

## Global Update



July, 2009

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Founded in 1994, Integra now has **97 member firms** with **135 offices** in **134 cities** in **48 countries** covering Europe, North America, South America, India, Asia, Australia/New Zealand.

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## EDITORIAL

### Integra International – *Your Global Advantage*

#### Sum Global Update

Integra International is proud to announce that firms in Romania, Bucharest (A.Cont Assistance SRL), Egypt, Cairo and Alexandria (Financial Experts – Mortada, Mokhtar & Partners), Switzerland, Zurich, Zug, Geneva, Obwalden (KBT Treuhand AG) and UK, London (Castle Corporate Finance Limited) have been appointed as new members. The increasing world wide coverage gives us the chance to support our clients in audit, accounting and tax issues on a world wide basis.

The Integra International tax group is now focusing on tax aspects of international mergers and acquisitions, where a workshop will be launched beginning of September in London. Tax specialists from all over the world from different Integra member firms will discuss different topics on taxation of M&A transactions and will work out some case studies. A summary of the workshop will be published in the next Global Update end of September.

This Global Update issue contains articles from our new member from Romania - Mr Ionel Lucian Serban gives us a short overview about the actual economic situation in Romania. Richard Purcell then summarises tax news of Canada and Colin Harvey from our new member, Castle Corporate Finance Limited, summarizes the specialization of their firm in corporate finance work.

With the support of all our new members and the professional work of our existing Integra members, Integra International will be able to show up as your specialist in auditing, accounting and taxation as well as business consulting

Have a nice summer!

Vienna, July 2009  
Franz Schweiger



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## ROMANIA

### Fights crisis

After a 6 month expectation, the newly appointed government of Romania after the last elections announced a more complex anti-crisis program.

**"1st House" program**, exceeded all expectations - 20 various banks applied to enter this program. The amount of funds allocated by banks expected to reach 1 bln. EUR finally exceeds 2,460 bln EUR.

The 1st House Program will start in the 2nd half of 2009 and offers the possibility to those who do not have already a house to buy one, paying just 3,000 EUR - 5% of the maximum amount of EUR 60,000 credited by the banks within this program.

### Mass media and the business

One local mass media research covering news regarding Romania broadcasted within EU shows that most toxic and negative news items about Romania are presented in Germany and Italy, but countries like Greece, Spain, France and Holland have a more neutral and balanced bad news/good news information content.

The results for business are quite strange. Germans are confused about Romania. There are no significant German investments in Romania and low touristic flow. On the contrary, German language related country Austria, became the number 1 investor in Romania and Italy has the largest number of companies with foreign investors in Romania. Greece and Spain are Romanians' most favourite touristic destinations and Holland has become part of the Romanian daily life since at every corner inside the important cities Dutch flowers are available day and night.

One Romanian businessman (representative of a German company on local market) declared that in 2006, when he received the first visit of the German partners in Bucuresti, they were completely disappointed to find out that all their strategic plans were completely wrong. "We expected Bucuresti to be a kind of Tirana, but it is closer to Paris and we have to review the approach strategy", declared the Germans after visiting the city and some shopping Malls.

## Good to know!

All main TV Stations in Romania have at 5:00 PM an informative "**Bad News Program**", while the evening informative programs (mainly 7:00 - 8:00 PM) have "**the good news**", as well, but probably it is too late for news editors of other TV stations in EUROPE!

If you want to do business and find out more than 5:00 PM news, come and see Romania or just contact us.

More details on [www.aacont.ro](http://www.aacont.ro)

## Finally, smile please!

The Romanian was astonished hearing from the media, a new motivation of anger against them:

"A Romanian girl was considered... too pretty! "

It was a rumour in UK also, when some top players from the Wimbledon women tennis contest complained of discrimination when the pretty Romanian player Sorana Carstea, (ranked 28th only) was distributed to play on the central arena against the number 8<sup>th</sup> player while all other superior ranked players were allocated to play on secondary fields. The complaints were made after the contest speaker confirmed "pretty women players are a magnet of spectators".

Of course, the central arena was full again.



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## Canadian tax overview

### The following article by David Hearn appeared in the June/July 2009 issue of CAmagazine

Canada still has the world's best R&D tax credit scheme, especially for small and medium-sized companies. But other countries, notably the UK, the Netherlands and France, are not far behind; in fact, France may be ahead of Canada where larger public companies are concerned.

These are just some of the key findings from the most recent edition of Overview of Research & Development Tax Incentives in Selected Global Knowledge Economies, published by Scitax Advisory Partners LLP, a Toronto-based consulting firm specializing in taxation of science and technology companies.

Getting a useful picture of R&D tax incentives around the world is more difficult than it might seem. While there is a lot of data available, much of it is out of date and tends to be presented for economists rather than business owners. Furthermore, the past two years have seen a proliferation of countries offering new R&D incentives and some significant increases in the existing rates.

The study, which is published in the form of a tabular report, covers R&D incentives in Australia, Ireland, Canada, The Netherlands, Spain, New Zealand, United Kingdom, United States, France, Austria, Mexico, South Africa and Germany. For each country, the report shows whether the benefit mechanism is incremental or actual, super-deduction or ITC and whether a cash refund is offered. It also lists what R&D expenditures are eligible and if work done outside that country is considered an eligible expenditure.

The Scitax investigators involved in the study note that tracking these benefits has become a moving target. Over the past two years, foreign governments have been fine-tuning their R&D benefits to attract the high-quality jobs that arise when a new scientific research centre opens.

### Tax credit terminology explained

While the term "R&D tax credit" is the common vernacular, the more correct term would be R&D tax incentive.

At the most basic level, any comparison of R&D tax incentive regimes involves consideration of two basic parameters: the eligible expenditure method; i.e. what kinds of expenditures the benefit applies to; and the benefit mechanism; i.e., how the allowed eligible expenditures get translated back into real money for the taxpayer.

There are two basic eligible expenditure methods:

*Actual* – The benefit applies to the *actual* eligible expenditures incurred in a given tax year. This is the method used in Canada and in several EU countries.

*Incremental* – The benefit applies to the *change* in eligible expenditures from year to year. It is calculated by finding the difference between the current year's expenditures and some "base" amount linked to expenditures in prior years according to some mathematical formula (e.g., moving average, etc.). The US has historically used this method, but by 2010 may adopt a more simplified approach.

In addition to the actual versus incremental method, there are further considerations around what constitutes an eligible expenditure. Some countries may allow only wages, while others may include equipment, materials, supplies, contract payments and / or overheads.

There are five basic benefit mechanisms:

#### A. Deduction

Reduces taxable income like any other business expense

- \$100 spent on R&D = taxable income reduced by \$100
- Assuming nominal tax rate of 11% = tax payable reduced by \$11

#### B. Super-deduction

Taxable income reduced by more than the R&D expenditure

- Assuming benefit rate of 150%
- \$100 spent on R&D = taxable income reduced by \$150
- Assuming nominal tax rate of 11% = tax payable reduced by \$16.50

#### C. Immediate write - off or accelerated write-off

Faster depreciation of capital assets such as R&D equipment or purchased intellectual property (IP)

- \$100 spent on R&D equipment or IP
- Taxable income reduced by \$100 this year rather than \$33.33 per year over a three-year period
- Beneficial for research requiring costly capital assets or purchase of IP

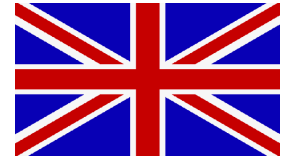
#### D. Investment tax credit (ITC)

Direct reduction of taxes payable by some % of the R&D expenditure

- Assuming a 20% investment tax credit and a nominal tax rate of 11%
- \$100 spent on R&D
- Taxes payable reduced by \$20 for ITC plus normal business deduction of \$11 for those expenditures.
- Only useful to companies that are profitable and have tax payable
- In most jurisdictions the ITC can be applied in arrears to prior years or carried forward for use in future years. In some cases (e.g., Canada) there is an option to also carry the deduction associated with the R&D expenditure forward to a future year.
- Benefit may itself be taxable!



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## Castle Corporate Finance

Castle Corporate Finance was delighted to have been invited to join Integra in April and has become the first member firm focusing entirely on advisory Corporate Finance work.

Hoping to take a pro-active role from the start, we have been invited to chair the Corporate Finance SIG and as part of our responsibilities, have created the Integra “Deal Board” on the new Integra Web Site, which is designed to give all member firms the ability to highlight brief details of their clients’ transactions in confidence, and find other member firms’ clients that might represent “the other side of the deal”. The simple objective is to enhance the prospects of success for our clients, and so generate more fees for each participating member.

Each Integra member will be invited to nominate one person who will act as the co-ordinator for his firm and take responsibility for all the transaction details that are publicised. Castle will work with each individual to try and help make the deals happen, by acting as the “clearing house”, and using all our corporate finance contacts, find the best deal and achieve a “win – win” for both parties. We may also be able to introduce other funders and investors that the deal may require.

By way of background about us, Castle is a specialist team that delivers corporate finance advisory services to owner managed businesses that are considering significant structural change, such as a sale, growth by acquisition, or expansion through a joint venture or private equity partner. We can also assist companies that are thinking about an IPO when some liquidity returns to the junior markets such as AiM and PLUS.

Castle’s approach is entrepreneurial and “hands-on” and is tailored to the needs of each project we manage. Our team comprises specialists with backgrounds in the accounting, legal, banking, business recovery and commercial property arenas.

Castle director Michael Norrie was President of Integra in the late 1990’s.

We will always be pleased to talk to other Integra members about their client’s plans, to see how we can best help you achieve them.

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The **Global Update** is a quarterly publication of Integra International intended to keep its worldwide members and their clients informed about what’s happening in business matters around the globe. The editor is Mag. Franz Schweiger and he can be contacted at: BF Consulting Wirtschaftsprüfungs-GmbH, Mariahilfer Strasse 32, AUSTRIA 1070 Wien, Tel. 0043 1 522 47 91, Fax. 0043 1 522 47 91 1, E-Mail: [office@bf-consulting.at](mailto:office@bf-consulting.at)  
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