UHY

global

ISSUE 5

CRUISE CONTROL
NEW SUPERYACHTS
RULE THE WAVES

BARRIERS TO PROGRESS
IS GLOBALISATION REALLY DEAD?

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EXCHANGING VIEWS ON TAXATION

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The network for doing business

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WORD OF WELCOME

Welcome to issue 5 of *UHY Global*, our biannual magazine for organisations with an international outlook. For over 30 years, our independent member firms have been advising and supporting ambitious enterprises across the world. As our clients' reach has grown, so has the UHY network, which currently covers over 95 countries and 325 major business centres worldwide.

Our member firms work together across borders to offer clients local knowledge with a global perspective. In our regular 'Cogs & Wheels' section of *UHY Global*, we offer a glimpse, behind the scenes, of how our member firms help clients succeed internationally. Also in this edition, our clients tell their own story: and whether that is about luxury superyachts, safety equipment or precision tooling, their growth demonstrates how international ambition is alive and well.

This is why I am fascinated by current talk of how far our globalising world can sustain its modus operandi. It would appear that with each new political or economic argument for change, the engine of globalisation is slowing. In our feature, 'Is this the end of Globalisation?', we address the issue head-on, and are happy to conclude that while the nature of globalisation is certainly changing, reports of its demise may be a little premature.

Another relatively recent trend in many economies has been the transition of labour from employment to self-employment. In sectors such as retail, services and new technology, traditional employment practices are fracturing, creating uncertainty in financial and legal policy and labour protection. We put this new wave of industry under the spotlight in our feature 'Getting the Gig' and examine whether economies – and people – benefit or not.

I hope *UHY Global* will provide you with some food for thought and an insight into how our UHY member firms are approaching the many challenges of 2018. I do believe that global business will weather the storms and get into better shape in the process. Governance, transparent reporting, data management and tax equality are all high on the corporate agenda. In our article 'Taxing the World', UHY tax experts share their thoughts on the challenges of new legislation and regulation. International tax reform is not the fastest-moving driver of change in our global economy, but it is one of the most complex.

I wish all our readers a prosperous year ahead.

Bernard Fay
Chairman, UHY International

SUN-SEEKING

The Sunseeker London Group (Sunseeker London) realises dreams – luxury boats that combine fun, excitement and high performance. Think James Bond: *Casino Royale*, *Die Another Day*, *Quantum of Solace* or *The World Is Not Enough*.

In 1993, David Lewis and his colleague Christopher Head launched their own business, Sunseeker London. In 2018, they are both still at the helm – David as managing director and Christopher as group sales director.

Today's facts are impressive – Sunseeker London acts as a distributor for Sunseeker International for the UK and has sales and service operations in a number of other jurisdictions including Croatia, France, Germany, Greece, Monaco, Montenegro, Portugal, Spain and Turkey. It is the leading provider of both new and pre-owned luxury Sunseeker motor yachts ranging from 48 to 131 feet long; it is not unusual for people to spend up to USD 26 million (GBP 20 million) on a yacht and these days, clients can be as young as 30.

CHASING THE SUN

"Now, entrepreneurs in the tech and digital industries make big money quickly and then sell their businesses on, and the first thing they often do is buy a yacht," says David. "Increasingly with threats of terrorism occurring all over the world and with ongoing global financial fluctuations, clients do not always want to invest their money in property – like an expensive villa – they prefer the flexibility of being able to move their 'vacation home' anywhere they want in the world."

Sunseeker London is the only distributor to have the licence to sell Sunseeker boats to countries in the Mediterranean and they sell up to half of all Sunseeker boats worldwide. Unlike their competitors, they have offices and service facilities in every country they operate in, so they can offer a streamlined service wherever clients find themselves.

ADDING VALUE

Creating dreams is 'a gift' acknowledges David, but the realities behind making them happen are complex. "We have to stay one step ahead of our competitors," he says. "It is no longer enough just to sell a boat, however highly specified and customised it is. Clients want to buy into the whole Sunseeker experience."

So now, for example, Sunseeker London offers concierge services to help clients plan round-the-world itineraries; and it retains customers - and potential customers - involved with the brand by inviting them to exclusive Sunseeker events. These often take place in special venues or bespoke settings with top class entertainment. "We also aim to keep aligning ourselves with similar luxury brands and cultures," says David, "because these associations help to reinforce our own status as a lifestyle brand, as well as providing our customers with further access to exclusive sporting events and parties. Sunseeker offers experiences that money cannot buy."

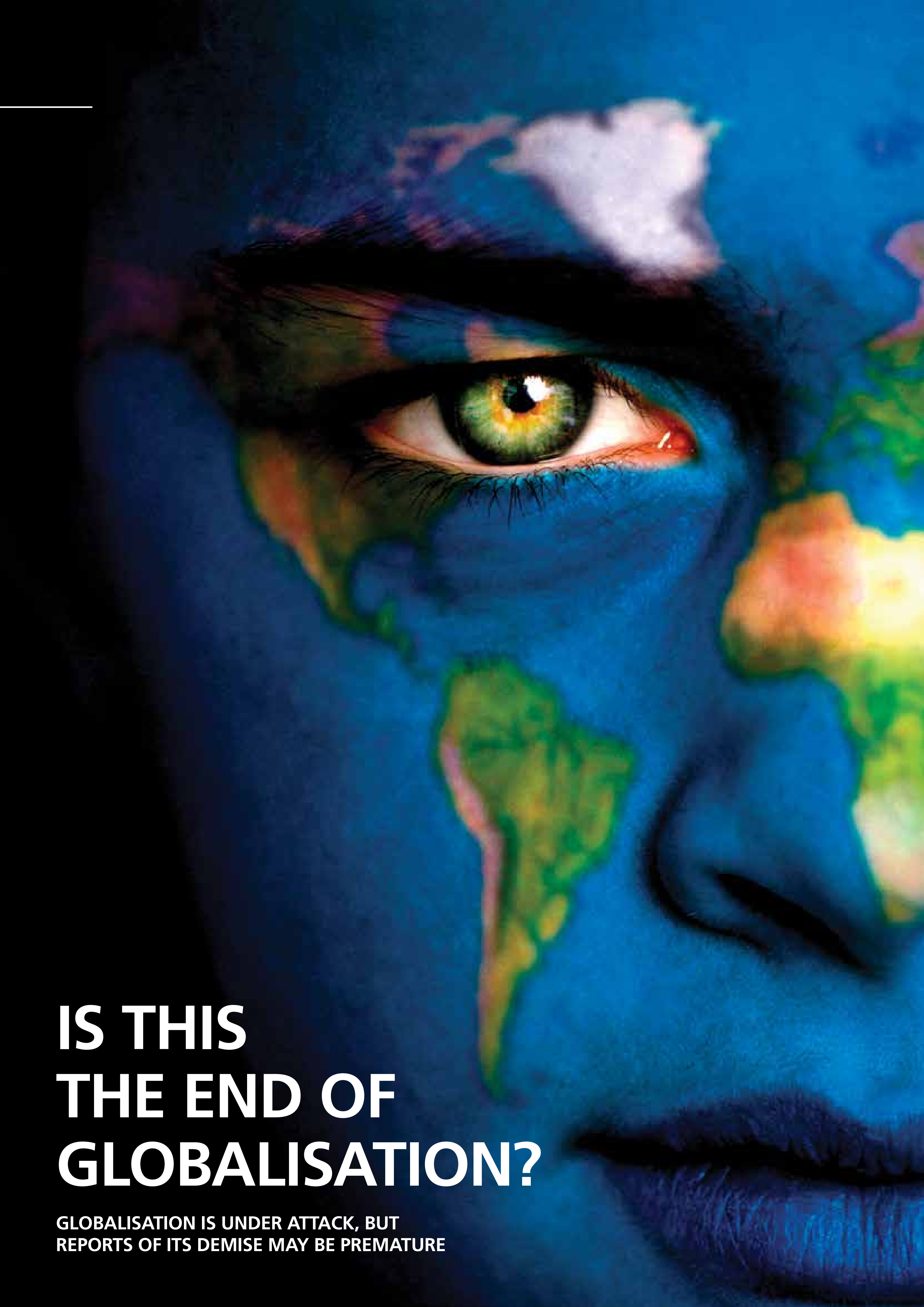
David's current brand partners list includes names such as Jo Malone, Alexander James Interiors, Red Bull Racing, Barclays Wealth, UBS, Net Jets, Dolce & Gabbana, Boodles and Marine. Sunseeker London is also growing its sales of 'toys' such as jet skis, slides, jet boats and flyboards. "This is an important add-on for us," says David. "We have to offer the total experience for our clients when they are at sea."

Asked about what his most unusual client request is, David says that a client once asked whether his boat would be safe for two baby tigers – "I had to say honestly that I did not know," he admits. "And I have no idea whether he risked it!"

LUXURY IN NUMBERS

David Lewis has been a client of UHY Hacker Young, UK, for over 20 years. "Our relationship is very reliable," he says, "and continuity is important in our business. UHY has developed a deep knowledge of the complex accounting challenges in this industry, which are quite different from anywhere else. Our auditors have to understand the whole sales process and what is behind the order. Just as each sale is bespoke, so is the accounting."

As Sunseeker London has expanded to cover the Mediterranean region, UHY Hacker Young has called on the services and local knowledge of other UHY member firms in Spain, Portugal, Germany and Croatia. For a full account of this very special relationship, and to learn more about Sunseeker London, you can download a copy of the 2018 UHY Capability Statement at **www.uhy.com/publications**.



IS THIS THE END OF GLOBALISATION?

GLOBALISATION IS UNDER ATTACK, BUT REPORTS OF ITS DEMISE MAY BE PREMATURE

In January 2017, a newly elected Donald Trump took to the stage for his inauguration speech and signalled the end for globalisation as we know it – at least, that is how many of his listeners took it.

President Trump talked about protecting US borders "from the ravages of other countries making our products, stealing our companies and destroying our jobs." He said that protection "will lead to great prosperity and strength."

Here was the world's most powerful man railing against the dominant economic system of the last half century. Globalisation is based on a doctrine of free trade, open borders, and the easy movement of goods, capital and labour. President Trump was setting the US on a path to protectionism and isolation, and within days had taken the US out of the Trans-Pacific Partnership (TPP), a trade agreement – years in the making – between 12 countries that border the Pacific Ocean.

NATIONAL INTERESTS FIRST

None of this came as a surprise. Following an election grounded in protectionist rhetoric, Trump rode to the White House on a wave of populism that coalesced around a nationalist and anti-globalist agenda. For Eric Hananel, principal at UHY Advisors NY Inc., New York, United States, the president's promise to make every decision on trade, taxes, immigration and foreign affairs, with American workers in mind, is a clear example of protectionism being pitched against globalisation.

"President Trump is a strong advocate of protectionism, and made international trade agreements an election campaign issue," says Eric. "Tax reform was another big campaign area, and the proposals that have come forward since are very much focused on the goal of creating economic growth underpinned by American jobs.

"Globalisation is increasingly coming up against growing protectionism, both in the United States and on the part of some other global economies," he adds. "And as protectionism continues to rise up the political agenda, Free Trade Agreements are becoming an increasingly critical and contentious policy area."

Six months earlier, the UK had delivered its own blow to the globalisation agenda. British voters chose to leave the European Union (EU). The Brexit campaign talked of taking back control of borders, putting British interests first, and curbing the excesses of globalisation.

According to an analysis of the Brexit voting by Torsten Bell, director of the economic thinktank the Resolution Foundation, the parts of the UK with the strongest support for Brexit were those that had been poorer and less prosperous for a long period of time. Just as President Trump attracted support from those who felt left behind in the new global economy, Brexit can also be seen – at least in part – as a protest vote from those who felt disadvantaged.

Around the world, and especially in developed countries, governments have been gradually bowing to public pressure and introducing measures to curb free trade and put the brakes on globalisation. Released this year, the 21st Global Trade Alert from the Centre for Economic Policy Research sums up the reaction of many developed nations to the global crash of 2009 and – at best – weak recovery since. Faced with a popular outcry against stagnating living standards and flatlining incomes, many governments have turned to the short-term relief of protectionist policies: "In sum, as a group the G20 have resorted routinely and increasingly to protectionism despite repeatedly pledging not to," the report states.

THE ARTERIES OF TRADE

A forecast from the Paris-based Organisation for Economic Co-operation and Development (OECD), published at the end of 2016, supports that assessment. It warns that protectionism and disputes over trade around the world risk further slowing a sluggish recovery in global trade, and suggests that globalisation "may now be close to stalling".

Is that a bad thing? Opinions will depend on individual circumstances and political persuasion. It is easy to understand why populations struggling with austerity, insecurity, inequality and wage stagnation might blame globalisation for their woes. On the other hand, economists tend to argue that, while the pain felt by many is real, economic isolation will only make it worse.

Philip Kucharski, chief operating officer for the International Chamber of Commerce, puts it like this: "Protectionism is like cholesterol. The slow accumulation of restrictive measures has clogged the trade flows."

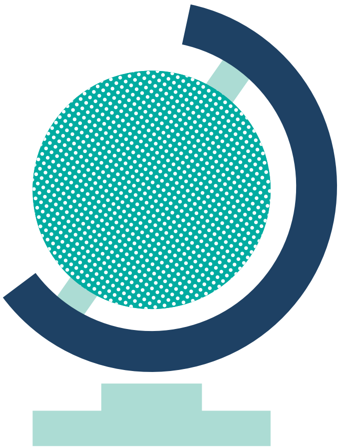
Eric Hananel adds that protectionism can also negatively impact growth. "Maintaining lower import tariffs could actually protect home-grown industries by adding extra impetus to efforts to stimulate competitiveness and drive innovation," he says. "By contrast, higher tariffs can significantly distort economies."

How is globalisation's midlife crisis playing out in the everyday decisions businesses have to make? With member firms around the globe, a professional services network like UHY is in a unique position to judge the prevailing economic winds. UHY members are on the frontline, helping businesses make critical survive-and-thrive decisions in an increasingly uncertain climate.

There are few countries where the climate is currently more uncertain than the UK, currently at the start of what promises to be a tortuous separation from the EU. Martin Jones, partner and Brexit lead at UHY Hacker Young, London, UK, agrees that globalisation is in retreat.

"Clearly, there has been a retreat from international liberalisation and globalisation as evidenced by Brexit, Trump, and an upswing in more nationalist voting across European elections through 2017," he says.

> *Clients acknowledge the shifting of opportunities and come to us for advice on their global planning.*



> I would not say that globalisation is over at all, but it could be seen to be slowing. It is definitely a trend worldwide for governments to be elected on platforms that put their country's economic position first.

"It remains to be seen if the shift is temporary or more permanent. It is unlikely that the era of globalisation is over, but there appears to be a move towards nationalism and protectionism, perhaps underpinned by popular resentment that the greater gains from globalisation have gone disproportionately to the more fortunate countries."

The UK is perhaps a special case, sitting in the eye of an isolationist storm, but around the world UHY firms recognise the threat to free trade posed by current political and economic circumstances.

"Globalisation as a business model may be slowing down with the emergence of populist leaders like Trump, the homeland security issue, economic protectionism as a way of insulating the local economy from the influx of foreign interference, and growing nationalism or extremism among economically and politically challenged countries," says Michael L. Aguirre, managing partner at UHY M.L. Aguirre & Co. CPAs, UHY's member firm in the Philippines.

TROUBLES ARE NOT TERMINAL

In Brazil, globalisation's travails are real, but are creating both risks and opportunities. Marcello Reis, business development executive at UHY Moreira, UHY's Brazilian member firm, says that the company has seen a significant number of businesses moving expansion plans to Portugal and mainland Europe more widely, at the expense of the US and UK.

"It has certainly changed our advisory approach," he continues. "Clients acknowledge the shifting of opportunities and come to us for advice on other possibilities for their internationalisation plans. For instance, I have seen an increase in Mercosur (South America common market block) cross-border business interaction."

Which shows that decisions taken in one part of a globalised world affect every other, but not in the same way. Like many in the UHY network, Marcello does not see this as the end of globalisation, but a recognition of the need to recalibrate the model. He sees risks, but also opportunities for Brazilian businesses in other international markets.

Indeed, in the Philippines, globalisation is still considered a benefit, with the economy set to earn USD 28.9 billion in 2017 from business process outsourcing (BPO) alone, with overseas foreign workers (Filipinos working abroad) also contributing significantly to dollar reserves.

In other words, the Philippines benefits from the international migration of jobs and labour that President Trump, among others, rails against. But Michael Aguirre believes that another phenomenon will ensure globalisation's future. "With the advent of technology which effectively makes countries borderless, globalisation is here to stay," he says.

In the UK, Martin Jones also believes that, while governments can restrict the free movement of goods and labour, the globalisation of data is beyond their reach: "So long as data can flow freely across borders, and banks and the finance sector continue to dominate across the world, globalisation in some form is likely to remain."

Nevertheless, globalisation's current retreat has created new challenges for UHY member firms and the clients they assist. In the UK, the unprecedented uncertainty of Brexit means that all decisions have to be taken after full consideration of a wide range of potential Brexit outcomes. Some businesses are also starting to favour local suppliers over international ones where possible, a reaction to the fall in sterling since the Brexit vote.

Michael Coughtrey, managing partner at UHY Haines Norton in Sydney, Australia, agrees that, internationally, globalisation is reeling from a popular backlash. He argues, however, that the globalisation model is too entrenched in the Australian economy to be discarded.

"I would not say that globalisation is over at all, but it could be seen to be slowing. It is definitely a trend worldwide for governments to be elected on platforms that put their country's economic position first.

"In Australia it is still business as usual. Australia has very high costs, particularly in labour and real estate, so many businesses need to find lower costs of production, and therefore some form of globalisation is commonly necessary to remain competitive."

In fact, take away the peculiarities of the Australian economy and that view finds echoes across the UHY network. Globalisation may be slowing; it may even be in crisis. However, digital innovation, the movement of data, and the need to balance global and local tensions mean that what will come out of the other end is likely to be Globalisation 2.0, rather than a wholescale return to isolation.

PARTNERS IN GROWTH

WHY DID SUNNEN CHOOSE UHY MEMBER FIRMS TO HELP IT MEET ITS GLOBALISATION CHALLENGES AND REALISE THE 1924 VISION OF FOUNDER JOE SUNNEN?

Based in St. Louis, Missouri, US, Sunnen Products Company (referred to as Sunnen) is a global leader in the design, manufacture and distribution of bore sizing and finishing equipment, engine rebuilding equipment, and tooling and abrasives. Its honing products are used in the sizing and finishing of cylindrical bores for internal combustion engines; in mechanical gears; in hydraulic valve bodies, blocks, and cylinders; and in petroleum extraction tubes, among others.

The company's prime markets include automotive and transportation, construction, mining, aerospace and energy. Customers range all the way from small, owner-operated machine shops to large, publicly-traded original equipment manufacturers.

A FAMILY AFFAIR

The business has grown substantially since founder Joe Sunnen and his wife Cornelia sold their first valve lifting tool from the back of their converted automobile in 1924. They took the Sunnen dream on the road with little more than ten dollars in their pocket, but today the dream is alive and well: nearly a century later, Sunnen is the largest integrated precision bore sizing company in the industry - and still a family business.

Staff now number 450 in St. Louis, where specialist industry skills and experience characterise the workforce. What is more, Sunnen family values mean that the health and welfare of employees come first, and their talent and success is appreciated and celebrated. The consequence is long tenure and low turnover of a loyal and motivated staff.

Revenue worldwide is now in excess of USD 100 million, with half of that coming from customers outside of the US. As well as primary manufacturing in the US, Sunnen employs an international workforce of 200 overseeing smaller manufacturing operations in Brazil, China and Switzerland, plus distribution subsidiaries in Belgium, the Czech Republic, France, India, Italy, Poland, Russia and the UK. It is truly a global company.

PARTNERS IN GROWTH

In 2016, the UHY international network celebrated its 30-year anniversary. Over that time UHY has expanded its US-UK collaboration into a global presence, helping countless clients to not only grow domestically but also move successfully into foreign markets. Sunnen has been a client of UHY's member firm in the US for almost the same length of time. UHY LLP in St. Louis, US, provides the company with audit, tax and consultancy services.

UHY LLP's audit and assurance partner in St. Louis is Gerald Townsend. "It is very satisfying being able to help a longstanding domestic client to expand its operations overseas," says Gerald. "We have introduced Sunnen to our colleagues in the UHY global network and worked together to help the business understand country impacts on various strategic and operational alternatives. At the same time, we have been able to streamline the consolidation process and increase transparency in Sunnen's growing intercompany transactions."

Rob Ludwig, Sunnen's vice-president and chief financial officer, is equally enthusiastic. "When we hired UHY LLP at home, we wanted a firm that was positive, attentive and responsive. Our business was, and is, all about productivity – getting more from less – and we need our trusted advisors to understand that and get on board. UHY LLP met the brief in every way."

THE CHALLENGE

Sunnen's expansion abroad began with the development of a Chinese manufacturing subsidiary in 1994 in Pudong, Shanghai, and the subsequent opening of sales and service centres in Beijing, Chongqing, Guangdong, Liaoning and Shanxi. This was the first step in an international growth strategy, and an opportunity to call on UHY's own cross-border expertise. UHY Advisors' China Desk in New York has been a valuable source of consultancy and advice on numerous development issues at the Shanghai Sunnen Mechanical Company, and indicative of how specialised local market knowledge is a key factor in success abroad.

Europe has also been a challenging market for Sunnen, with mandated higher regulatory and technical accounting standards issues to address as well as the establishment of new country offices within the group's holding company, Sunnen Products Limited. So with a compatible footprint of UHY member firms to mirror the company's own centres of operation, it was inevitable that the cultural and professional fit between

> *It was inevitable that the cultural and professional fit between UHY LLP and Sunnen would bring more UHY member firms into the equation.*

UHY and Sunnen would bring more UHY member firms into the equation, through introductions from UHY LLP, US as the lead firm. According to Rob Ludwig, this coordinated approach has made a complex European tax and audit challenge a lot simpler to manage. "We find this consolidation of audit and tax work occurs better between UHY member firms due to their cooperative approach," he says. "This is not something we would have easily found by using different advisors – and the UHY member firms working with our subsidiaries locally have been great."

THE SOLUTION

Sunnen's audit and tax teams in Belgium, Italy, Switzerland and the UK work closely with their UHY counterparts on a wide range of requirements. For example, as well as providing statutory audits to Sunnen's Swiss businesses, UHY member firm Balmer-Etienne AG, in Zurich, also provides VAT (value added tax) checks and other tax compliance services. "Their local knowledge is critical for us," says Rob Ludwig. "Local accounting law, local VAT and other tax requirements combined with knowledge on US GAAP means we can operate there with confidence." UHY Italy and UHY-CDP Partners in Belgium provide similar local reassurance and compliance in their respective markets.

For the last 15 years, Sunnen has consolidated its European accounts through UHY Hacker Young, London, UK. In addition to this work, the UK member firm provides international tax and restructuring advice, as well as auditing Sunnen's UK entity and providing corporation tax services. UHY Hacker Young has significant experience in providing services to UK subsidiaries of US companies as well as European groups headed by a UK parent, so the fit with Sunnen was clear. Rob agrees. "Working with common UHY member firms has meant that the consolidation packs prepared by our European subsidiaries can be used by the UK and the US in preparation of the respective consolidated group accounts."

THE RESULT

Confidence in UHY's member firms and a positive long-term experience in developing smooth, effective relationships between teams and member firms have resulted in more partnerships with UHY as part of Sunnen's international expansion. UHY Yans-Audit LLC, one of UHY's member firms in Russia, provides statutory audit services to Sunnen's Russian subsidiary. Most recently, Sunnen has developed joint venture (JV) operations in two of the most traditionally difficult markets to enter – Brazil and India.

Rob Ludwig explains: "Brazil is particularly demanding and UHY Moreira Auditores played a part – alongside our legal attorneys – in navigating the complex regulatory and fiscal hurdles, and the culture. It is a difficult time for the country economically and politically, but setting up as a JV allowed us to have an invested partner locally which made the challenges surmountable."

Likewise in India, where Sunnen's JV with a longstanding local distribution partner required considerable navigation on issues of compliance and multiple taxation, UHY's member firm has been instrumental in supporting Sunnen through the process. "Chandabhoy & Jassoobhoy has played a very solid role in India," says Rob. "Our operation there is progressing well, right on plan and no concerns."

LOOKING TO THE FUTURE

Rob is under no illusions that Sunnen's ambition will face many more challenges, despite continuing success today. "Of course we have plans for the future," he says. "Europe, in particular, is a changing and complicated landscape. Over the next few years, we will be re-evaluating legal and capitalisation structures and how we handle pan-European logistics and market management. We may need, for instance, a different approach to the dispersion of assets."

One thing is for sure, Sunnen will be looking for even more technical and local expertise and advice, and Rob is confident that his company's relationship with UHY member firms, in the US and across the world, will continue to bear fruit. "We are not a big enough business to have all the specific skills and knowledge in-house," he says, "but working with advisors like Gerald and his team, and the wider UHY network, I know we are in good hands. They have never been less than responsive, cooperative and, more than anything, they have always been there for us."

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GETTING THE GIG

THE RISE OF THE INDEPENDENT WORKER, PAID ON A TASK-BY-TASK BASIS, IS FUNDAMENTALLY CHANGING WORKING PATTERNS AROUND THE WORLD

A report released in 2016 by the McKinsey Global Institute estimated that between 20-30% of workers in the US and 15 major European Union economies made part of their income in what has come to be known as the 'gig economy'.

It is quite hard to find a definitive description of the gig economy, but McKinsey defines it as independent work with "a high degree of autonomy; payment by task, assignment, or sales; and a short-term relationship between worker and client."

If its estimates are correct, up to 162 million individuals in the countries surveyed are engaged to some degree in the gig economy, and the numbers are rising.

The figure is a significant increase on previous estimates and highlights how a new model of working life has crept up on the Western world. Jobs in the US and Western Europe traditionally involve working fixed hours for a single employer, earning fixed wages in return. The gig economy turns that model on its head. "The Industrial Revolution moved much of the workforce from self-employment to structured payroll jobs. Now the digital revolution may be creating a shift in the opposite direction," it states.

ARMY OF SELF EMPLOYED

In other parts of the world the structured payroll model was only ever one option among many – and in regions like Southeast Asia, the creation of digital platforms to facilitate a global market in freelance work is fundamentally changing working patterns.

Companies like Uber* and Deliveroo are commonly cited in discussions of the gig economy. These business models are creating an army of self-employed taxi and delivery drivers, often replacing traditional payroll jobs. On top of these 'real world' businesses, a raft of digital platforms has sprung up to match workers with temporary, task-based, freelance roles. These platforms allow workers anywhere in the world to bid for transcribing, copywriting, web design and IT tasks, to name a few.

For companies, the advantages of freelancers and temps, using platforms like Upwork and Fiverr, allows them to dip in and out of a global talent pool. "The benefit from an organisation's perspective is that these individuals are not employees in the traditional sense of the word – they can be engaged and terminated at will, subject to any contractual agreement as to notice. And they are responsible for managing their own tax and social insurance affairs," says Alan Farrelly, managing director at UHY Farrelly Dawe White Limited, UHY's member firm in Ireland.

In India the gig economy is still in its nascent stages but, says Sunil Hansraj, joint managing partner at UHY Indian member firm Chandabhoy & Jassoobhoy in Mumbai, is 'fast percolating into the mainstream work ethic', helping firms to manage economic uncertainty. "The way the Indian economy is shaping up, the gig economy can be the answer to talent supply chain challenges faced by the professional or technology sectors," says Sunil. "While critical roles would still be in the realm of regular employment, freelancers can reduce the burden on the supply chain, increase operational efficiencies and reduce costs."

MIXED REACTION FROM WORKERS

While companies appreciate the opportunities the gig economy brings, the upheaval in working patterns is not without controversy. Debates are raging in developed countries about the status of gig economy workers. In the UK, the government-released 'Taylor Report' recommended creating a new employment status of 'dependant contractor', defined as someone who 'is not an employee, but neither are they genuinely self-employed'.

"Ultimately, if it looks and feels like employment, it should have the status and protection of employment," the report states.

In Ireland, similar concerns have been raised. "For workers it depends on your view - either it is a working environment that offers flexibility with regard to employment hours, or it is a form of exploitation with very little workplace protection. Workers in the gig economy are classed as independent contractors. That means they have no protection against unfair dismissal, no right to redundancy payments, and no right to receive the national minimum wage, paid holiday or sickness pay," says Alan Farrelly.

In April, the EU Commission published its 'Pillar of Social Rights', setting out 20 proposals for improving worker social protection. "Today's more flexible working arrangements provide new job opportunities especially for the young but can potentially give rise to new precariousness and inequalities," the Commission wrote.

In countries where independent work has long been a standard employment model, these concerns are less common. Mwai Mbuthia, partner at UHY Kenya, UHY's member firm in Nairobi, believes that young people especially often prefer gig economy jobs.

"Short term contracts, freelance work and part time work are very common in Kenya," he says. "In my view this type of employment is increasing as young people no longer have a burning desire to be in full time employment. These jobs are considered positive because remuneration is received sooner rather than later.

"In Kenya, the government has deliberately, within the law, created a specific amount in the country budget for youth and almost a third of all governments contracts must be allocated to the youth."

In India too, the choice and independence offered by gig economy roles is often welcomed, especially when compared with traditional Indian working practices. "India used to have a largely suppressed workforce and people had very little option, but things are changing for the better," says Sunil. "People understand that there is an opportunity to retain independence, which is not a bad option, even if there is a cost to it."

STATUS UNCLEAR

Despite reservations, employers and employees have welcomed jobs that allow workers to fit around study, childcare or other employment. McKinsey reports that, even in the US and Europe – where the security of permanent work has been standard for decades – most seem satisfied with independent work.

But as companies replace traditional payroll positions with gig-style work, confusion around the responsibilities of business to workers and national exchequers can only increase. The gig economy has left lawmakers scrambling to catch up, which presents challenges for professional services providers like UHY. Issues around personal and corporate taxation, and employment rights and responsibilities, are still to be fully worked through.

"Normally the issue hinges around the definition of an employee for taxation purposes," says Carlos Pedregal, partner at UHY Hellmann (SA), UHY's member firm in South Africa. "We have some complicated tax law in this regard and the difficulty sometimes is deciding whether the gig fits the definition of an employee, labour broker, or independent contractor. Should the employer get it wrong, and the gig is considered to be an employee for taxation purposes, then the employer is liable for any taxes that should have been deducted from the employee (gig)."

In Europe, companies are being urged to seek advice rather than assume gig workers have freelance status. "A misclassification of self-employed contractors can give rise to significant tax and social insurance liabilities for an organisation," says Alan Farrelly. "In Ireland, employment status decisions are made on a case-by-case basis. Employers who supplement their workforce by engaging contractors need to think carefully and take advice."

Jane Jackson, tax manager for UHY Farrelly Dawe White Limited, Dublin, Ireland adds: "Even if employers have contracts in place stating that the person is self-employed and responsible for their own taxes, the Irish Revenue will still deem them to be employees and will hold the employer responsible for all the employment taxes, if there is ever an audit or an investigation. This could be costly."

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In the USA the economy's general trend towards greater entrepreneurship is fuelling the gig economy. "The gig economy is not a new concept in the US, but popularity has increased with a very entrepreneurial generation entering the workforce. It enables entrepreneurs to test the need for their service to see if it warrants the investment in developing a business model to support it," says Charles Sockett, Partner, UHY LLP and managing director UHY Advisors, New York.

In other parts of the world, the debate is yet to begin in earnest. In India, says Sunil, "the time will be here soon when the government will have to step in and play regulator, while at the same time giving the workforce the freedom to make their choices." In Kenya, the law has long been shaped with freelancers in mind, says Mwai Mbuthia. Gig workers bidding for large assignments need a Compliance Certificate to show they are working legally and complying with tax laws.

Alongside tax laws and employment status, the gig economy signals a potentially permanent change to working life. Around the world, young people are demanding more flexible work and less rigid employment structures, and technology is supporting that ambition. "The challenges we at UHY face in advising clients operating in the gig economy typically revolve around contractual interpretations and the associated tax implications of business and the individuals involved," says Martin Jones, partner at UK member firm UHY Hacker Young LLP, London, UK.

"But more than that we are also addressing the fact that the younger generation, in particular, is used to living in a world of rapid technological change, and hence the overly-structured career path of the past may need to be adapted to allow more flexibility and less structure to working patterns."

*In September 2017 Transport for London decided not to renew Uber's licence to operate in the capital. Uber's appeal process was ongoing at the time of writing.

Our *Cogs and Wheels* section highlights what drives a successful international network. In this issue, we look at how UHY's global footprint, commitment to quality, and culture of working together, combine to support clients with big ambitions.

SUPPORTING CLIENT REACH

With a network incorporating over 325 business centres in over 95 countries, UHY recognises the importance of global reach. International development is a cornerstone of UHY's strategic goals, and by continuing to expand its global offering and international resources, it is better positioned to support clients with their own ambitions for expansion. The network's global footprint has almost doubled over the past decade, and in doing so has strengthened its ability to offer an invaluable combination of local understanding and regional, national and international skillsets.

CONNECTED THROUGH QUALITY

UHY is a member of the IFAC (International Federation of Accountants) Forum of Firms (FoF), an association of international networks of accounting firms. The FoF's purpose is to promote consistent and high quality standards of cross-border financial reporting and audit, in practices worldwide. Membership requires the networks' independent firms to adhere to these standards. For clients, it is a significant quality reassurance.

The UHY network runs a number of regular quality review programmes to ensure member firm compliance, and to support any individual firm in meeting the required levels of internal and external performance. In 2017 a new UHY peer review process was introduced to strengthen the network's quality assurance toolkit further, which is ultimately more good news for clients. Sharing this commitment to rigorous quality standards and international service levels, means that clients know what to expect and can make confident decisions on provision across any jurisdiction where UHY operates.

WORKING TOGETHER

Regular events – including a global annual meeting and three regional meetings covering EMEA, Asia-Pacific and the Americas – serve as a focal point for the sharing of best practice, knowledge and expertise, but also provide opportunities for the relationship-building that ultimately gives the network its strength.

Establishing durable relationships allows UHY member firms to share not only knowledge, but also business values, enabling the delivery of consistent, high quality service throughout the network, and providing the specialist sector, service or local knowledge that clients may need, in 'the UHY way' – a client-focused, partner-led and joined-up approach based on professional friendships, trust and a deep knowledge of the business.

SAFETY FIRST

UHY's ability to offer reach and reassurance to expanding clients has served Protective Industrial Products (PIP) well. The multi-national US-based safety equipment provider has been a client of UHY's member firm in the US, UHY LLP, since 2001.

PIP's sales have increased by 47% in the last five years, predominantly in the US. But its focus now is to grow a bigger infrastructure that will support global expansion – and working with a global accountancy network strong enough to help them manage this, is key. As a result, Mike Zovistoski, partner at UHY LLP in Albany, New York, and his team, have not only worked with PIP to consolidate its ambitions and targets, but have also galvanised other UHY member firms across the network to make the company's immediate vision a reality.

PIP is confident that the consistent high-quality support UHY has provided over 16 years, combined with its global reach, will help steer the company through their ambitious plans for fast growth in other countries.

"On top of the wonderful advice and support we get from UHY's member firm in the US, we now rely on the expertise of UHY representatives in Canada, Hong Kong, France, Italy and Spain," says Percy Cubillo, marketing director, PIP.

"We trusted Michael when he said we could expect the same level of high-quality work and advice from every UHY member firm we worked with, and he has not let us down. Consistently, we get a superlative service from UHY and we have no desire to change this."

Read more about PIP in the 2018 UHY Capability Statement, available at **www.uhy.com/publications**.

ACCOUNTING FOR TASTE

MURIEL NOUCHY TALKS PEOPLE, ART AND FAMILY VALUES

Muriel Nouchy, co-managing partner at UHY GVA, Paris, France and UHY Board director, has never regretted training as an accountant 30 years ago, although she claims that it is the people side of her job she loves much more than the numbers.

"I was a good student and I had the opportunity to become either a doctor or a chartered accountant," she says. "I definitely made the right choice – I had invested five years at business school and I was determined to make that training work. My parents ran an upmarket clothing store in a town north of Lyon and I knew that was not for me! I could not wait to get to the bright lights of Paris and I still love living here. From the start, I have loved monitoring client relationships and developing the business much more than the day-to-day work of being an accountant!"

This need to be creative and people-focused is not surprising from a woman with so many cultural interests – passions she shares with her husband Guy, a professional artist – including opera, classical music and art. Travel is another great love for Muriel and when she was a statutory auditor for Médecins du Monde in 1996, she travelled to the deepest jungle on the Mexican/Guatemalan border to visit a project working with refugees and homeless people.

"It was a life-changing privilege to witness the wonderful work of doctors from all over the world, training others to look after themselves – malaria was rife and there was no electricity or water but there was so much love," says Muriel. "Obviously this was no holiday but it was one of my most memorable trips."

Back at home, Muriel supports not-for-profit associations that promote French artistic painters and is active in a think-tank dedicated to French female professionals – "Many things matter so much to me outside work and I get a lot of pleasure from my involvement in these organisations."

Muriel and Guy, who has been a full-time artist since leaving his work as a pharmacist, spend much of their leisure time enjoying exhibitions, concerts and theatre. "I love spending time with my husband and two daughters – one of them is a lawyer and the other a psychologist, so I always reassure myself that I have all the help I might ever need within my own family!"

Humour is clearly important to Muriel – "It is a mistake to take yourself too seriously," she says. "One of my proudest career achievements is my 30-year partnership with colleagues Raymond Dijols and Philippe Bonnin. I attribute much of our team success to the fact that we laugh often and share a strong work ethos."

Muriel is well known for championing UHY's cross-border client referrals development and in 2015 she played a key part in the pitch that won the network its largest ever contract, involving member firms in 38 different countries.

Muriel was re-elected to the UHY Board in 2015, a position she held from 1999 to 2005 – "I am proud to be back on the Board but I am also determined to enjoy doing the things I love outside work. I love entertaining and dream of a perfect dinner party with Simone Veil, an Auschwitz survivor who championed the law legalising abortion in 1975 and went on to become chairman of the European Parliament; Christiaan Barnard who performed the first human heart transplant in 1967; and composer Wolfang Amadeus Mozart, simply for being a genius."

"I would serve foie gras, scallops in Thai style, rum baba and fine Burgundy. What wonderful conversations we would have and what a fascinating night!"

Above: Guy Nouchy was commissioned by UHY GVA to create this special artwork to celebrate UHY's annual conference in Paris in 2017.
A miniature was given to guests as a welcome gift from the host firm.

Of UHY's future, Muriel says, "There are no glass ceilings for our network. We are an open-minded, people-focused business with our eyes firmly fixed on new achievements, new standards of excellence and recruiting the best people in our profession. We are always looking for people and member firms who can bring a mix of commercial, accountancy and human skills. They are a rare find but they are what makes UHY stand out.

"If I had a message for young accountants, I would urge them to be less dependent on their phones and tablets and I would ask them to talk to people properly, face-to-face. The kind of personal relationships I have worked hard to develop with my clients are longstanding. Technology cannot replace building strong bonds in this way. Think hard about nurturing these – I believe they are behind the success of my work and UHY as a whole," Muriel says. "Never underestimate the values of kindness, professionalism and wit. These are the things that matter, whatever we are doing in life."

To find out more about UHY GVA, visit **www.uhygva.com** or email **muriel.nouchy@uhygva.com**

GLOBAL NEWS

IFRS 9 – SAFEGUARD OR CRYSTAL BALL?

For financial year beginning 1st January 2018, banks operating under IFRS are obliged to account earlier for potential bad debts on loans, through the new international financial reporting standard IFRS 9 Financial Instruments (and in the US under the Current Expected Credit Loss model). Developed in the wake of the financial crisis, IFRS 9 requires banks to move from an 'incurred loss model' where loan losses are written off once they have happened, to an 'expected loss model' where bad loans are predicted. Potential for losses will already have been built into lending criteria, so expected loss will remain largely the same. The key benefit from IFRS 9 should be more prudent accounting.

However, forecast scenarios will have to take in a wide and diverse range of economic events and conditions and cannot account for unforeseeable economic shocks. The subjectivity of prediction means banks are likely to set different expectations of the future, an issue for analysts looking to compare financial statements. Banks will need to work hard at clarifying the assumptions, projections and changes in their financial statements, for markets, shareholders and investors alike. For more on IFRS 9 visit **www.ifrs.org**

EU DATA PRIVACY COMPLIANCE DEADLINE LOOMS

The new General Data Protection Regulation (GDPR) comes into effect on 25 May 2018. Designed to afford consumers greater control over their private data, GDPR impacts international businesses both inside and outside the European Union: any organisation holding data on EU citizens must comply with the new regulation or face substantial penalties. Chief information officers have had a two-year transition to prepare compliant systems and processes.

The key difference between GDPR and its predecessor, the Data Protection Directive 1995, is greater accountability – businesses must show how the data they hold is managed and secured; and how they are able to comply with the consumer's new rights to data portability and data erasure. As a single set of rules common to all EU member states, GDPR is designed to make multi-country compliance easier, but many companies must first make widespread changes to – and investment in – their current business practices. Other challenges in implementation are ongoing and include the need for more GDPR education and training; and how to reconcile new aspects of data protection with existing free trade agreements. For everything you need to know about the new regulation, visit the European Parliament GDPR portal: **www.eugdpr.org**

TAXING THE WORLD

With significant momentum in global, transnational and domestic tax implementations and governance programmes, 2017 was an extraordinary year for tax. The unpredictability of major political developments across the world, however, continues to frustrate international as well as domestic business and tax planning and the need for trusted advisors to work internationally has seldom been greater.

UHY Global asked international tax specialists from UHY's global tax special interest group for their thoughts on some of the issues facing their countries and clients.

THE TRUMP EFFECT

Donald Trump's shock election to the US Presidency was quickly followed by promises to cut expenditure and reduce tax. By the fourth quarter of the year those plans were beginning to take shape, with repercussions for economies around the world.

Paul Marineau, director, international tax, UHY LLP, Michigan, says that despite a lack of detail, the US has clear priorities.

"There are still a lot of unanswered questions over the president's tax reforms but for corporations the direction of travel seems clear. The aim is to lower the business tax rate to one of the lowest in the world. The proposed tax reform plan is being touted as one of the biggest individual and business tax cuts in American history."

But Mike Aguirre, managing partner of Filipino member firm UHY M.L. Aguirre & Co, is cautious about what could actually be achieved. Can those ambitions be met without heaping debt onto the US economy? And will Congress accept whatever the trade-off might be?

"Whether Congress can lower the tax rate and how much they can lower it by is the thing to look out for, and directly relates to whether it can implement revenue raisers to make the bill revenue neutral," says Mike. "So the difficulty lies in achieving the lower rate, (announced in September 2017 as 20% for corporates, down from 35%) while being revenue neutral at the same time."

President Trump's tax ambitions have global implications. The worry for countries like the Philippines – one of the world's leading destinations for Business Process Outsourcing (BPO) – is in his inclination to balance the books by adopting a territorial, US-first approach. US plans to implement 'border adjustments' to corporate taxation are aimed at eliminating tax incentives for US companies to outsource jobs abroad.

Mike believes the measures may be counterproductive: "Corporate inversion (doing business outside the US) may not be such an evil after all. Sustaining competitive market stature, the ease of doing business, compliance costs and hunger for growth drive companies to seek better opportunities abroad. In short, there could be compelling reasons why US companies want to move integral parts of their business activities abroad."

If the US creates the sort of favourable domestic tax environment that sees millions of outsourced jobs returning to the US, many fear a race to the bottom as other countries follow America's lead.

SIMPLY LOWER TAX

According to Clive Gawthorpe, tax partner at UHY Hacker Young (Manchester), UK, and chair of UHY's global tax group, the drift towards lower corporate taxes and simpler tax

regimes is not limited to the US. "The UK too has been reducing its corporation tax rates, from 20% in 2015 to 19% from 2017," he says," and a proposed drop to 18% from 2020 has now been lowered further to 17%, though with the UK government negotiating terms for its EU withdrawal from 2019, the situation remains unpredictable".

Other jurisdictions are set to benefit from their governments' tax policy direction.

"India is gearing up towards a 25% tax rate in the next couple of years, as promised by the Finance Minister – and in principle it's a good move," says Sunil Hansraj, joint managing partner at Indian member firm Chandabhoy & Jassoobhoy in Mumbai.

"Logically, the exemptions and deductions will reduce, hopefully leading to a reduced number of interpretation issues and hence less litigation."

Aditya Lodha, managing partner, Lodha & Co, a UHY member firm with headquarters in Kolkata, says: "The 2017 budget seems to be directionally correct, fiscally prudent, strengthens the governance fabric of the nation and is in line with the government's vision of building a New Age India. It is balanced on intent and its effective implementation will provide the needed direction to the Indian economy."

China, too, has been reducing its corporate tax bill, according to Yong Sun, managing partner of Chinese member firm Zhonghua Certified Public Accountants LLP and UHY Board member. "The taxation of companies has been reduced by almost RMB 700 billion since a pilot project to switch business tax to VAT launched in May 2016. This reform resolves the issue of turnover tax fundamentally, and releases enterprises from a heavy tax burden."

Yong Sun adds that China's tax policy is geared towards attracting investment – domestic and foreign – in important industries. "To attract more investment, the enterprise income tax rate for high-tech enterprises was reduced to 15%. Tax incentives are also used to attract investment in remote areas and certain specific industries, like software development, integrated circuits, public infrastructure and environment-friendly industries."

As with India, tax reduction is implemented alongside attempts to simplify the tax regime. "In the future, China will continue deepening the reform of taxation, optimising taxpaying services and putting tax preferential policies into effect," says Yong Sun.

Across the water in Hong Kong, there has been a flat rate of 16.5% on corporate earnings, enabled by the boom years of real estate development which saw tax incomes rise massively. This has historically made Hong Kong an attractive 'gateway to China' for businesses setting up operations in Asia.

Hay Yuen (HY) Tai, managing partner, Tai Kong CPA Limited, a UHY member firm in Hong Kong, says: "Hong Kong's corporate tax rate continues to be one of the lowest, compared with her competitors. China's economic reform began almost four decades ago - over this period, the Chinese GDP continues to grow to become what is now only second to that of the USA, and the rise in direct investment into China is phenomenal."

For HY Tai, economic incentives clearly far outweigh tax incentives, but it is complex.

"The Hong Kong economy and Hong Kong's source investment into China continue to grow – but at a slower rate. I believe the structural and other changes in the direct/indirect tax regime, though important, are only some of the factors affecting business and investment decisions and should not be over-emphasised."

INDIA'S GST

India's new Goods and Services Tax (GST) is a flagship reform intended to replace a raft of indirect taxes with on comprehensive alternative – but its success remains to be seen.

"The intention of GST is to formalise the economy and bring the unorganised sector into the mainstream, while at the same time providing equal opportunities and a level playing field," says Sunil Hansraj.

But falling numbers of returns and revenues towards the end of 2017 – the direct opposite of what the unified tax was designed for – may soon set alarm bells ringing.

"The initial figures of registrations, collections and so on were reasonably encouraging, although the glitches in the system are becoming visible. ➨

"There is already a time lag in compliance, and we have seen deadline extensions already. The bottom line is that the system has to work efficiently and until the government removes all stops to ensure this happens, ensuring compliance is not going to be easy." adds Sunil.

Aditya Lodha believes that a fuller picture may not emerge for a few more months, as the system settles down. He also points to the government's efforts to anticipate and respond.

"GST workshops have already been running for 16 months to the end of 2017, with over 8,400 sessions conducted nationally by CBEC (Central Board of Excise and Customs) as part of their GST outreach campaign. These cover GST awareness and migration training. Of course, there is also a responsibility on professional advisors and we are working with our clients to ensure transition is smooth, and supporting them in process, implementation and filing of GST returns."

COMPLIANCE AND REPORTING

Ironically, while nations spent much of 2017 planning or implementing what they hope will be simpler corporate tax regimes, the year also saw a significant increase in the complexity of international compliance and reporting protocols over measures like transfer pricing. The implementation of the OECD's anti-BEPS (base erosion and profit shifting) measures is proving to be a chief driver of change.

Clive has been following the initiative closely. "In the UK we started implementing the BEPS legislation two years ago, in 2016," he says. "The programme was developed to block avoidance of tax but I think the outcomes of this may be hard to quantify in the future." However, Clive believes it may bring other results. "BEPS has made countries around the world talk about the issue and may bring about a standardisation of tax legislation so that businesses can plan better."

The final piece of the BEPS initiative for the OECD is the multi-lateral instrument (MLI). This instrument enables tax treaties around the globe to be changed without the painstaking need for the detail in each treaty to be amended. "But there are concerns here," Clive adds. "Different countries still have their own ideas on what the instrument means and how it should be interpreted."

Sunil, for one, is in no doubt of the effect BEPS will have in India. "Global transfer pricing documentation will never be the same again," he warns.

"With the incorporation of the BEPS action plan in Indian Transfer Pricing Rules, the reporting requirements have increased triple fold. As in most locations, the maintenance of a local file, master file and country by country reporting will add to already cumbersome and extensive transfer pricing compliance."

Transfer pricing specialist Claire Sanga, whose firm TPS is an associate of UHY Fay & Co in Spain, agrees that new rules on fiscal structure are complicated, and adds that many companies are yet to take necessary action.

"The businesses that have yet to react are either taking risks or missing an opportunity. They may not have the time to get their transfer pricing right, which is the risk. Or they are missing the chance to streamline their structures for more efficient transfer pricing and tax planning."

More generally, Claire continues, national and international measures designed to curb tax avoidance (like the Common Reporting Standard, or CRS) are increasing the administrative burden for businesses. "Even at the level of day to day compliance, it's getting more complex. Many Spanish businesses are struggling with the new requirements for providing immediate information disclosure for Spanish VAT purposes. Even the best IT applications are not sufficiently sophisticated to be able to comply.

"The way countries manage enforcement of these new regimes is important. Penalties are levied for non-enforcement and spontaneous inspections have increased. Compliance converts itself into an exercise in damage limitation, with a focus on doing the minimum amount of compliance to achieve the minimum fine."

Donna Frye, Director, Transfer Pricing, UHY LLP, Michigan echoes the comments from her colleagues in India and Spain. "Transfer pricing compliance and audits are also expected to increase in the United States. Having consistent, accurate and thorough transfer pricing documentation is the means to minimising risks."

The last word goes to Clive – "It is clear that while national governments aim for lower business tax and simpler tax regimes in 2018, new global protocols on tax avoidance – and the unpredictability of a newly protectionist US – are going to add new layers of uncertainty to a mixed and contradictory picture. One thing is for sure: there is no easy or satisfying conclusion for businesses in this challenging and changing landscape. We are now working with our clients to help them navigate a way forward in effective and compliant international tax management. Along with my colleagues across the global UHY network of member firms, we will continue to provide advice and reassurance wherever in the world it is needed."

For more information on these and other global tax matters, contact Clive Gawthorpe, chair, UHY global tax special interest group.
Email him at **c.gawthorpe@uhy-uk.com**

RETHINKING EUROPE BEYOND THE WEST

Positive forecasts for growth in central and eastern Europe are good for both domestic businesses and those beyond the borders looking for investment, trade or partnership opportunities. But in the context of global financial and political uncertainty, how can we measure a country's prospects – especially one relatively new to a major economic bloc?

In 1934, economist Simon Kuznets wrote: "the welfare of a nation can scarcely be inferred from a measurement of national income." He was warning of the limitations of the success metric he had himself developed – the now-dominant concept of GDP. Eighty years later, Slovenian politician Janez Potočnik, then European Commissioner for Environment, echoed those sentiments, urging an escape from the "handcuffs of GDP".

Interestingly, Slovenia is doing well, even within the handcuffs of GDP, with better than expected growth, a credit rating lift, and outstanding results in the manufacturing sector. And Slovenia is not alone. Central and Eastern European (CEE) countries, in general, are looking good based on a more holistic set of indicators – GDP, social progress, and the happiness index.

While GDP is still the prevailing gauge of a country's development and growth, it is only part of the wider picture. The Social Progress Index assesses countries based on how well basic needs are met and, importantly for longer-term economics, the ability of people to improve their lives – based on equality, personal rights and access to advanced education. All CEE countries are ranked as high or upper middle, and Slovenia, the Czech Republic and Estonia all come within the world's top 25.

Based on 155 countries, the World Happiness Report 2017, commissioned by the United Nations and produced by the Sustainable Development Solutions Network SDSN, also reveals that all CEE countries (with the exception of Slovenia and Ukraine) stand out for having made some of the most significant gains in happiness levels between 2007 and 2016. In comparison, some of the greatest drops in levels of happiness were in Western Europe.

In Poland, UHY is represented by Biuro Audytorskie Sadren Sp. z o.o. and UHY ECA Group.

Speaking for UHY ECA Group, business development specialist Aleksandra Pilecka, agrees that GDP is a poor guide to social and economic welfare.

"National figures on economic growth fail to consider differences between regions and ignore quality of life," she says. "This is why the quality of economic growth needs to be measured, rather than just the quantity. We need to reinvent the way we measure the economy."

Wieslaw Lešniewski is managing partner at Biuro Audytorskie Sadren. He believes that a mix of factors lies behind Poland's success, including initiatives from the country's new government and growth in employment, production and consumption. "Economy and wellbeing are linked - there is a new perspective for Polish people," he says. "There are positive impacts now for people's lives, earnings and economic standing."

In Romania, Camelia Dobre, managing partner at UHY Audit CD S.r.l. in Bucharest, sees social progress as essential for business opportunity.

"We do not have a better measurement tool than our gradual convergence with the European Union's average for quality of life. Our level has gone up continuously and constantly in the ten years since Romania joined the EU. Understanding Romania takes more than just looking at the GDP figures."

Georg Stöger, managing partner at AUDITOR, spol. s r.o., UHY's member firm in the Czech Republic, agrees that indicators apart from GDP are valuable. "I think these are good measures of Czech Republic's progress," he says, "and I believe the country should continue to put pressure on regulation against corruption, for example, to advance more on these indices."

THIS WAY FOR BOOMING GROWTH

Whichever way you look at it, however, CEE is booming.

"And it looks like this could last for a while," says Richard Grieveson, an economist with the Vienna Institute for International Economic Studies and a specialist in Central, South-Eastern and Eastern Europe.

"We see the region growing at around double the rate of Western Europe in the next few years, which means further convergence with EU15 income levels. Tighter labour markets mean higher wages and greater domestic spending power. The start of the new EU funding cycle means more investment. And Western Europe is undergoing an impressive cyclical upswing, which is driving demand for goods made in CEE."

Richard also highlights two elements measured in the Social Progress Index – equality and access to education.

> We see the region growing at around double the rate of Western Europe in the next few years.

"Some countries in the region have impressively low levels of inequality by European standards," he says. "Our research shows that the education levels of workers almost everywhere in CEE have improved in the last few years."

Aleksandra Pilecka highlights Poland's huge resource of well-educated young people and competitive labour costs.

"Each year, more than 500,000 Polish students graduate, and Poles are well ahead of their peers from many European countries when it comes to language proficiency. Technical schools are more and more popular in Poland too, thanks to a growing awareness of market needs and to public support programmes."

IMPROVING THE BUSINESS CLIMATE

Although the region is not without its challenges, there is a drive to make it easier for companies to do business. Jasmina Macura, managing partner at UHY Revizija in Belgrade, Serbia, says the country's projection for growth is 4% by 2020, with especially good prospects in agriculture, infrastructure and tourism.

"The government is making a number of legislative changes that should attract more foreign investors to the country," says Jasmina. "There will be a simplified tax law, modernised labour law, a more favourable land law, and a lot of red tape done away with.

"The government is very open to foreign investors," she adds. "Infrastructure projects are primarily implemented through public-private partnerships and contracted under favourable terms for the private partner. As far as other investors are concerned, the advantages include subsidies for employees, longer-term tax breaks, plus low rent for land and the government's commitment to upgrade the infrastructure around plants."

For Poland, Wieslaw Lešniewski points to high employment growth as a major contributor to the country's positive business environment. "Every eighth new job is created in Poland," he explains. "Production for 2017 is likely to be 10% up on 2016, and in the first ten months of the year 223,000 industrial jobs were created."

Aleksandra Pilecka says there is also a recognition of political risk, but argues that "what is more important and constant is the interest international companies have in Polish markets, largely thanks to the favourable business conditions. This state of affairs is very unlikely to change in the coming years."

Created in the 1990s, special economic zones (SEZs) offer advantages including exemption from income and property tax – and the Polish government has committed to extending SEZs up to the end of 2026. Poland has also improved its ranking for the simplicity of its tax system, but Aleksandra says there is still a way to go.

"Among our clients, the most commonly reported problems are with the interpretation of legal rules. It is very important to keep up with this somewhat turbulent tax and legal environment," she says.

In Romania, a change in government attitude has seen a move away from legislation that would have made it more difficult to do business.

"The private sector raised a strong voice against some of the fiscal proposals being presented, and they were listened to," says Camilia Dobre. "We are also seeing a move from policies that promote consumption to those that support investment and strengthen the labour market through vocational training."

Prague, Bratislava and other cities and regions of the CEE are now among the richest parts of the EU in per capita PPP terms.

"This is a staggering achievement, but it hides the fact that many rural areas in most of CEE remain very poor," says Richard Grieveson of the Vienna Institute for International Economic Studies. "Making sure that the gains of economic growth are shared will be a big challenge for policymakers in the coming years. If they do not do this, they could face a political backlash."

INVESTMENT AND OPPORTUNITIES

In 2017, the UK Financial Times newspaper reported that the former communist countries that joined the EU after 2004 offered "superior growth to Western Europe and many other emerging markets, combined with the benefits and protections of EU membership". 'Core' countries such as Poland, Hungary, the Czech Republic, Slovakia and Romania were "growing faster than any region in the world, with the exception of Asia-Pacific".

Outside that core, the report suggested there were also opportunities for bolder investors, as countries started to come out of recession or weak growth.

Richard Grieveson agrees: "Some countries in the region have been very successful in attracting large amounts of FDI from Western Europe, and there is no reason that the rest should not now follow. We are already seeing a gradual shift eastward in Europe's manufacturing core, with supply chains stretching from Germany and Italy into places like Romania and Serbia."

Camelia Dobre in Romania says every sector is proving attractive to business.

"Huge opportunities could come from the birth of a sovereign fund for development and investment," she says, "providing it is in line with best international practices, and a possible mechanism for making EU-funded projects more effective and efficient."

Poland's economic growth over the last 27 years has been particularly impressive. The country is the EU's largest beneficiary, with EUR 105.8 billion allocated between 2014 and 2020, and has a domestic market of more than 38 million people.

"These funds will contribute to investment in Polish infrastructure, environmental and technology projects, and both human and regional development," says Aleksandra Pilecka. "We already have hundreds of kilometres of new motorways, faster intercity trains and better logistics."

Aleksandra suggests that the main opportunity, especially for foreign investors, is business process outsourcing.

"We already have more than a thousand shared service centres and outsourcing companies in 40 locations, employing around 200,000 people. Businesses can take advantage of low labour costs, well-qualified staff who speak multiple languages, exemption from some taxes and availability of office space."

Some CEE countries have huge and booming export sectors, especially the Czech Republic, Slovakia and Hungary.

According to Georg Stöger, the Czech Republic's strong export orientation is "the main factor behind the country´s strong growth – and a major economic sector is the automotive industry."
But unlike Poland, for example, where employment growth has been rapid, Georg has concerns for the future – "The economy is growing by about 3-4% but increasingly, companies are facing a lack of additional workforce. This situation is worsened by the fact that relatively few people from abroad are available on the Czech Republic´s labour market."

While others have so far struggled to achieve positive export markets, there is no doubt that infrastructure improvements – with significant help from EU funds – will help these countries attract more FDI into the tradeable sector. In turn, this should increase employment, productivity and growth, with new opportu§nities in those CEE countries that are becoming sources of demand rather than sources of labour for goods consumed elsewhere.

GOLDEN YEARS

At UHY we are proud of our member firms' reputation for delivering high quality, longstanding client service. For some, that service has been prized for years – even before UHY was born in 1986. Member firms who celebrated anniversaries in 2017 include:

SINGAPORE – 50 YEARS

Founded by Mr Lee Seng Chan in 1967, UHY Lee Seng Chan & Co, Singapore has grown from five to a team of over 100. As it looks to the future the firm continues to set its sights on growth. "As well as handing the leadership from the partners to successors, the firm will focus on building its brand reputation, rich heritage and core expertise to spearhead growth," says senior partner, Lee Sen Choon, UHY Lee Seng Chan & Co.

CANADA – 85 YEARS

UHY's member firm in Montreal, Canada, UHY Victor, celebrated 85 years of practice in 2017. The firm was founded in 1932 by William Victor, late father of current partner Edward Victor. William went into partnership with Louis Gold to form Victor & Gold which joined the UHY network 25 years ago and became UHY Victor in 2008.

"We have maintained a solid reputation as a boutique-type operation, delivering personal service to small and medium-sized owner-managed businesses," says Ken Shemie, pictured centre, partner, UHY Victor. "We aim to exceed client expectation by being proactive and delivering value."

THE NETHERLANDS – 90 YEARS

This year marks a double anniversary for Govers Accountants/Consultancy in the Netherlands – 90 years since the firm was created and 30 since it joined the UHY network. Govers was established in Eindhoven, in 1927 in the southern region of the Netherlands known as Brainport. Govers partner Paul Mencke says, "Since the business began we have grown to 140 colleagues serving clients across the country and worldwide – but always maintaining our base in Eindhoven, which is the cradle of the high-tech industry in the Netherlands. That makes us the oldest independent accounting firm in Eindhoven – a title we are proud of! We have also gained a lot of knowledge in those years – of the companies that are active in the Brainport region, such as construction companies, the food sector and especially of family businesses. So we feel very much like a local firm with a global outlook."

ROYAL HONOUR FOR UHY FOUNDER

UHY co-founder and former chairman, Frank Stansil, was honoured in the 2017 Queen's New Year's Honours List with an MBE (Member of the Order of the British Empire), in the UK.

Frank joined the Hacker Young Group as a partner in 1968, becoming senior partner in 1986. Along with Steve Fischer and John Wolfgang of Urbach Kahn & Werlin, (now US member firm UHY Advisors and UHY LLP) and Arthur Harverd of Hacker Young, Frank created a new global network of accountancy firms – UHY International.

Frank's MBE is tribute to his time, energy and commitment to healthcare as a charity professional. As deputy chair of the King's NHS Healthcare Trust and chair of the King's Appeal, Frank's fundraising for the King's College Hospital Charity spans decades. The hospital's Frank Stansil Critical Care Unit provides advanced intensive care. Frank received his MBE from HRH Prince Charles, Prince of Wales in June 2017.

"I have been involved in fundraising for King's College Hospital – our local hospital – for many years, and to be recognised in this way is a great honour, says Frank."

Pictured, l to r: Frank Stansil, Bernard Fay (UHY chairman), Steve Fischer (UHY co-founder)

LASTING IMPRESSIONS – MEET MARILYN PENDERGAST

"My parents brought us up to believe we should do whatever we were capable of – and girls were capable of pretty much everything."

Marilyn Pendergast, partner at UHY LLP and managing director at UHY Advisors NY, Inc, has received one of banking's highest honours – Keybank's Key4Women Achieve Award, which recognises a local businesswoman's career and community success. On top of that, Marilyn has also achieved 50 years of service to UHY.

Marilyn began her career at accounting firm Urbach Kahn & Werlin, later UHY LLP. She was the first woman president of the New York State Society of CPAs and first woman and non-attorney to head the NY State Supreme Court, Third Judicial Department Committee on Professional Standards. She received the International Federation of Accountants' (IFAC) Sempier Award for outstanding contributions to international accountancy, and served on IFAC's Transnational Audit Committee and Ethics Committee (now the International Ethics Standard Board): she sat on UHY's Quality Working Group since it began in 2003. Not bad for someone who was told 'too bad you cannot do it' when she wanted to be an accountant.

Marilyn said: "When I started college, women became teachers, nurses or office workers, and would work a few years before settling to marriage and family. I enjoyed my accounting courses, so I started thinking about a career in it. People said 'girls cannot be CPAs', but I didn't see why not. I was hired by Urbach Kahn & Werlin and loved it. I am so grateful to the founding partners for their support.

"I enjoy working with clients in various industries and I think there are benefits to exposure to different types of industry related concerns, that can add insight and value."

Marilyn's parents were her inspiration. "They were open-minded and fair, generous, faced setbacks with strength and fortitude and taught us to be true to ourselves. If I can live my life that way, I'll consider it a success."

FUTURE LEARNING

UHY's ethos of collaborating and sharing knowledge includes reaching out to business schools and universities to forge relationships with tomorrow's professionals.

In Croatia, member firm UHY HB EKONOM and affiliate firm UHY SAVJETOVANJE have teamed up with the University of Split's Faculty of Economics to create an internship programme. UHY HB EKONOM organised internships in audit, accounting and tax consulting for four students: two from the Faculty of Economics, one from the Department of Professional Studies and one from the Department of Forensic Science. UHY SAVJETOVANJE agreed to organise internship for two students from the Faculty of Economics in the field of EU funds.

The firms also created a UHY Training Centre which organises conferences, seminars and workshops for professionals – with economics students getting free entry. "Students can learn from top professionals of accounting, audit and in the tax advisory fields, and improve their knowledge and practical skills before they have graduated," says Helena Budiša, managing partner at UHY HB EKONOM.

"Intern students were selected in autumn 2016, and the first internships started in February 2017," says Helena. "We are delighted to have appointed a student from the internship programme. It shows that the partnership is having a real impact."

Economics graduate Andrea Omašić, UHY HB EKONOM's certified auditor, partner and director of audit and assurance services joined UHY as an intern in 2012 and became a certified auditor in 2016. Gaining a national scholarship for gifted and talented students, Andrea is now a guest lecturer at the Faculty of Economics.

A scheme in New Zealand starts the business relationship even younger, as Debbie Robson, marketing coordinator, UHY Haines Norton (Auckland) Limited explains. "In 2016 we launched our first study scholarship, offered to year 13 students at ten secondary schools in our area," she says. "The scholarship gives NZD 6,000 towards tertiary fees of a Bachelor of Commerce or Bachelor of Business Studies degree.

"The selected student is in her second semester at the University of Auckland. It is exciting to meet the finalists. The 2017 winner was selected from a group of exemplary students who all have the potential to excel."

LET US HELP YOU ACHIEVE FURTHER BUSINESS SUCCESS

To find out how UHY can assist your business, contact any of our member firms. You can visit us online at **www.uhy.com** to find contact details for all of our offices, or email us at **info@uhy.com** for further information.