



Stöger & Partner
Wirtschaftstreuhand- und
SteuerberatungsgmbH

Oppolzergasse 6, 1010 Wien
T: +43 1 342 522 11
F: +43 1 342 522 17
wien@stoeger-partner.eu

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Press release

SINGAPORE AND IRELAND'S TAX REGIMES ATTRACT WORLD-BEATING LEVELS OF FDI

Europe's open economies outperform the BRICs

Belgium third in absolute terms

Singapore, Ireland and Belgium's favourable tax systems have helped them to outperform the rest of the world in attracting Foreign Direct Investment in the five years since the global credit crunch, according to a new study by UHY, the international accountancy network.

Over the period Belgium attracted Foreign Direct Investment equivalent to 91% of its GDP (a total of US\$442 billion), while Singapore attracted the equivalent of 74% of its GDP (\$203 billion in total) and Ireland 44% (a total of \$93 billion).

On average, countries have attracted FDI worth 17% of their GDP in the five years since the credit crunch.

The study looked at net FDI inflow over the last five years in 33 major economies around the world, measuring how successful they have been in attracting FDI compared to their GDP.

Winning Foreign Direct Investment provides an important boost to national economies, creating new jobs and tax revenues in the short term, and in the longer term improving productivity by helping to fund capital investment and making domestic companies more competitive.

UHY explain that Ireland and Singapore have been enormously successful in setting up favourable tax and regulatory environments that have encouraged companies to set up regional headquarters

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there. For example, Yahoo, Google, Apple, PayPal and LinkedIn all have European headquarters in Ireland, and Asian headquarters in Singapore.

Both Ireland and Singapore offer low corporation tax rates compared to other countries in their regions, as well as attractive transfer pricing arrangements for international groups. Singapore also offers a number of tax incentives for companies active in target sectors including shipping, commodities trading, fund management and biotechnology.

However, top place in the table was taken by Belgium, which has attracted net FDI equivalent to 91.4% of its GDP over the last five years – FDI totalling over US \$442 billion. In terms of the absolute amount of FDI received it was behind only the USA (which received over \$1 trillion) and China (\$563 billion).

Belgium has been particularly innovative in its use of tax legislation to attract international companies. While it has recently phased out the role of so-called ‘co-ordination centres’ for inter-company loans which helped companies to manage their global tax liabilities, it now hopes to differentiate itself by providing tax reliefs for companies that fund their businesses through equity rather than debt. In addition, Belgium has generous tax breaks for R&D and investment in capital goods, as well as fiscal incentives for hiring employees. Belgium’s attractiveness as a European HQ is reinforced by the access it offers to EU decision makers and its importance as a logistics location

The two bottom performing countries in the study were Italy and Japan: Italy attracted the equivalent of 3.1% of its GDP over the five year period, and Japan just 0.6%. Both can be difficult environments for foreign investors to acquire assets in. Germany also did less well than might be expected, ranking in the bottom five in terms of the value of FDI it attracted as a percentage of its GDP. UHY explain that the processes for establishing a company in Germany are complex, which can deter certain types of foreign investment.

Over the last five years, the USA and China pulled in the largest amount of FDI in absolute terms, though FDI represent a smaller share of their overall economies.

Ladislav Hornan, Chairman UHY, comments: “Small economies such as Singapore and Ireland can punch well above their weight by offering significant tax incentives to companies choosing to locate there.”

“But those tax incentives only work because they also have a well-educated workforce, strong infrastructure and the sophisticated ecosystem of suppliers that a multinational needs when they decide to locate to a country.”

“Although labour, real estate and energy costs tend to be far lower in emerging markets than in developed economies these figures show that developed economies that offer the right incentives, are able to attract in even higher levels of FDI.”

EU countries’ generally open economies allowed them to attract strong FDI inflows relative to their size, pulling in, on average FDI equivalent to 20% of their GDP over the period compared to an average of 10% for the BRIC economies. UHY say that despite the scale of the investment

opportunities in these growing economies, complex tax systems, unpredictable bureaucracies and limits on foreign ownership in certain sectors are proving a barrier.

Eric Waidergorn, Director of UHY Moreira Auditores, member of UHY in Brazil said: “Brazil is an exciting prospect for investors – it is a huge and growing economy with enormous mineral wealth and a young population that is becoming increasingly wealthy. Unfortunately, the practicalities of investing in Brazil can be off-putting. Our tax system is not well understood by overseas investors, certain sectors such as health-care are completely off-limits and there are restrictions on foreign ownership in others.”

“However, the national and regional governments are aware of the need to attract more FDI, and some overseas investors can enjoy exemption from certain federal and regional taxes. What is needed is simplification so that Brazil can put what is ultimately a compelling investment case much more clearly.”

UHY says that many other countries have put off foreign investment by actively discouraging the takeover of domestic companies by foreign investors. Egypt, Mexico and Spain are amongst the countries which have caps or outright bans on foreign ownership of companies or assets that are regarded as strategic, which may include nuclear power, oil, air transport, the media and defence industries or even agricultural land. In the USA, certain transactions may be scrutinised by the Committee on Foreign Investment in the United States to determine whether they are potentially detrimental to US national security.

Says Ladislav Hornan: “Although there are occasional setbacks to the process, the long term trend has been for more economies to open up to all kinds of FDI.”

“The benefits certainly outweigh the downside, and that is why governments in many developed economies place a great emphasis on ensuring that they remain attractive to overseas investors. In addition to tax incentives, that can include developing recognised expertise in high value and high technology industries, as Israel has done, or putting transport and other infrastructure in place that will encourage investment in neglected areas or assets.”

Alan Farrelly at UHY Farrelly Dawe White Limited, member of UHY in Ireland, commented: “The Irish tax system has been very successful in attracting Foreign Direct Investment. While maintaining low corporate tax rates has not been uncontroversial at a time when we have gone through a painful austerity programme, it has helped Ireland to create and retain a lot of highly skilled jobs.”

Franck Narquin, partner at UHY GVA, member of UHY in France, which came in 25th place out of the 33 countries, added: “The French Government is aware of the need to attract more FDI, and has drawn up a ‘National Pact for Growth’, to help achieve this. France already has great strengths in areas like science and offers generous research tax credits, but there needs to be more focus on cutting red tape and reducing labour costs.”

	Country	Total FDI inflow 2008-2012 US \$ million	FDI as % of GDP
1	Belgium	442,255	91.4%
2	Singapore	203,336	74.0%
3	Ireland	92,851	44.1%
4	Estonia	6,897	31.6%
5	Uruguay	11,139	22.7%
6	Croatia	12,744	22.6%
7	Peru	42,283	21.5%
8	Israel	42,487	16.8%
9	Romania	26,458	15.6%
10	Australia	231,209	15.2%
11	Nigeria	38,942	14.8%
12	Czech Republic	28,429	14.5%
13	United Arab Emirates	39,968	14.5%
14	United Kingdom	329,419	13.5%
15	Spain	181,839	13.5%
16	Malaysia	39,957	13.2%
17	Russian Federation	261,034	13.0%
18	Brazil	251,445	11.2%
19	Canada	200,100	11.0%
20	Egypt, Arab Rep.	24,908	9.7%
21	Argentina	44,024	9.4%
22	India	165,654	9.0%
23	Austria	34,694	8.7%
24	Mexico	100,039	8.5%
25	France	185,670	7.1%
26	Netherlands	52,728	6.8%
27	China	563,111	6.7%
28	New Zealand	11,179	6.7%
29	United States	1,042,432	6.6%
30	Germany	143,499	4.2%
31	Denmark	9,769	3.1%
32	Italy	62,369	3.1%
33	Japan	35,090	0.6%
	Global Average		17.1%
	BRIC average		10.0%
	EU average		20.0%

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NOTES FOR EDITORS

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PRESS ENQUIRIES

Ing. Jana Vichrová

Head of Marketing & Business Development

T: +43 134 252 211

jana.vichrova@stoeger-partner.eu

www.stoeger-partner.eu

UHY press contact: Dominique Maeremans on +44 20 7767 2621, Email: d.maeremans@uhy.com - www.uhy.com

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