location and its cultural history. This combination is enticing an increasing number of relocating companies.

**The European Commission takes notice**

Competition between cantons to attract companies with low tax rates has been ongoing for a number of years. This downward pressure on taxes has created a highly competitive tax environment in the country as a whole that has led to a large number of multinationals relocating either their global or European headquarters to Switzerland. Indeed, the foreign trade development organization OSEC Business Network Switzerland says that competition between cantons is “one of the main reasons why Switzerland is such an attractive location.” According to Martin Naville, Director of the Swiss-American Chamber of Commerce (AmCham) and co-author of the study “Foreign Companies in Switzerland – The Forgotten Sector”, foreign firms in Switzerland already account for around 10% of Switzerland’s economic output. More than 50% of foreign head offices are American, including the oil drilling group Transocean, whose global headquarters has been based in the canton of Zug since 2008. Over the years a number of French and German firms have also migrated to Switzerland, with one early mover being logistics group Kühne+Nagel, which was formerly based in Hamburg. Among the Asian firms with their European or global headquarters in Switzerland, half are Japanese, with the BRIC countries (Brazil, Russia, India and China) also seen as having great potential for growth.

In addition to being able to vote on their own tax rates, Swiss cantons also offer tax holidays and tax privileges. Tax holidays are based on certain rules and regulations and require a formal decision by the government, because they are granted for macroeconomic reasons. The European Commission has been highly critical of some aspects of the tax privileges defined in the tax laws of the cantons. In February 2007, it informed Switzerland that it considered certain cantonal tax privileges in favor of holding companies, mixed companies or domiciliary companies to be unlawful state aid.

The EU announced its intention to reach an agreement with Switzerland on a regulation to put an end to differential tax treatment of domestic and foreign income in Switzerland as well as the non-taxation of non-investment income generated by holding companies in the cantons. Since then, Switzerland and the EU have held several talks on cantonal tax privileges aimed at correcting the perceived distortion of competition. To date, however, no results from these negotiations have been announced.
“The differential treatment of profits depending on whether they are generated in Switzerland or abroad under the mixed company regime and certain aspects of the holding company regime are certainly questionable,” says Dominik Bürgy, Managing Partner Tax at Ernst & Young Switzerland and Vice-Chairman of the Swiss Chamber of Certified Accountants and Tax Experts. “This is all the more reason for Switzerland to become proactive in adjusting the tax privileges in their current form so that they are more ostensibly aligned with EU standards.”

**Deterrents to corporate migration**

Uncertainty over how this dispute will be resolved is deterring some companies from relocating to Switzerland because they fear that they will lose these special privileges. “At present, there is a great deal of legal uncertainty as to how the tax dispute with the EU can be settled,” says Peter Baumgartner, Director of Swiss Holdings, a body that represents multinationals based in Switzerland.

Some commentators in Switzerland fear that an agreement with the EU requiring the cantons to abandon or adjust their special rules would also lead to an exodus of corporates to other jurisdictions. But Bürgy of Ernst & Young believes that these concerns are overestimated. “In my view, the risk of emigration may be mitigated by a combination of a low regular tax burden with EU-approved tax privileges, which at the same time will also continue to attract new corporations,” he says. But while few companies may be willing to leave Switzerland, the numbers arriving have declined, with 54 making their way in 2008 and just 15 in 2009.

Uncertainty over how this dispute will be resolved is deterring some companies from relocating to Switzerland because they fear that they will lose these special privileges. “At present, there is a great deal of legal uncertainty as to how the tax dispute with the EU can be settled,” says Peter Baumgartner, Director of Swiss Holdings, a body that represents multinationals based in Switzerland.

Some commentators in Switzerland fear that an agreement with the EU requiring the cantons to abandon or adjust their special rules would also lead to an exodus of corporates to other jurisdictions. But Bürgy of Ernst & Young believes that these concerns are overestimated. “In my view, the risk of emigration may be mitigated by a combination of a low regular tax burden with EU-approved tax privileges, which at the same time will also continue to attract new corporations,” he says. But while few companies may be willing to leave Switzerland, the numbers arriving have declined, with 54 making their way in 2008 and just 15 in 2009.

The financial crisis has certainly added to uncertainty, with companies putting all major plans on hold while they dealt with the more pressing concerns of liquidity and, in some cases, solvency.

Martin Naville of AmCham points to the replacement of a law known as the “Lex Bonny” in 2008 as another important reason why corporate migration to Switzerland has slowed considerably. Previously, this law allowed cantons to give companies that relocate to economically weak regions a reduction in their tax base. But under the new Federal Act on Regional Policy that replaced Lex Bonny, state guarantees were abolished and industry-wide financial aid became integrated into the multi-year programs of the cantons.

In the longer term, most commentators agree that Switzerland will continue to be at the forefront of international tax competition and, for this reason, is likely to remain a highly popular destination for multinationals seeking a new headquarters. From a macroeconomic perspective, Switzerland has low levels of debt, which means that it has much greater fiscal flexibility as compared to most of the large

**75m**

A company that relocates to Switzerland boosts GDP by an average of CHF 75 million and creates around 450 new jobs within the country, according to OSEC, a Swiss business forum.

**34%**

Multinational companies account for about 34 percent of the total Swiss GDP. Of that, 10 percent is contributed by foreign multinationals.

European countries, where debt levels have mushroomed as a result of stimulus packages and bank bail-outs. This, in turn, is likely to lead to higher taxes in those countries, and this will make Switzerland appear even more competitive by comparison.

But while the influx of firms is broadly welcomed in Switzerland, it does have a knock-on effect in terms of costs. According to a recent study by the Zurich University of Applied Sciences, residential property prices around Lake Geneva have tripled since 2000 and those in the Zurich region have doubled, with vacant rental properties being scarce. A similar effect has been registered in the central Swiss cantons of Schwyz and Zug, where property specialists at estate agent Wüest & Partner have even noticed native Swiss citizens being crowded out, because they can no longer afford to live in their home towns.

The political wind does appear to be changing slightly in the face of such developments. Some politicians, who until now have been unqualified supporters of tax competition, are raising the possibility of a rethink. There have been isolated voices calling for a “more healthy level” of tax competition and representatives of the higher tax cantons are requesting that the Government set a minimum tax rate. The rationale for doing this would be twofold: first, it would protect the cantons from a ruinous “race to the bottom”; and second, it will avoid conflicts over revenue sharing. Currently, structurally weak cantons receive equalization payments from financially powerful neighbors, even if they have previously enticed companies away from other cantons. With expected changes the mix of cantons giving and receiving such payments may change substantially.

**A provocative call**

Although there is widespread competition between cantons to set tax rates that will attract companies to move from one canton to another, it remains relatively rare for one canton to actively poach companies from another. There have been examples of a company being enticed from one canton to another, but often such a move is made for a variety of reasons, and rarely for tax purposes alone.

With international pressure on Switzerland’s low-tax strategy mounting in the face of ongoing attempts by cantons to ratchet up tax competition, one might think that the argument had reached its logical conclusion. But in July 2010, the Swiss economic commentator Philipp Löpfe took it one step further. His provocative suggestion was to abolish corporate taxes in Switzerland, or at least at a cantonal level. In this way, he said, tax competition “would no longer be about Obwalden versus Lucerne, but about Switzerland versus the rest of the world.” Tax competition, it seems, remains alive and well in this corner of Europe.
Keeping the crew on board

The human capital issues associated with moving headquarters are all too often overlooked. If it is to be a success, corporate migration requires clear communication with employees.

By Rodrigo Amaral

When Nissan International decided to move its European headquarters from France to Rolle, Switzerland in 2008, the impact on staff was a major consideration. The migration involved moving 130 staff of 25 different nationalities—all of whom had personal considerations to be taken into account. If the entire migration was to be a success, Nissan had to win the hearts and minds of its workforce and ensure that those employees who would be affected not only understood the rationale for the move but were willing to follow the company to its new location.

As with many corporate migrations, the initial reaction of Nissan staff to the proposed move was mixed. “For people who were already expats, it was mainly positive, whereas for those with local contracts the decision to move was sometimes more difficult,” recalls Dalida Lopez, the Human Resources Project Leader at Nissan International. “Some issues required special attention from us, like the conditions of the move and the impact on their family situation, especially when a spouse was working.”

A long list of questions

Corporate migration can have a profound impact on both the professional and personal lives of employees. When a company announces that it will move its headquarters overseas, staff affected by the move will understandably have a long list of questions about housing, education, the health system, tax and the cost of living in the country to which the company is moving. Even employees who are not directly affected by the move will have concerns, such as how the move affects management decision-making or their own long-term career prospects.

At Nissan, the communication process initially involved all employees before focusing on those who were directly affected by the proposed move. “All employees attended a general presentation about the migration process,” Lopez recalls. “Then, we did collective presentations to the affected departments, followed by individual meetings and follow-up sessions.”

Clear and consistent communication is essential in a corporate migration process in order to address the questions and concerns of employees up-front. If staff have doubts or are not being given the information they need, they will seek it out for themselves, and this can quickly lead to rumors or misunderstandings. “Clear and constant communication with employees prevents the creation of an expectation gap between what people think is happening and what is really happening,” says Chris Debner, a senior manager at Ernst & Young Human Capital department in Zurich.

Stephanie Phizackerley, a partner of Ernst & Young LLP in the United Kingdom, highlights the importance of explaining clearly the rationale for a corporate migration. If a company can outline why a move makes sense from a business perspective and will help to ensure a sustainable, long-term future, they may be more supportive. “Sometimes the need to change location is not a particularly obvious one,” says Phizackerley. “If you move a bunch of engineers to a place where there is a job to be done, psychologically they can see it as something that needs to happen. But if the company wants to move its headquarters, it may not be immediately so obvious that the move has to take place, so the communication required may be greater.”

A common mistake for companies is to underestimate the complexity of the process involved. “Companies may think that because they have experience of sending people on international assignments they can manage corporate migration in the same way,” says Debner. “But corporate migration implies a very different kind of move, one where people are expected to stay permanently in the new location, and not return home after a few years.” Devising a relocation package for employees is an essential part of the corporate migration process. The package that a company offers will depend on the situation in the country to which the company is moving but the difference between success and failure can be startling. “We’ve seen cases of relocation packages where pick-up rates were a mere 10% of the targeted people, whereas other companies have managed to move up to 95% of the employees.”
Nissan in Europe
The European headquarters of Nissan in Europe, NISA International is located in Rolle, Switzerland and is responsible for manufacturing, distribution, marketing and sales for Nissan products in the European markets. NISA coordinates the activities of other Nissan European subsidiaries which are divided into 8 Regional Business Units.

Specific issues to be considered
Employees at Nissan International received help with education and private health plans, and were able to have a taste of their possible new lives by visiting Switzerland before making up their minds. “We used a relocation company to organize familiarization trips that lasted a few days,” says Lopez. “We also provided an estimation of earnings and arranged meetings with a tax advisor.” Most companies may want to offer employees an attractive relocation package, but care must be taken to ensure that the costs of the package are properly calculated, and do not create unsustainable expectations for the employees. The recent case of a multinational that decided to move its European headquarters from the UK to Switzerland offers a case in point. Employees prepared to undertake the move were offered the firm’s generous international assignment package, and pick-up rates were high. As time went on, however, the company realized that the cost of the package, which was designed for stays of up to three years, was excessive and not realistic over the long term. When the company tried to localize the staff, which involved removing some special perks of the package, many employees decided to leave the company for good. This highlights the importance of being clear about the period over which special allowances, such as subsidies for housing or education, will be available to staff who have moved to a new location. But this creates its own set of challenges. “If you offer a package with incentives that will disappear after three years, you create an incentive for the employee to begin seeking a new job by the end of the second year,” says Debner. The human aspects of corporate migration are complex – and all too often not given sufficient attention.

When a company moves its headquarters from one country to another, it risks losing years of skills, experience and knowledge if it cannot ensure the support of its employees. In this respect, the move at Nissan International was a great success. All jobs that needed to migrate to the new location were adequately filled and the company did not have to hire any replacements in the new location.
What is your view on tax competition?
Tax competition is a useful check on governments forcing them to continually review their tax system to ensure they provide a competitive tax environment. To get the full benefits of tax competition does, however, require that the competition is transparent, non-discriminatory and that countries cooperate to counter abuse.

Are companies more or less mobile following the financial crisis?
Irrespective of the crisis, companies, particularly in the service sector, are becoming more mobile.

Is the location of a company’s headquarters still important?
Yes: as a symbol but also in terms of enabling a company to pursue a tax minimization strategy.

Do you expect to see more or less corporate migration in future?
It depends on the sector. I do not believe that financial companies are going to leave London en masse to go to Zug!
The financial crisis has placed offshore financial centers under intense scrutiny and prompted a number of companies to consider alternative locations for their corporate headquarters.

Tax havens under fire

The financial crisis has placed offshore financial centers under intense scrutiny and prompted a number of companies to consider alternative locations for their corporate headquarters.

By Peter Moore

When government leaders from the world’s largest countries met at the April 2009 G20 meeting in London, they confidently announced that “the era of banking secrecy is over.” Under the auspices of the OECD, there has since been a coordinated effort to eliminate tax evasion and take firm action against non-cooperative tax jurisdictions. A flurry of bilateral tax treaties and agreements have been signed which, in addition to promoting an unprecedented level of information exchange between authorities, have significant implications for multinationals with operations in low-tax jurisdictions.

While there is no widely agreed definition of a tax haven, the OECD set out four common identifying factors in 1998: they have no or nominal tax on income; a lack of effective exchange of information; low levels of transparency; and no substantial corporate activities.

According to the OECD, there were some 40 offshore financial centers that it identified as tax havens by the start of the past decade. Many have developed different specialities. The Cayman Islands, for example, is a major center for the hedge fund industry, while Bermuda has become a cluster for the captive reinsurance industry. By 2007, the OECD estimated that capital held offshore stood at between US$5 trillion and US$7 trillion.

More recently, the financial crisis has placed tax havens under intense scrutiny. Many governments have become more determined to deal with tax havens, and more questioning of the role that these centers play in the so-called shadow financial system. Non-governmental organizations have also been highly critical of tax havens.

The OECD has been at the forefront of the effort to clamp down on tax havens ever since it published its “Harmful Tax Competition” report in 1998. More recently, its main focus has been on the naming and shaming of tax havens.

Summary

Offshore financial centers have come under intense international pressure to increase levels of transparency and disclosure. Some companies based in these jurisdictions are becoming concerned about the impact of these changes and a growing number are moving back onshore in order to reduce their risk and address negative reactions from stakeholders.
For this initial stage, 18 exchange of tax information. meeting its standards for the participating countries in examine the progress of review process that would Information launched a peer transparency and Exchange of Global Forum on Trans-

In March 2010, the OECD’s Global Forum on Trans-

Peel review
In March 2010, the OECD’s Global Forum on Transparency and Exchange of Information launched a peer review process that would examine the progress of participating countries in meeting its standards for the exchange of tax information. For this initial stage, 18 countries were selected that represent different stages of development and progress in adopting the OECD’s guidelines. The first eight peer review reports were approved in July 2010, with more expected later in the year.

non-compliant tax havens into greater transparency and disclosure. Countries have been urged to sign tax information exchange agreements (TIEAs), a legal instrument that sets out expected standards for the sharing of tax information between two or more jurisdictions.

Measured in terms of TIEAs, there has been considerable progress in recent years. “We are seeing a very large change in relation to the whole environment of tax havens,” says Chris Sanger, Head of Tax Policy at Ernst & Young. “If we go back two years, we would never have expected so many of these TIEAs to be signed.”

In 2009 alone, more than 300 agreements were signed, which is greater than the number than had been signed in the previous decade. Progress is continuing apace, according to Jeffrey Owens, Director of the Centre for Tax Policy and Administration at the OECD. “The bottom line is that there are now very few places in the world where residents of a country that want to go offshore to evade taxes can now go,” he says.

Many offshore financial centers have signed 12 or more TIEAs, which means that they join the list of jurisdictions that the OECD considers to have “substantially implemented” its standards. Indeed, there are now no countries on the OECD’s “blacklist” of uncooperative tax havens, after Costa Rica, the Philippines, Malaysia and Uruguay agreed to co-operate on adopting international standards.

In April 2010, the OECD and the Council of Europe announced that they had updated their 1988 pact on administrative cooperation in tax matters. This new pact establishes and reinforces the protocols that allow for height-

Trend towards greater exchange of information between offshore financial centers and other jurisdictions has significant implications for companies, some of whom are based or have a presence in these offshore financial centers. There may be good reasons for a company to base itself or set up operations in an offshore financial center, but it is becoming increasingly important for them to be able to explain why this is necessary. “This whole process has stimulated a review by corporates of their use of tax havens,” says Sanger. “It’s not that they need to eliminate the use of them, but rather to be able to justify and rationalize why they are using a certain jurisdiction in a certain location at any particular time.”

Owens believes that companies today have become much more aware of the potential reputational risk associated with tax. “In the current environment, corporate boards are taking a much more cautious approach to aggressive tax planning,” he says. “They just don’t want to put their reputation at risk. Many are now saying we want to make sure that we’re operating in countries where there is no risk of them being on any type of list. Being on a list is just bad for business.”

When authorities make decisions about the tax risk profile of a particular company, their association with tax havens is becoming a more important factor. Companies that use perceived tax havens may find themselves subject to more aggressive tax audits and, in some cases, a fractious relationship with administrations. “The use of tax havens is now one of the factors that governments consider when deciding whether or not a company has a high risk profile,” says Chris Sanger. Indeed, some companies with headquarters in offshore financial centers have already started to break their ties. In late 2009, the global management consultancy Accenture left Bermuda to incorpo-

The June 2008 US survey of portfolio liabilities found that Caribbean financial centers were holding over $1 trillion in US long-term securities.
Promoting a sustainable approach to tax competition
An interview with Doreen Tan, Chief Tax Policy Officer at the Singapore Ministry of Finance.

Is the competition of tax systems in a global economy a wise idea? Or does it include the temptation to break international “rules of the game”?
Offering competitive tax rates is one way for countries to attract investment and economic activities. However, businesses will look at not just the tax rates, but also other factors such as business costs, infrastructure and quality of the workforce. It is thus unlikely that a jurisdiction can compete solely based on taxes on a sustained basis. Tax competition is entirely distinct from the exploitation of different tax systems to circumvent rules or evade taxes. It is important to make this distinction because the fact that countries have diverse tax systems can be easily politicized. What is needed is a global, concerted effort to address tax evasion issues without inadvertently undermining the significant benefits of healthy competition in tax across jurisdictions.

How would you describe Singapore’s approach to tax matters?
Singapore takes a pragmatic approach to setting its tax policies. Without any hinterland or natural resources of our own, our tax policy must ensure our long-term fiscal sustainability and, at the same time, encourage effort and enterprise by individuals and businesses.

So while we have been reducing our corporate and personal income tax rates in line with worldwide trends, we have also raised indirect taxes to ensure fiscal sustainability. This allows our tax revenue to account for over 90% of the government’s operating revenue. Through prudent public expenditure policies and management – government expenditure is only 15% of GDP, while government employees make up only 2.5% of the total workforce – the revenue has been adequate in funding our expenditure without the need to take on external debt.

How do you ensure that the tax rates in Singapore promote sustainable growth?
Our corporate and personal income tax rates are not the lowest in the world – countries with lower corporate tax rates include Bulgaria (10%), Ireland (12.5%) and Romania (16%). But we aim to keep a broad tax base and competitive tax rates that will encourage hard work and substantive economic activities that create good and skilled jobs for the people. Only then can we build up our human capital and ensure that Singapore’s growth remains sustainable over the long term.

Which are the most important criteria to attract global companies?
Global companies are typically attracted to locations which offer a good total business environment - quality infrastructure, highly skilled talent pool, and good access to regional and global markets. Over 7,000 international companies use Singapore as a base for their operations. Investors are attracted to invest here because of the socio-political stability and our strong economic fundamentals. Singapore’s unique location, excellent infrastructure and communications network also offer investors easy access to global markets. Companies can also be assured that their ideas will be protected through Singapore’s rigorous enforcement of its intellectual property laws.

have all left for Europe. Earlier this year, Dragon Oil, an oil production and development company, dropped its plan to change its corporate home from Ireland to Bermuda, quoting concerns about stability.

In addition to the multinationals that have a direct presence in tax havens, there may be a bigger impact on companies more generally, as a result of the increased transparency associated with the tax haven clean up. Some commentators suggest that the scope of the new information exchange agreements will probably allow tax authorities to request a range of other information from offshore financial centers. "Exchange agreements will in fact enable tax authorities to have information on any type of transaction, whether it’s in the financial sector or whether it is a multinational and related to transfer pricing,” says the OECD’s Owens.

Whether companies remain in offshore financial centers or leave, it is becoming increasingly important for them to manage their tax risk proactively and take into account the much greater level of information exchange between jurisdictions. Building on its work promoting the adoption of TIEAs, the OECD is also creating a protocol for joint tax audits, which will enable two or more jurisdictions to carry out a single audit of a company with cross-border activities. “It’s becoming increasingly important for companies to make sure that the information they provide to governments in one country is consistent and able to be shared readily with other tax jurisdictions,” says Sanger. “The risk of complications and unnecessary enquiries where information is misunderstood is much higher now than it used to be.”

Given this fast-changing environment, what does the future hold for offshore financial centers? One likely outcome is that there will be a much clearer distinction between offshore financial centers that exist for legitimate business purposes, and those whose primary purpose is tax avoidance. “There’s clearly a role for particular locations that can make sure that their regulatory regime and legal environment is designed to fit the purpose of a particular sector, such as hedge funds or insurance,” says Sanger. “In some respects, the increased information flow may almost validate some of these offshore financial centers and dismiss some of the myths that arise around the use of them.”

Much has changed over the past two years. The trend towards greater co-ordination between tax authorities seems irreversible, while the long-term fiscal outlook in many developed countries means that scrutiny of corporate tax affairs will remain intense. This highlights the importance for companies to consider very carefully their relationships with perceived tax havens, and to ensure that they take a proactive approach to tax risk management that takes account of this fast-changing environment.
Taking care of future generations

The six countries of the Gulf Co-operation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates) weathered the financial crisis better than the “advanced” economies. But if it is to grow sustainably over the long term and remain an attractive destination for international corporate migration, important policy decisions must be taken.

1. Separation of energy wealth from government revenues. There is a critical need for Governments across the region to diversify sources of revenue away from dependence on oil and gas. Extracting oil and gas and selling it in world markets does not generate “income” or “revenue” and should not be counted as government revenue: it is a transformation of exhaustible natural resource wealth into financial wealth. Inter-generational equity requires that the financial wealth generated from energy resources be wisely and prudently invested – within a well defined governance framework – for future generations. Future Generation Funds should be independently governed, held accountable for their investment performance and only transfer an agreed fraction of the income and returns generated from investment to the Government. Clearly, this would imply a revolution in public finances and would require a phasing in over a generation or more.

2. Diversification of revenues. The GCC countries should establish a broad-based taxation system in the form of a Value Added Tax (VAT). Introducing a GCC-wide VAT would provide GCC governments with a more stable, buoyant source of revenue that grows with their economies and is not subject to energy price volatility. The introduction of a VAT would not only serve as a revenue diversification measure but also help to achieve greater fiscal equity. The GCC countries have large non-resident and largely untaxed expatriate populations that place a growing burden on utilities and services and should make a greater contribution to public goods and infrastructure.

3. Phasing out oil subsidies. The GCC countries heavily subsidize gasoline and diesel, water and power. These subsidies have led to surging domestic demand, affect the availability of oil exports, distort consumption and production towards energy-intensive technologies and lead to environmental deterioration. Instead, the GCC countries should phase out oil subsidies and impose a carbon tax to subsidize alternative energy sources. Removing subsidies would lead to a large reduction in the non-oil fiscal deficit and free up resources for investing in human capital and infrastructure.

4. Develop public debt markets. The final policy priority is to develop local currency debt and Sukuk (Islamic bond) markets. A Government securities market (including Treasury Bills) would allow Governments to smooth energy revenues, undertake counter-cyclical policies including deficit financing, and give central banks improved control over domestic liquidity. Importantly, the debt and Sukuk markets would finance the vast infra-structure and public works projects planned in the Gulf, as well as break the link between energy revenues and Government investment.

The road map for fiscal development outlined above is ambitious and challenging. If implemented, it would enable the GCC countries to enter a path of sustained economic development and sound diversification, to develop and implement fiscal policy in line with the specific requirements of the natural resource-rich GCC and, most important, help protect the interests of future generations.

By Dr Nasser Al Saidi. The views expressed are personal and should not be interpreted to represent official views.

A longer version of this article can be found at www.ey.com/tmagazine
Nasser Al Saidi,
Chief Economist at DIFC
In Issue 3 of *T Magazine*, which will also be published as an insert in the *Financial Times*, we focus on the broad theme of going global. Notwithstanding the move toward a flat globalized world, there remain significant and meaningful differences between economies. How should companies structure themselves to respond to these differences while achieving the benefits of global scale? How can companies adjust to a world where their future growth is coming from distant emerging markets? How can companies further optimize global supply chains? Issue 3 looks at the challenges and best practice to succeed as a global business.

Topics covered will include:

- How to manage global transfer pricing risk
- Is it time to (re)consider offshoring?
- How companies can create effective regional strategies for Africa
- Securing competitive advantage with a green supply chain
- The globalization of R&D
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