

International Services

update

Doing business with James Cowper and Kreston International



James Cowper has been a member of Kreston International for nine years. Our original reason for joining was so that we could better serve our clients looking to foreign markets for their own expansion. Over the years we have seen an increasing number of businesses from outside the UK needing our support as they set up here, often as a platform for a wider expansion into Europe.

International businesses are very important to James Cowper. We act for nearly 150 international groups with a mixture of both inbound and outbound. These range from small "first entry" companies to subsidiaries of household name global enterprises. We have matched our skill sets and recruitment policies to serve these clients well. We have expertise to deal with a wide range of client requests from setting up subsidiaries, handling cross-border corporate transactions and AIM listings, to advising on complex international corporate and expatriate tax issues. We are steadily building up our language skills within the practice and already have fluency in several.

Kreston itself is one of the most successful networks of independent accountancy business advisers in the world. Created just 40 years ago it is now the 14th largest network in the World, operational in 101 countries with 700 offices and 18,500 professional and support staff. Kreston is also a member of the Forum of Firms. The forum is an association of international networks of accounting firms that perform transnational audits, its goal being to promote consistent and high-quality standards of financial reporting and auditing practices worldwide.

Kreston uses the strap line "People do business with people they know, like and trust". Even in today's highly competitive and frequently online economy this holds true. We frequently attend international conferences and visit other offices of

Kreston members to get to know them, like them and trust them. So when our clients need support there is a good chance we will be dealing with people that we have met and built a relationship with.

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ENTERPRISE ZONES - GOOD NEWS FOR UK INBOUND INVESTORS



As part of the strategy for growth announced alongside the 2011 Budget, the Chancellor announced that the Government would be designating a number of areas throughout the UK as Enterprise Zones to promote the development of

business - primarily technology based businesses.

The new Enterprise Zones are to be sited in an area or cluster of particular business expertise. The Zones were awarded largely as the result of competitive tenders and two are prominent within James Cowper's territory:

- Science Vale in Oxfordshire
- Solent Enterprise Hub in Gosport
- London

The benefits of being a designated Enterprise Zone are reduced business rates by up to £275,000 over five years for any business moving to the Zone; faster broadband and reduced planning regulations. There have also been hints of more beneficial tax treatment for such businesses but we are still awaiting further announcements.

It is expected that the new Zones will attract overseas investment into the UK. Not only will there be direct incentives for these businesses but the new Zones will be able to retain funds to invest in advances to infrastructure such as transportation and communication links providing additional indirect help.

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M&A in China and the Far East

A significant factor in UK Mergers and Acquisitions M&A over the last ten years has been the number of UK businesses which have been purchased by Middle East and Far East based organisations. An equally significant trend has been the increasing amount of finance available from these geographic locations for UK businesses.

James Cowper has always prided itself on its ability to punch above its weight, in particular its ability to deal with international considerations in accounting and tax has been a key strength. On the Corporate Finance side James Cowper has had excellent success sourcing US, Canadian and European buyers. This has been in a large part due to the existing contacts of the James Cowper M&A team.

However, this has now broadened following two visits to the Far East by Nick Rogers, James Cowper has been able to develop strong and already fruitful relationships with M&A professionals in these countries and therefore can genuinely source buyers of, and investors in, UK businesses from those jurisdictions.

This benefit and strength has been perfectly illustrated by James Cowper's appointment as Reporting Accountants to a Chinese and Malaysian mining group for its forthcoming IPO on the AIM Market. The assignment has meant that

Nick Rogers has spent over a month in China, Malaysia, Hong Kong and Indonesia working with our Kreston Network partners in those jurisdictions.

The experience of working hand in hand with his Kreston counterparts has enabled Nick to dig beneath the veneer of international co-operation common in other "international" accounting firms. The experience has provided Nick with an in-depth understanding in the different business cultures and how those differences manifest themselves in the M&A world.

There is no doubt that the financial momentum of the global economy has moved to the Far East and that increasingly businesses from those economies will look to Europe and hopefully the UK for opportunities to expand their business.

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Sharon Bedford, Tax Partner commented that "These areas of the UK already are a strong draw for overseas businesses, with highly skilled workers, proximity to many of the UK leading universities, an existing cluster of large technology giants and good connectivity through airports such as London Heathrow. It is expected that the Enterprise Zones will attract even more businesses to the region"

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Non-executive directors who are tax resident overseas



Do you have non executive directors who are tax resident overseas? Are you paying travel and accommodation expenses as well as directors fees? If so, you need to take advice on how to manage all of these payments from an

income tax, social security and withholding (PAYE) perspective. For example some non-executive directors may not be entitled to a UK personal allowance, you may only be required to subject their UK workdays to PAYE and social security in their home country may be applicable to you as employer. The tax treatment of their travel and accommodation expenses will depend on each individual case and may involve an analysis of their domicile position.

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Managing your foreign exchange exposure



Any business which exports or imports goods or services needs to consider protection against exchange rate movements. You will also need to decide how to make and receive payments in foreign currency.

If you are exporting you will have to decide whether to price in the local currency of the country you are exporting to. The decision as to whether to price in sterling or local currency will depend on issues such as how you want to be seen in your market place and what your competitors are doing.

Some currencies are more volatile than others, but sterling has fluctuated significantly in recent times even against supposedly stable currencies such as the Euro and US dollar. As exchange rates can go up and down it may be tempting to bet that rates will work in your favour. Such a decision can be highly risky and leave you with a significant financial loss. It may be safer to reduce your risk by hedging, which is available through most banks. There are many different types of currency hedging. Two of the most common are forward exchange contracts and currency options. It may also be relevant to open foreign currency bank accounts to net off receivables and payables in the same currency.

A forward exchange contract is an agreement to buy or sell a specific amount of currency at a certain rate, on or before a certain day. These contracts are a simple way of hedging when you are confident that the underlying deal will go ahead and the currency will be required. It is well suited to businesses trading in volatile currencies where the

profit margins are low. The main advantage is protection against adverse movements in exchange rates and the ability to budget accordingly. The downside is that you will have to go through with the transaction even if circumstances change, and you will not benefit from any favourable movements in the exchange rate. The cost of the contract is usually built into the exchange rate.

Purchasing currency options is a more flexible way of hedging than forward exchange contracts but is also more expensive.

Currency options give you the right, but not the obligation, to buy or sell a specified amount of currency at a specific exchange rate on or before a certain date - but you do not have to buy or sell at the end of the period. To have this flexibility, you will have to pay a premium to take up the option. The premium amount will depend on the amount of currency involved, the exchange rate and the period of the option.

Currency options are suitable for businesses which want to protect themselves against exchange rate movements but also want to retain some flexibility to benefit if rates work in their favour. They may also be appropriate in situations where it is not certain that the currency will be required. The main disadvantage is the cost and the fact they are generally only available where larger amounts of currency are involved.

Whatever foreign currency transactions you are involved in it is important that businesses trading internationally consider what their foreign currency exposure is and take action to control it.

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ALL CHANGE IN THE VAT WORLD!

The international VAT (UK Sales Tax) scene has been dominated by three major events in 2011.

Firstly, the place of supply of more services changed from where performed to where the recipient is established. Most notably these changes affected the services connected with education, sporting and cultural events (excluding admissions to the events themselves). This was the second phase in a move to tax the majority of services in the EU Member States where the recipient belongs.

Secondly, an Implementing Regulation came into force on 1 July 2011 across all EU Member States. This Regulation supercedes domestic law in any member state, but, HM Revenue and Customs have yet to issue any guidance on the contents of the Regulation. The Regulation itself aims to clarify and define terms and situations brought into play when the original place of supply of services rules changed on 1 January 2010. An area of interest for most businesses is likely to be the issue of where

the place of supply is when dealing with establishments in more than one Member State.

The third event was the EU consultation on the future of VAT. This was in the form of a Green Paper requesting responses from interested parties as to what form the simplification of VAT across the EU Member States should take. James Cowper LLP carried out a survey amongst clients and contacts on key areas of the consultation and thanks go to all those who responded. The results of the survey were incorporated into a response submitted by James Cowper LLP on behalf of the Kreston International Network.

In the last few weeks, the draft report on this consultation has been issued. There are many developments to come from the EU Commission. These are designed to simplify the current system, reduce red tape and fraud, improve the relationship between tax authorities within states and with tax payers and streamline the collection and monitoring of the tax. A word of warning, however! The biggest change to the system is the move away from the unanimous vote to majority vote in

order to pass the necessary changes. This will be of particular concern to the UK. The removal of exemptions and the zero-rate for goods and services has historically been fiercely contested by the UK and is enshrined in domestic law due to the use of the unanimous vote. The move to the majority vote appears to be at the root of the ability of the Euro Zone States to pass the legislation for the proposed financial services tax.

Full details on the proposed changes can be found on the James Cowper LLP website www.jamescowper.co.uk and there will be further opportunities for all tax payers to have a say in the shaping of the VAT system for the future.

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