

Key pillars of International Business Structuring

Wherever you have business: in Luxembourg or Kazakhstan, the question, which is always with every businessperson, is how to create a successful business structure using benefits of different jurisdictions.

And if in early 2000-s companies tend to use lucid schemes with set up in off-shore jurisdictions for tax optimization purposes nowadays with adoption of various “lists” and information exchange regulations tendencies shifted to use of sophisticated business-savvy structures.

However, circumstances alter cases, and choice of jurisdiction for business structuring should always fit your individual business needs and goals. That said, according to our researches the most common mistake made by many entrepreneurs is selection of popular structuring places, so called “tax havens”, without sober assessment of their business plan from a long-term perspective. For example, in course of assessing jurisdictions for launch of business companies usually consider following factors: tax burden for corporate income tax and passive income (capital gain, dividends), repatriation of profits, substance requirements and presence of Double Tax Treaty with their home country. However, in practice, during implementation of a planned structure, companies find out that there is something more than taxes on the chopping block.

The first and foremost stumbling point that investors face is a sophisticated corporate governance and absence of flexibility. Lack of thorough researches on country`s local corporate requirements may end up with investor dealing with bale packs and undesirable costs associated with a red tape. With that in mind, it is important to be clear on maintenance expenses required for your business. This cost pattern will include relevant registration and other state fees, nominee services, office rent expenses, secretarial and notary services, local management fees, if applicable, accounting, audit and annual reporting fees. In that case, the only question, which comes to mind, is “Is your structure worth the money?”.

Whatever is your purpose: to expand the market, attract investors or protect a beneficiary - political and economic landscape of your future structure is a question of assurance of your long-term investment. Wisely chosen jurisdiction is always the one which is less exposed to currency fluctuations and political disturbances with investors attraction as a priority of course. In this regard, it is also essential to be ensured that visa regime in this country is a straightforward and accessible.

Another not least important criterion in choosing a jurisdiction for set up is insurance of beneficiary`s confidentiality. Initially confidentiality in off-shore zones was secured by their flexible laws and absence of publicly accessible data on shareholders with state registrars or through use of nominee shareholders and/or directors. However, with various global tax trends such as the action plan introduced by OECD - Base Erosion and Profit Shifting (BEPS), multilateral treaties on information exchange, “controlled foreign companies” norms, the question of confidentiality guarantee becomes a critical one. There are several international structuring trends elaborated within this framework based on detailed analysis of potential



jurisdictions. For instance, one of the widely used trends is introduction of (i) personal holding mechanism (PHM) into the target holding structure or (ii) use of PHM as an alternative to the holding structure. The main advantage of PHM is a possibility of additional protection of assets at the international level, including abovementioned protection of confidentiality. The main types of PHM, such as personal holding company, trust, foundation are often used by private clients to structure ownership of shares in new investment projects, which will add flexibility in the event of new business opportunities. Among other things, presence of PHM in the structure may potentially simplify certain conditions for obtaining a visa in the potential jurisdiction of location of the PHM and streamline the inheritance system.

Taking into consideration points highlighted above we believe it is crucial to assess all possible aspects of your future business structure to gain a clear understanding of your tax and legal position.

Food for thought:

- ▶ Diligent registration of a legal entity is a key foundation of successful operation of your business
- ▶ Check various scenarios of business launch: there is no common solution and the most successful solution depends on your business plan
- ▶ Carefully consider choice of banks: majority of difficulties in practice occur as a result of time-consuming banking procedures
- ▶ Prior to choosing a particular zone of set up carefully estimate company's maintenance expenditures with your business advisor: some pitfalls may be unknown to you
- ▶ Be clear about compliance to laws of your home country/jurisdictions in which you have subsidiaries beforehand: it is also essential to be always updated on any initiatives on international treaties and regulations
- ▶ Having a trusted local contact (agent, lawyer, business and tax advisor) may ensure timely and proper protection of your interests and save you undesirable costs

The United Arab Emirates (the "UAE") in this regard with its low or even zero taxes, various corporate governance alternatives and well-established trade regime may be the best business solution for those looking for complex optimization and stable investment.

Feel free to reach our experts to find out more on doing business in the UAE and check business structuring opportunities advisable for you.

WHO WE ARE?

Garant Business Consultancy DMCC is a boutique business advisory firm with wide expertise in company formation in the UAE market.

Garant has an extensive hands-on experience in advising and full-

scope assistance with establishment of a business in the UAE tailored for client's specific business needs and plans. Having supported establishment of more than hundreds of companies Garant is the best choice for those looking for well-trusted and quality-oriented business advisors.

We draw on our knowledge and expertise to bring insights that will help make your business better.

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