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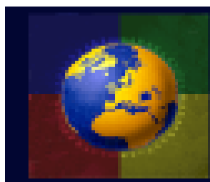

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EDITORIAL

Integra International will hold its next world wide meeting in Hong Kong hosted by Simon Cheung and his team. We are looking forward to meeting many of our members. Following the conference over 40 people are participating in the China Trade Mission to Shanghai and Beijing to get some impression and experience about Asian business. The Asian region is one of the core regions the expansion plans of our international network of independent firms.

Integra Internationals European tax group is focusing on training members and their employees on topics in the field of international taxation. Whereas the first workshop held in Vienna in June had different topics with cross border transactions, the tax group is now just working on special topics around real estate investments. The workshop in Luxembourg, hosted by our member Francis Hoogewerf and his firm brought together about 20 tax specialists discussing different tax and legal issues on international real estate investments. Presentations and prepared workshops were chaired by Integra members with some guests from the real estate business and lawyers from ABL attended the meeting as well. With the broad experience of members in different countries, Integra International is in the position to work on real estate investments for the best of our clients. We saw that Integra International is also capable of servicing the big deals with qualified advice. Cross border teams have just shown their outstanding expertise in some practical cases.

This September issue of our global update includes articles from Gerard Madec, a French tax lawyer about anti avoidance regulations or CFC regulations; a short summary about Austrian regulations on permanent establishments; information about German business tax reform 2008 from Dirk Lehmann; an article from Carl Glaw and Michael R. Newman on cost allocation: and another from Carl Glaw about the highlights of the Small Business and Work Opportunity Tax Act of 2007 in the US.

Two Integra International internships show the broad range of working together between member firms. Impressions from Tina Lackermayer in San Diego and Bethany Friesen in London will give you some examples of possible ways of working together, exchanging knowledge and of course gaining friendships.

Congratulations to Phil Levi for getting the award as the Fraud Examiner of the year – read the press release on the last page.

EMEIA Meeting Malta

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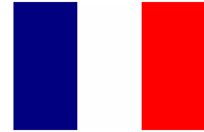

CAN THE USE OF FOREIGN LOW TAX RATES BE PREVENTED IN EUROPE?

Can anti-avoidance regulations (AR) or controlled foreign companies regulations (CFC) prevent the use of foreign low tax rates?

Many new countries have recently joined EU with tax rates that are much lower than the rates in use in the main EU countries.

At the same time, France has been obliged to change the existing CFC rules in a way that opens the door to use the attractive rates proposed by the new EU states.

It is likely that all the EU countries have or will be obliged to do the same.

I. The French story is as follows:

A. Before 2005

Where a French company had either a permanent establishment or a subsidiary (more than 10%) in a foreign country (for example Switzerland), the foreign profits were taxable in France (article 209 B) when the foreign taxes were less than 67% of the taxes that would have been paid in France for the same profits.

The taxes paid abroad were creditable against the French taxes.

Article 209 B was not applicable and the profits were not taxable in France where the foreign entity (PE or subsidiary) had an industrial or commercial activity AND more than 50% of the business was realized in the foreign country.

B. The SCHNEIDER decision (2002)

By a famous Schneider decision in 2002, the French Supreme Court has concluded that this article 209 B was violating the treaty signed between France and Switzerland.
At this time, several decisions of the EU Court of Justice were announcing that article 209 B was violating the EU principles of freedom of establishment and freedom of circulation of cash.

C. After 2005

France has decided to change its CFC rules with effect from January 2005.

The new article 209 B provides that:

- Subsidiaries must be held at 50% at least (instead of 10%);
- Foreign taxes must be less than 50% of the French taxes (instead of 67%);
- Article 209 B does not apply to EU subsidiaries (unless the foreign subsidiary has no substance and has been created for pure tax reasons);
- The foreign subsidiary must have a substance (staff and material means) but is no longer required to realize more than 50% of its business in the foreign country;
- It is accepted that less than 20% of the foreign business is in relation with shares in the same group;
- It is accepted that less than 50% of the business is derived from services provided to other companies of the same group;

CONCLUSION: The existing French CFC rules cannot prevent the use of low tax rates in other EU countries where subsidiaries have substance.
Stranger is the fact that the new French CFC rules are more favourable for non EU countries and leave access to favourable tax regimes such as the Swiss auxiliary regime.

II. The other EU countries.

In 2006, a famous decision of the EU Court of Justice has confirmed the EU position.

In the decision CADBURY SCHWEPPES, the Court has refused the application of UK CFC rules in a situation where a UK group was using an Irish subsidiary to get a favourable tax rate for financial services.

The decision was based on the principle of freedom of establishment and the substance of the Irish subsidiary. There is no doubt that all the EU countries will be obliged to change their CFC rules.

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PERMANENT ESTABLISHMENT AND DOUBLE TAXATION IN AUSTRIA

Austrian point of view

Under most domestic laws - as German, Austrian and Swiss - a permanent establishment is the most important precondition for the tax liability of non-residents deriving business income. They are subject to taxation only if and to the extent that they have a permanent establishment in Austria. As a consequence, the tax administrations make a careful examination whether, in the individual situation, the criteria for a permanent establishment are fulfilled. Article twenty-nine of the Austrian fiscal code states: Permanent establishment is a fixed local arrangement or equipment, which provides the basis for the enterprise or the business operations. The tax code mentions as examples: the execution of construction work, continuing longer than six months; a branch or regional office; the place, where the business management is. It is very important to notice, that for non residents business and professional income is solely taxable in case it is attributable to an Austrian permanent establishment.

Taxation of branch offices of foreign corporations:

The permanent establishment (e.g. branch office) of a foreign corporation is liable to taxation in Austria for its attributable income. The tax rate is likewise 25%. Here the permanent establishment is to be attributable such profits as it could have earned if it had exercised the same or similar activity under the same or similar conditions as an independent company (this is known as "dealing at arm's length" principle). Attribution may be made by either the direct or indirect method:

-) Direct method: Profits are calculated on the basis of the permanent establishment's financial statements, taking into account all expenses attributable to the permanent establishment, including costs of management and general administration of the company but excluding deemed profit transfer.

-) Indirect method: In exceptional cases, the company's total profits can be split up among the various permanent establishments according to specific allocation schemes.

For transactions between the permanent establishment and other parts of the company, appropriate arm's length transfer prices must be applied.

Double tax treaties

Mostly all double tax treaties concluded form Austria with foreign countries follow the OECD model. In Article five the permanent establishment is defined. The term "permanent establishment (PE)" means for the purpose of the Convention a fixed place of business through which the business of an enterprise is wholly or partly carried on. The term "PE" includes especially:

a) a place of management;
b) a branch;
c) an office;
d) a factory;
e) a workshop, and
f) a mine, an oil or gas well, a quarry or any other place of extraction of natural resources.
g) The term "PE" likewise encompasses:
   a) *a building site or a construction, assembly or installation project or supervisory activities in connection therewith, but only where such site, construction, assembly, project or activities continue for a period of more than six or twelve months;*
   b) *the furnishing of services, including consultancy or managerial services, by an individual of a Contracting State or through his employees or other personnel, but only where activities of that nature continue in the territory of the other Contracting State for a period or periods exceeding in the aggregate six months within any twelve month period.*

Notwithstanding the preceding provisions of this Article, the term "PE" shall be deemed not to include:

a) the use of facilities solely for the purpose of storage, display or delivery of goods or merchandise belonging to the enterprise;
b) the maintenance of a stock of goods or merchandise belonging to the enterprise solely for the purpose of storage, display or delivery;
c) the maintenance of a stock of goods or merchandise belonging to the enterprise solely for the purpose of processing by another enterprise;

d) the maintenance of a fixed place of business solely for the purpose of purchasing goods or merchandise or of collecting information, for the enterprise;
e) the maintenance of a fixed place of business solely for the purpose of carrying on, for the enterprise, any other activity of a preparatory or auxiliary character;
f) the maintenance of a fixed place of business solely for any combination of activities mentioned in sub-paragraphs a) to e), provided that the overall activity of the fixed place of business resulting from the combination is of a preparatory or auxiliary character.

Summing up

Although the concepts of permanent establishment in domestic law and in tax treaties are similar, there are also considerable differences. Permanent establishments are an important link for allocation and limitation of the power to tax. To solve an existing tax case, the first step is to consider the national Austrian law whether or not a PE exists and then to check if Austria has the right to tax this PE in Austria under the existing double tax treaty.

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GREECE: REAL ESTATE TAXES

Greece has various categories of Real Estate taxes and a variety of municipal taxes. Real Estate taxes are the following:

A. Real Estate Transfer taxes
B. Income Taxes for Real Estate owners
C. Taxes on inheritance, gifts and parental provision
D. Taxes on major Real Estate
E. Specific tax for the offshore companies

Generally there are 14 different kinds of taxes that Real Estate owners are liable to pay and levies related to their property. On the other hand, the Greek property taxes are among the lowest in OECD, at just 1,3% of GDP, according to the latest OECD survey of the Greek Economy (ref: OECD Economic Surveys: Greece, Paris 2001). According to this survey, the Greek property taxes are only half of the OECD average level of 2,6% of GDP and well below the European Union average of 2%.

Below lies a brief analysis for the Real Estate taxation in Greece.

A. *Real Estate Transfer Taxes*

Transfer of Real Estate Property with consideration (onerous cause)

Real Estate Transfer Tax is submitted, provided that (a) transfers take place with any kind of return and (b) the property transferred to lie in Greece.

Real Estate Transfer Tax	**ΦΜΑ (Φόρος Μεταβίβασης Ακινήτου)**
Tax Point Date (Tax Object)	Transfer of the title of real estate
Conditions of imposition	First Delivery of real estate dated after 1/1/2006 where the date of publication of building authorisation is prior to 1/1/2006.
Taxpayer	Purchaser

Basis of assessment

The tax is calculated on the value determined by the "objective evaluation system" or on the contract price paid by the buyer, if that is higher, as the above is calculated on the actual tax point date.

Rate:

Most common rates are from are 9% for the first 15,000 € and 11% for the part of value in excess. There are many exemptions as well as additions according each transfer case.

Exemptions – Deductions

Most important exemptions from the real estate transfer tax are granted on:

-The marital status of the purchaser
-The first house purchase.
It has to be noted that the exemption from the tax for the purchase of first house is granted only to Greek and EU citizens as well as citizens of Cyprus, Turkey, Russia and Albania who are of Greek origin, provided that they are permanent residents of Greece at the time of the purchase.

Real Estate transfer tax does not apply to a building whose constructing license is dated after 1/1/2006. For the first transfer that follows their constructing license, VAT applies.

Value Added Tax (VAT)	**Φόρος Προστιθέμενης Αξίας (ΦΠΑ)**
Rate	19%

Any further transfer of the aforesaid property taking place after 1/1/2006, provided that during their first transfer "Real Estate Transfer Tax" or VAT was applied, is subject to below taxes:

1. Tax on Real Estate Dealing	**Τέλος Συναλλαγής Ακινήτου**
Tax Point Date (Tax Object)	Transfer of the title of real estate.
Conditions of imposition	For every real estate sale which takes place after 1/1/2006 AND whose title was initially transferred (for the reason of sale, endowment, or inheritance etc) after 1/1/2006 (i.e. 2nd action is submitted to Tax).
Taxpayer	Purchaser

Basis of assessment

The tax is calculated on the contract price paid by the buyer. This value cannot be less than the value determined by the "objective evaluation system".

Rate:

1%

Exemptions – Deductions:

Most important exemptions from the Overvaluation Automated Tax are related to the legal form of the purchaser.

2. Overvaluation Automated Tax	**Φ.Α.Υ. (Φόρος Αυτόματου Υπερτιμήματος)**
Tax Point Date (Tax Object)	Transfer of the title of real estate.
Conditions of imposition	For every real estate sale which takes place after 1/1/2006 AND whose title was initially transferred (for the reason of sale, endowment, or inheritance etc) after 1/1/2006 (i.e. 2nd action is submitted to Tax).
Taxpayer	Vendor

Basis of assessment

The tax is assessed on the difference that results from the deduction of value determined by the "objective evaluation system" as performed on the actual date of the initial transaction (date that the real estate was bought) and the value determined by the "objective evaluation system" as performed on the actual date of the second transaction (date that the real estate was sold)

Rate:

Varies from 20% - 0% according to the date of the intermediate time period between the initial title transfer and the sale.

Intermediate time period: up to 5 years Tax Rate :20%
Intermediate time period: from 5 years & one day up to 15 years Tax Rate of 10%
Intermediate time period: from 15 years & one day up to 25 years Tax Rate of 5%
Intermediate time period: from 25 years and on Tax Rate of 0%

Exemptions – Deductions:

Most important exemptions from the Overvaluation Automated Tax are related to the legal form of the vendor.

B. Tax on Income from Real Estate

An Individual's Income from Real Estate is added to income from other sources. The total income is taxed according to the tax scale, which for 2007 is rated from 15% to 39%. If the total income exceeds the amount of € 75.000,00 then the excess income is taxed at 40%. There is also an additional tax on property income of 1.5%. For legal entities the Corporate Income Tax rate applies on their overall income, which currently is rated at 25%, while the additional tax is 3% (on property income only).

C. Taxes on inheritance, gifts and parental provision

Tax on Inheritance, gifts and parental provision.	**Φόρος κληρονομιάς, δωρεών και γονικών παροχών.**
Tax Due Date	Inheritance: Date of death Gifts and parental provision: Date of relevant contract
Conditions of imposition	Acquisition due to inheritance, or gift or parental provision
Tax Object	Inheritance: Any Real Estate located in Greece at the time of death Gifts and parental provision: Any Real Estate located in Greece given or provided.
Taxpayer	Recipient of the gift or parental provision, of inheritance.

Basis of assessment

Inheritance: Real Estate value based to the "Objective Evaluation System" (calculated at the tax due date)

Gifts and Parental provision: Real Estate value based to the "Objective Evaluation System" (calculated at the tax due date) in relation to the degree of kinship between the recipient and the donor.

Rate

INHERITANCE - GIFTS

Heirs, legatees or recipients of the gift based on the degree of kinship with the deceased are classified in three categories.

Category A: first and second degree kinship with the deceased (spouse, child, grandchild, parents).
Scale A**:** From 5% above the amount of €95.000,00 until 20% above the amount of €265.000,00

Category B: third or higher degree of kinship with the deceased (brother, sister, step mother, step

father, father/mother-in-law, etc).
Scale B: From 10% above the amount of €20.000,00 until 30% above the amount of €270.000,00

Category C: all other heirs or legatees not included in the previous categories.
Scale C: From 20% above the amount of €6.000,00 until 40% above the amount of €270.000,00

PARENTAL PROVISION
Tax for parental provisions is calculated according to category A. Until the amount of € 100.000,00 for each parent (raised to € 130.000,00 in case one parent has died), parental provisions are subject to half the tax levied on gifts.

There are various exemptions and deductions according the case.

D. Tax on major Real Estate

Tax on Major Real Estate Property	**Φόρος Μεγάλης Ακίνητης Περιουσίας (ΦΜΑΠ)**
Tax Point Date	1/1 of the year that succeeds the year that the Real Estate was acquired.

Tax payable on: Real Estate (situated in Greece) or any title thereto, excluding mortgages
Non-taxable amount: €243.600,00 per person

Tax payable by

All persons are required to submit declarations as specified below, irrespective of nationality, residence or place of establishment:

- all individuals for property whose value exceeds the sum of €243.600,00 (married persons: €487.200,00)
- all legal entities and societies of civil law irrespective of the value of their property.

Rate:

Varies from 0.354% to 0.826% up to the amount of € 1.027.250, 00 and 0.944% for the excess value for individuals. For legal entities a flat rate of 0.826% applies (tax is calculated on value after the subtraction of the non-taxable amount).

E. Tax on property of offshore companies

Specific Tax 3% to Real Estate of Offshore Companies	**Ειδικός Φόρος 3% επί Ακινήτων Υπεράκτιων Εταιρειών**
Tax Point Date	1/1 of the year that succeeds the year that the Real Estate was acquired.
Conditions of imposition	The offshore company to have any kind of real estate in Greece.
Tax Object	Total Real estate
Taxpayer	Off shore company
Beneficiary	Local Authority

Basis of assessment

Sum of values determined by the "objective evaluation system" at the actual Tax Point date for each Real Estate.

Rate:

flat rate of 3%

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COST ALLOCATION – MORE THAN JUST FOR GAAP

All of us have used cost allocation, the process of assigning common costs to ending inventory and cost of goods sold (COGS), as part of our Financial Services offerings since it is required by GAAP. Our goal has been to either reduce taxes or increase reported earnings, depending on our client's needs and circumstances.

But what about cost allocation's other uses? Are we short-changing our clients by not offering services in this area (usually referred to as cost or management accounting services)?

Managers' use cost allocation for a number of reasons. First and foremost, cost allocation provides a methodology for assigning overhead costs of various activities, usually support departments, to products or services being produced and/or sold allowing upper management to assess and analyze their profitability. By knowing what the true "cause-and-effect" relationship is, managers are able to more accurately assess the true cost of a product or service and determine if carrying certain products and/or services contributes to overall profitability given the demand for and price these products/services sell for. This is especially important as it pertains to both operational decisions (such as calculating the maximum price a firm can charge, especially for a "commodity" product, determining the maximum cost a firm is willing to pay to provide this product or service, and in making special order and transfer pricing decisions) and capital/long-term decisions (such as make-or-buy component decisions, continue or discontinue a product line decisions, process further decisions, etc,).

Cost allocation can also be used to reduce wasteful spending and/or promote more efficient use of resources (especially PP&E) by evaluating needs and uses for the year to come as part of the planning/budgeting process. Managers can then be evaluated on their planning effectiveness, leading to better communication, sharing of resources, and cost efficiency. It can also used to manage product and process design. As allocations are broken down/determined, the use of resources becomes transparent from a process standpoint, allowing managers to improve operations as needed.

Prior to the advent of computers, the traditional method of allocating overhead costs was based on a single volume-based allocation base or cost-driver. Unfortunately, volume-based costing allocated overhead using one allocation base that may or may not have had a "cause and effect" relationship to the costs being allocated to the product or service. Example: suppose a manufacturing firm had two production departments, one that used a large labor force with few pieces of equipment and one that was predominantly machine driven. Allocating Personnel or janitorial costs on the basis of machine hours would be very inefficient. By the same token, allocating maintenance costs and building costs to products or services based on direct labor costs would be equally inaccurate.

Fortunately for both our clients and our firms, a better method of cost allocation was developed: Activity Based Costing (ABC) thus allowing overhead costs to be more accurately allocated to products. The purpose of allocation at that time was merely to put a price on inventory for reporting purposes.

Activity Based Costing allocates costs based on multiple cost pools (activities or department budgets) each with its own appropriate ("cause and effect") cost drivers. This leads to more accurate costing and improved control over overhead costs. Activity based costing is especially effective when a firm has a highly diverse or heterogeneous product or service mix, when overhead costs account for much of the total costs, and in situations where the manufacturing process is capital/PP&E-intensive.

Clients need help identifying cost pools and their appropriate cost drivers (allocation bases) and then calculating the overhead costs to be assigned to production departments and, ultimately, to the final service or product. Since this is time consuming and requires a certain amount of skill, it can be expensive to implement, if not done properly. This is where you can help your client.

The steps involved in activity based costing are:

1) Clarify the purpose of the allocation, defining why the need to allocate these costs exists and defining the benefit of doing so.

2) Identify support and operating department cost pools;

3) Select an allocation base or cost driver for each support department cost pool based on a cause-and-effect relationship between the support departments and the operating/production departments.

5) Choose and apply a method for allocating support department costs to operating/production departments. The three most widely used methods are the direct method, the step-down method, and the reciprocal method, all of which will be discussed shortly.

6) Once the allocation of support costs to the operating departments is complete, cost drivers are selected for the newly formed cost pools (production/operating department overhead costs) and costs are then allocated to the units of goods or services.

Before we continue, it would be good to discuss the three methods discussed in step 5. The direct method allocates costs directly from the support departments to the operating departments that use its services. Example: the personnel department might allocate its

overhead (i.e., All of its departmental costs) based on the number of employees in each of the operating or production departments. It is a simple method that only considers the total cost drivers in the operating departments. Continuing with this example, personnel department costs would be allocated 100% based on 100% of the employees in the operating departments with no regard to those employed in personnel, maintenance, engineering, service or any other support department.

The step-down method takes the allocation process one step further by taking into account that support departments use other support department's services (e.g., the personnel department provides services to employees in the janitorial department). Under this method, costs are allocated in a series of steps. First, costs are allocated from the most used support department to all remaining departments. Then another support department is chosen and its costs are 100% allocated to the remaining support departments and all the operating departments. And this process is continued until all of the support departments' overhead have been allocated to the operating departments. While this method is typically a little more complicated than the direct method it is also, as a rule, more effective in allocating costs.

The third method, the reciprocal method, takes the concept that support departments make use of each other's resources one step further. In this two-step method that uses allocation ratios, the total cost of each support department is calculated based on the formula that total cost for one support department is equal to its costs (overhead since no support department's costs are direct costs) plus that of the allocated costs from other support departments it accepts services from.

Lets consider a simple example that involves a company with two support departments -- Janitorial (with a budget of $160,000) and Personnel (with a budget of $250,000) -- and two production departments -- Assembly (with overhead costs of its own of $110,000) and Finishing (with overhead costs of its own of $60,000). Lets further assume that 10 employees work in Janitorial, that Personnel uses 1,000 square feet of building space, that Assembly employs 60 workers in a 4,500 square feet area, and that Finishing has 20 employees who also work in a 4,500 square foot space.

Step one would involve solving simultaneous equations for the two support departments (e.g., P = J = $160,000 + .20P and $250,000 + .10J) to determine the total cost of each support department ($271,429 and $214,286, respectively). Support department costs would then be allocated to operating departments based on how much of the support department's services each operating department used.

In this example, 45% (4,500 sf/10,000 sf) of Janitorial's total cost would be assigned to each production department; 60% (60 employees/100 employees) of Personnel's total costs would be assigned to Assembly; and, 20% (20 employees/100 employees) of Personnel's costs would be assigned to Finishing. Thus, the Assembly Department would have total overhead of $269,286 ($160,000 + $160,857 from Personnel + $96,429 from Janitorial) and the Finishing Department's overhead would total $210,714 ($60,000 + $54,285 from Personnel + $96,429 from Janitorial). These overhead costs would then be allocated to products based on the appropriate cost drivers for each operating department (perhaps machine hours for Assembly and direct labor hours for Finishing).

One point that needs to be emphasized here is that all the allocation methods discussed to this point are based on the "cause and effect" concept. This is important because CEOs and other managers need to know what the real cost of a product or service is. Once that is known, two other considerations need to be addressed -- maximizing profit and keeping the Board of Directors happy.

The first question that needs to be asked is whether or not on any of the products or services have a negative income (after allocated fixed manufacturing costs). If so, the next question if whether or not eliminating/discontinuing those products or services will result in loss of profit. In other words, is any of your client's other income a result of carrying that product or service, or is there some other product or service that can replace that income source and increase profitability. If so, the product or service needs to be eliminated so that overall profitability can be increased.

If the answer is "no" then a different approach needs to be taken. This approach involves assigning/allocating costs based on the ability to bear costs or some other equitable method. The goal for these methods is to both keep the Board happy (so the firm does not show any products or services that are losing money) and to find another way to maximize profit by incentivizing the sales staff to sell certain products (by allocating overhead in such a way that each sales person's bonus or commission is tied to the products or services that maximize profit for the firm).

The most common approach used to allocate overhead (and joint costs) equitably is the relative sales value approach which allocates overhead to products based on overall sales value. This approach works best in situations such as a full service hardware store that offers lumber, equipment and garden supplies. Chances are in a situation of that nature that the garden supply area would either break even or lose money if only based on its "cause and effect" share of overhead. Chances are that that department also contributes to the profitability of the other departments. As a result, allocating the building overhead based on total revenues of each department would enhance the perceived profitability of the garden supplies department and thus keep the Board happy/the CEO from constantly having to explain that overhead is a fixed cost that is allocated and that all that matters is overall profitability.

In conclusion, allocating costs can do more than save taxes under full costing. It can be used as an additional service you can offer your clients to help them maximize their profits.

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THE SMALL BUSINESS AND WORK OPPORTUNITY TAX ACT OF '07

On May 25, 2007, President Bush signed H.R. 2206 into law. This Iraq supplemental spending measure includes a minimum wage increase and a tax title (Title VIII B) called the "Small Business and Work Opportunity Tax Act of 2007." The small business tax incentives in this tax title (referred as "the 2007 Small Business Act") include general provisions affecting small businesses across-the-board, Gulf Opportunity Zone tax incentives and some favorable changes to the rules governing S corporations. However, the 2007 Small Business Act also includes a number of revenue raisers such as new and enhanced penalties and broadening of the kiddie tax, among other items.

Among the general business incentives:

- Enhanced and extended expensing
- Multiple improvements to the FICA tip credit and the work opportunity tax credit
- A new choice for joint ventures conducted by spouses

S corporation changes:

- A new opportunity for electing small business trusts to deduct interest on debt used to acquire S stock
- Eased rules for QSubs that lose their qualification as such
- Elimination of passive income treatment from gains on sales of stock and securities
- Favorable changes for banks operating as S corporations

Gulf Opportunity Zone relief:

- Enhanced and extended expensing for property used in highly damaged Gulf Opportunity Zone areas
- Eased tax-exempt qualified mortgage bond treatment for rehabilitating Gulf Opportunity Zone residences
- Eased low-income housing credit rules for buildings in the Gulf Opportunity Zones

In a surprise development, several pension-related technical corrections were included in H.R. 2206. These technical corrections are highly specialized.

The above is summarized from RIA Checkpoint article *"Publisher's Note—RIA's Complete Analysis of the Small Business and Work Opportunity Tax Act of 2007—now available on Checkpoint:"*, (http://checkpoint.riag.com).

We are confident about our ability to service companies in this area of business. Please contact GLO for a complimentary consultation at your convenience.

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GERMAN BUSINESS TAX REFORM 2008

In summer 2007 the German Government passed the bill of the business tax reform 2008. The following is a very brief introduction to the changes in law, which are important for international investors in Germany.

The current rate of taxes on income for corporations amounts to about 39%. This rate includes corporate income tax of 25% (plus solidarity surcharge of 5.5%) and trade tax, which depends on the municipality where the company is established or the where the business is located. The most important issue of the tax reform 2008 is the reduction of the rate for taxes on income for corporations from the year 2008 onwards. The taxes on income shall be reduced under the level of 30%. This amount is a combination of corporate income tax and trade tax like in the past. The advantage of lower tax rates is combined with disadvantages regarding deductions of expenses.

The **corporate income tax** will be reduced to 15**%** from a current rate of 25%. To this we have to add the solidarity surcharge of 5.5%, therefore the effective tax burden amounts to 15.83% (15% x 1.055).

The **trade tax** shall be reduced. The final reduction depends on the municipality where the corporation is established or where the business is located. The calculation basis for trade tax in Germany is a factor of 3.5% of the taxable profit, which shall be reduced from the current factor of 5%. This amount is the basis for the municipal factor. The minimum municipal factor starts with an amount of 200% and increases up to 490%, like in Frankfurt/Main and Munich. Example: in case of a taxable profit of 1 million EUR the range for trade tax amounts to 70,000 EUR up to 171,500 EUR (1 million EUR x 3.5% x 200% or 490%). The big disadvantage is that trade tax shall not be deductible as a business expense under the tax reform like in the past. Additionally a certain percentage of the following expenses has to be added back to calculate the assessment basis for trade tax

Interests/payments to silent partners/pensions:	25%	of the payments
Lease payments/rents for long term moveable assets:	5%	of the payments
Lease payments/rents for long term immoveable assets:	18.75%	of the payments
Payments for royalties:	6.25%	of the payments

The **free float** level for tax exempt dividends increases from 10% to 15%. That means received dividends as part of business assets could be taxed with trade tax if the equity participation of the shareholder is less than 15%.

The reform includes an **interest barrier**, which changes the German thin capitalization rules. The difference to the current thin capitalization rules (see sec. 8a CTA) is that the limitation is not only applicable to interest paid for shareholder loans but for all other loans including bank loans. The interest barrier is calculated on the basis of the balance of interest expense and interest income if the balance exceeds the amount of 1 million EUR. If the balance does not exceed the amount of 1 million EUR, the full amount is deductible. If the threshold of 1 million

EUR is exceeded, only 30% of a given business year's EBITDA is deductible. This limitation does not apply if the tax payer is not part of a group of companies (escape clause 1). In case of a group of companies the limitation does not apply if the taxpayer can prove that its debt-equity ratio is not higher than the debt-equity ratio of the other group companies (escape clause 2).

The regulations for **loss carried forward** will be tightened. It is intended that the limitation of loss carried forward shall be subject to the change of the shareholders. The new legislation provides a two-tier test:

- partial loss of the sum carried forward at transfer of shares or voting rights between 25% and 50% (partial loss in the amount of transfer);
- at transfer of more than 50% of shares or voting rights, there is total loss of sums carried forward.

A total loss of sums carried forward happens if, within a period of 5 years, shares of more than 25% are transferred directly or indirectly to a new shareholder or related entity. As soon as the 5 years period or the 50% threshold is exceeded, the loss is lost entirely.

The principles of **transfer pricing rules** take place for the first time in tax law, in sec. 1 art. 3 Foreign Tax Relations Act (AStG). If an entity maintains business relations to related foreign entities, the relations must be at arm's length. If business relations are maintained based on unusual conditions and these conditions lead to an erosion of German taxable income, an add back to the taxable income according to sec. 1 AStG will be applicable. The tax reform enacts detailed regulations regarding transfer pricing (e.g. limitation of margins) and especially basics for the taxation of transfers of business functions to abroad.

The tax reform brings important systematic changes for **partnerships** and **sole proprietors**. The taxation of sole proprietors and partnerships, and especially the tax rates for taxes on income from business and trade, as well as from self employment, shall on application be comparable to the taxation level of corporations. A major goal is to enhance the equity situation of unincorporated firms. A new sec. 34a EStG (Income Tax Act) is at the center of the new regulations. The basic principle is that accumulated profits, profits that are not drawn from the firm's capital accounts, may be taxed on application by the taxpayer with a reduced tax rate of 28.25 % of income tax plus 5.5 % Solidarity Surcharge thereon. To the extent that such accumulated and low-taxed earnings are withdrawn at any point in time thereafter, the withdrawn earnings must be taxed with an additional income tax of 25% plus Solidarity Surcharge. There is no option for tax payers with interest or dividend income to elect the normal tax assessment procedure in order to achieve a lower tax assessment.

The taxation of **private investors' capital income** will change (effective Jan 1, 2009). Private investors are no longer subject to their progressive individual income tax rate (up to 45%) but instead subject to a flat tax of 25%. This flat tax takes place for investment income like dividends, interests and other income from financial products and for capital gains. The taxation of interests with a flat tax of 25% is an improvement. A disadvantage that has to be pointed out is that capital gains from moveable assets (especially financial products) are taxed independently of the period of ownership. The current situation (until the end of 2008) is that the capital gain of moveable properties is not taxed if the owner sells the properties after a period of more than one year.

If you have any questions please do not hesitate to contact me.

International Cooperation

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IMPRESSIONS FROM AN INTERNSHIP IN SAN DIEGO

Due to my studies at the University of Applied Sciences of the Austrian Chamber of Commerce in Vienna, I have to prepare a diploma thesis to finish my diploma program. During my studies I am working half-time in the Vienna office of Mr. Franz Schweiger, BF Consulting Wirtschaftsprüfungs-GmbH, as an accountant. One year ago Mr. Schweiger offered me the position of being his assistant as he is the Global Chairman of Integra International. So I got the great possibility to become a member of Integra International and participate in the conferences. At my first conference in San Antonio, Texas I got to know Steve Austin from Swenson Advisors and hearing him talking about SOX.

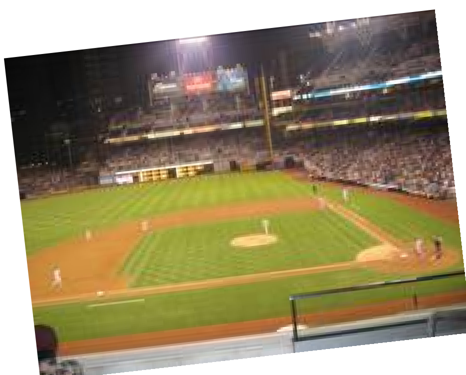
So finally I decided to write my final thesis on SOX – Advantages and Disadvantages for listed companies in Austria. Integra International opened its arms for me and so I worked for about 3 weeks in Steve's office in San Diego to gather experiences on SOX.

On my first working day I had a really great welcome in the office of Swenson Advisors in Murrieta. The second day was spent in the San Diego office where I was really surprised with the huge mountain of materials & newspaper articles on my table. That was really impressive - I didn't know where I should first start to look. I am so glad that I had the chance to get in touch with all of that material because it's so hard finding good materials on SOX in Austria in that wide range.

I also had the change to go to some of Steve's clients to see the practical side of SOX – seeing how walkthroughs are done and how the testing is proceeded. On that point I want to thank all of the Swenson team that never got annoyed answering all of my questions. I also conducted interviews with some of the Swenson team and some clients so I got a good impression about the SOX stuff going on in America.

But Steve didn't only give me good preparation for my thesis he also figured out a great after work agenda for me. I made it to my first baseball game; was introduced to interesting people living in San Diego; and attended an American church – so all in all I now have a great view about the people in San Diego and how work is done here.

I really want to thank Steve Austin and Franz Schweiger for giving me this great chance of an internship & also another thank to the great team of Swenson where I didn't just find colleagues but also find some good friends!



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IMPRESSIONS FROM AN INTERNSHIP IN LONDON

For the past two years, I have been working as an audit associate at the San Diego office of Swenson Advisors LLP. At Swenson, my work experience has consisted mainly of PCAOB audits, SEC financial reporting, and Sarbanes-Oxley compliance, as well as some private company audits and reviews. Earlier this year, Steve Austin suggested that it would be a good experience for me to do an internship overseas through Integra International. By working at one of our Integra offices, I would be able to learn about international accounting standards and financial reporting, as well as broaden my professional and cultural experience. The London office of Wilder Coe, Chartered Accountants agreed to host me during the summer internship. Before starting the internship, I participated in the Integra conference in San Francisco, California, where I first met the great group of Integra colleagues, including Mark Saunders from Wilder Coe, and I knew right away that it would be an incredible experience.

Through my work at Wilder Coe, I learned about UK GAAP and financial reporting in the UK and was able to visit clients and assist in carrying on audit work. I was given the opportunity to give a presentation on SOX compliance for the Wilder Coe audit team and partners. Also during my stay in London, I attended a week of meetings at the International Accounting Standards Board, which was surprisingly very interesting! It was great to experience the accounting standards-setting process and even see some lively accounting debates.

In addition to my professional experiences, I also had a fantastic time making a lot of new friends at Wilder Coe and experiencing the sights and nights that London has to offer. My colleagues were welcoming and they made sure I had plenty to do on the evenings and weekends: I went to musicals, museums, sightseeing tours, Wimbledon, restaurants, pubs, and even a charity dinner. And of course, Mark helped to expand my knowledge of cricket (if anybody is curious about the sport, he's the person to ask!). He also made sure that I experienced the delicious cuisine of the city, which means fish and chips and mushy peas, traditional English curry, and lots of tea and cakes.

While I was in Europe, I had the opportunity to visit friends from other Integra firms. On a trip to Germany, I visited the Integra office in Duesseldorf and met with Britta Koetteritzsch, who took me out for lunch and showed me around the city. I also visited with Bettina Lackermayer from the Vienna office when she came to London.

Overall, I have had an awesome internship experience and have been left with valuable knowledge and a lot of new friends. I hope that many of these internships within Integra will follow as this helps to bring our network closer together to better serve our clients and each other. I would really like to thank Steve Austin and Mark Saunders for such a great opportunity and thanks to the fantastic team at Wilder Coe!

PRESS RELEASE

LEVI & SINCLAIR are pleased to announce that Phil Levi has been selected as the Fraud Examiner of the Year by the 40,000-member Association of Certified Fraud Examiners, based in Texas. The award was presented by the Association's president, Jim Ratley, at the annual conference held in July in Orlando, Florida.

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