

TMF
GROUP

Global reach
Local knowledge

**GLOBAL BUSINESS
COMPLEXITY INDEX
2021**



Bringing **clarity** to the complexities
of doing business across borders

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WE MAKE A
COMPLEX WORLD

SIMPLE

FOREWORD

I'm delighted to be able to bring to you our 2021 Global Business Complexity Index, looking at differences in the rules and requirements for doing business in 77 jurisdictions around the world. Those jurisdictions cover just 32% of the total country count, but capture the world's largest economies and investment hubs, representing 71% of world population, 92% of world GDP and 95% of net FDI inflow.

As was the case in 2020, our 2021 report is written in the shadow of Covid-19 and the disruptions to travel, trade and health that it has brought. One small action on our part to help our clients was to list government support schemes, covering more than 1,300 such schemes around the world. Against that difficult backdrop, attracting and encouraging business investment remains a critical driver of the world economy and local prosperity, and we at TMF Group are pleased to play our part in encouraging simplification by regulators and governments.

One such simplification in discussion as we go to print are the G7/OECD minimum corporate tax proposals. While our assessment of fiscal complexity is about tax *rules* rather than *rates*, we have taken a brief look at the correlation between corporate tax, complexity and the investment different jurisdictions attract. A number of offshore locations (or 'tax havens', in G7 parlance) are low in complexity and high on corporate tax rate. Tax is a complex subject, and there are often big differences between headline and effective rates. It nevertheless suggests that other factors, like ease of doing business, underline their appeal often to funds rather than to corporates and that their predicted demise as a result of the G7 proposals may well be overstated. Seen purely as a simplifying device, we also note that other global standards like IFRS tend to have partial adoption and end up adding a patchwork layer to local rules for firms to obey, rather than creating a net simplification.

Looking ahead, we see no shortage of geopolitical tensions for firms to factor into their investment and operating decisions. There is continued debate over the UK/EU trade agreement, focusing primarily on the Irish border, and economic nationalism prevails in many parts of the world. The big topic is relations between US and China, the world's two largest economies and sources of FDI. A tense relationship is likely to worsen given the US government review of the origins of Covid-19. Indeed, the investigation may act as a catalyst for a much more overtly bipolar world economy, with countries and companies having to pick sides in terms of rules, infrastructure and markets. Firms required to straddle that potential divide may well need to consider permanent establishment as a protection against barriers ahead.

Regardless of those macro considerations, many of our clients operate in multiple jurisdictions, enjoying the access it brings them to markets for their goods and for talent. A continuing observation, from our now eight years of reporting on complexity, is that some of the most attractive markets to operate in are both the most complex and the most punitive for getting things wrong. Firms typically have a small number of large bases, often in relatively simple locations in which to operate. They then have a long tail of offices at lower scale in more complex locations. That exposure caused by their 'complex tail' is where risk concentrates. I hope that the TMF Group Global Business Complexity Index, and underlying insights into the rules and requirements for doing business in those locations, helps you stay safe.

Mark Weil
Chief Executive, TMF Group

INTRODUCTION

The Global Business Complexity Index 2021 provides an authoritative overview of the complexity of establishing and operating businesses around the world. It explores factors that drive the success or failure of international business, with a focus on operating in foreign markets, and outlines key themes emerging on the global scene and their associated local intricacies across 77 jurisdictions.

While 77 jurisdictions may not be geographically exhaustive, the locations included in this report are where most business is done. Besides representing 71% of the world's population, they account for a very large majority of global economic activity. Between them, they produce 92% of the world's total GDP, and are linked to 95% of net global Foreign Direct Investment (FDI) flows.

The GBCI 2021 takes into account 292 different indicators relating to business complexity, to provide an analysis of the global and local challenges that impact on the ease of doing business across the world. These data points are used to compile a global ranking of the 77 jurisdictions, based on the complexity of their business environments in terms of legislation, compliance, accounting procedures, tax regimes, human resources (HR) rules and payroll procedures.

Through analysis of both the quantitative statistics and the qualitative in-depth examples within each jurisdiction, our study has revealed three global trends at play in 2021. For each, we have shown how the Covid-19 pandemic has impacted on the trend, at some times accelerating them and at others temporarily reversing them.



an authoritative
overview of the
complexity of
establishing and
operating businesses
around the world

3 GLOBAL TRENDS

1

The growth of responsible governance

Businesses across the globe are increasingly being encouraged to behave in a responsible, transparent and more socially minded manner.

2

Simplification through digitalisation

Governments across the globe are turning to digitalisation as a way to simultaneously adjust to the remote working world that Covid-19 has created and remove or improve the traditional processes that have long been a source of complexity.

3

International vs local complexity

The drive towards international alignment and cooperation between jurisdictions has clashed with local, often idiosyncratic, complexities. While the push for standardisation continues, via regulation such as CRS, UBO and FATCA, uptake varies globally.

At a time when the global economy is seeking to recover from the challenges it has faced in the past year, having a thorough understanding of global and local business complexity can help multinational organisations to mitigate further risk and manage their existing operational footprint compliantly. For those seeking to expand internationally, the rewards can be considerable if the challenges associated with complexity can be overcome.

However, the consequences for underestimating these challenges can be severe. Not complying with regulations can expose companies to penalties and sanctions, with individuals facing imprisonment in the most extreme cases.

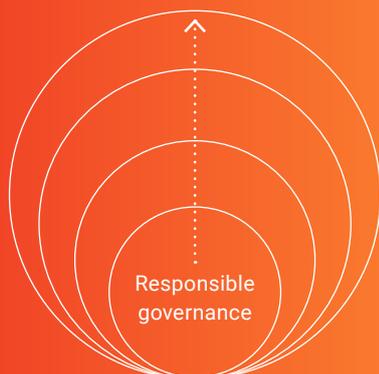
We hope that the Global Business Complexity Index 2021 serves to inform you and help you stay compliant, wherever you do business.

GLOBAL TREND

#1

THE GROWTH OF RESPONSIBLE GOVERNANCE

2021 has seen a renewed focus on ensuring companies are behaving responsibly with global operations. This extends across all business activities, from employing workers, to paying appropriate levels of tax, and ensuring their structure and behaviours are transparent.



Transparency requirements such as UBO and PSC steady since 2020

Operating with transparency is a cornerstone of responsible governance. Since 2020, the percentage of jurisdictions adopting ownership records remains stable, demonstrating that these transparency processes are consistent year on year.

The requirement to provide UBO and/or PSC information to a central register is highest in EMEA, where it is mandatory in 82% of jurisdictions compared to only 43% of jurisdictions in APAC. We see regional differences when it comes to maintaining a UBO and/or PSC register at the company's registered address, with 64% of North American jurisdictions requiring it, compared to only 30% of jurisdictions in South America.

Similar nuances are found with the accessibility of the UBO/PSC central register. In 41% of jurisdictions in EMEA, information in the UBO/PSC central register is accessible to the general public, compared to zero jurisdictions in South America.

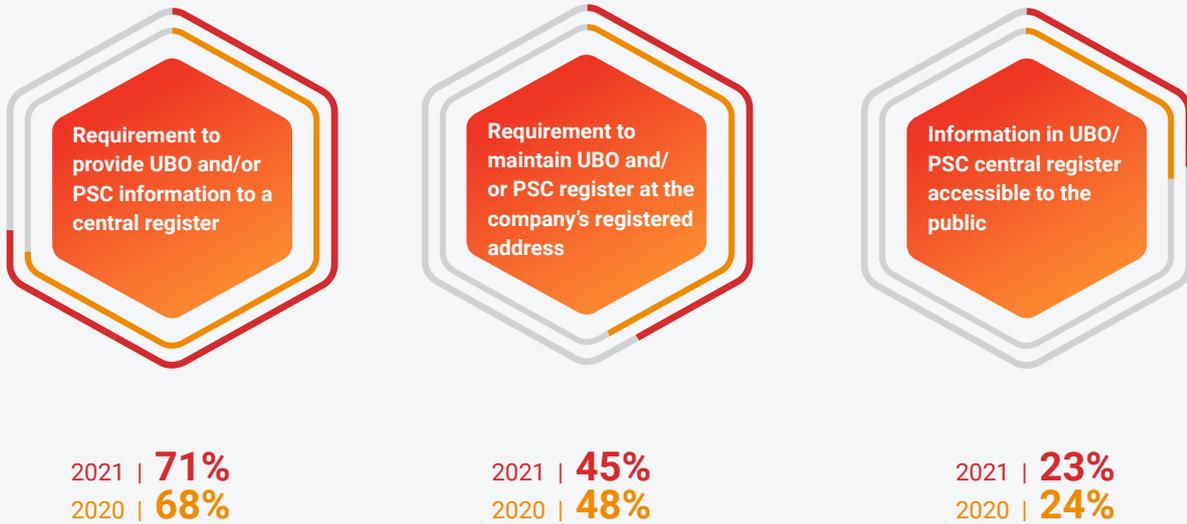
The shift away from traditional offshoring

In 2021, there has been a shift away from traditional 'offshoring' in some jurisdictions and an increasing global need for transparency among multinationals, which are being encouraged to pay tax in the jurisdictions where they conduct business.

In Curaçao, for example, economic substance legislation means that offshoring for tax benefit is no longer possible without a physical operation on the ground. In January 2021, economic substance rules were introduced for Curaçao Investment Companies (CICs) meaning that such companies must demonstrate that they are conducting core operations within the jurisdiction, such as having an adequate number of employees. This has impacted Curaçao in terms of attracting organisations wishing to offshore there.

However, moving wealth offshore to this jurisdiction is still popular for private individuals due to concerns about security in their home countries, such as those in South America that are experiencing issues with inflation and financial instability.

Percentage of jurisdictions where different requirements around UBO and PSC registers apply



The Philippines has seen similar changes with the introduction of the CREATE Act in March 2020. The CREATE Act subjects offshore units of foreign banks to a 25% corporate income tax rate, an increase on the previous rate of 10%. Such an increase could be off-putting for foreign banks looking to offshore in the jurisdiction.

Consequently, certain jurisdictions are making changes to take this offshore share from traditional 'major players' in the space. For instance, the Government of Hong Kong is working to create a leading funds industry and wishes to profit from the increasing legislation in traditional offshore markets, such as the Cayman Islands. Hong Kong therefore introduced a limited partnership fund regime in 2020, creating a quicker and simpler solution for offshore funding in the jurisdiction. The introduction of such incentives could mean that, in the coming years, we may see a shift in offshoring away from the traditional jurisdictions such as Curaçao and the Cayman Islands to emerging players such as Hong Kong.

**MORE
TRANSPARENCY**

Increasing mandated use of third-parties

Since 2020, the mandated involvement of a third party in a company's operations has become more common. For instance, in 2020 only 17% of jurisdictions required that an entity appoint a certified accountant and register them with the authorities, compared to 27% in 2021. A certified accountant should aim to reduce errors and mistakes related to tax returns and necessary documentation, meaning that entities are better supported and operate in a more responsible manner.

Local specialists are often available in-market to assist firms in complying with this local legislation. In the British Virgin Islands, for example, the use of a registered agent model in order to incorporate is mandated. Companies can rely on these agents to ensure they are complying with regulations and meeting standards within the jurisdiction. This support can also be less formalised, for instance

in Guatemala, where helplines and support are available to aid accounting and tax compliance. This ensures that large multinationals comply with often complex local regulations.

Penalties for non-compliance are getting stricter, especially in more complex jurisdictions

Alongside the more frequent requirement to work with third parties to ensure compliance is a global increase in the strictness of penalties for non-compliant businesses. Fines are the most common penalty imposed for accounting and tax misdemeanours, and in the case of doing business without being tax registered, the frequency of issuing fines has increased since 2020, with 93% of jurisdictions now imposing a fine for this, compared with 84% previously.

We have seen a link between complexity and stringency of penalties. In our top ten most complex jurisdictions organisations are significantly more likely to face the most stringent penalties. For example, in the case of doing business without being tax registered, 45% of jurisdictions globally would suspend an organisation's licence. This jumps to 60% of the most complex jurisdictions. This poses problems for those seeking to operate in more complex environments, as not only can it be more challenging to meet the varying legislation and regulatory criteria in place, but organisations are more likely to face penalties for wrongdoing.

Since 2020, there has also been an increase in fines when tax errors are identified on tax returns or in tax payments. In 2020, 39% of jurisdictions reported that if an organisation voluntarily corrected its tax return or payments, it would not be fined. This has decreased to 27% of jurisdictions in 2021, showing that globally the response to inaccuracies is getting stricter.

While we have observed this global trend, it should be noted that the Covid-19 pandemic has resulted in some jurisdictions temporarily relaxing some deadlines and penalties. This was the case in New Zealand, Singapore and Bulgaria, where certain deadlines were extended and some penalties relaxed during the pandemic. In most instances, however, our experts predict that penalties for non-compliance will continue to become more severe.

Percentage of jurisdictions where accounting standards and tax requirements apply



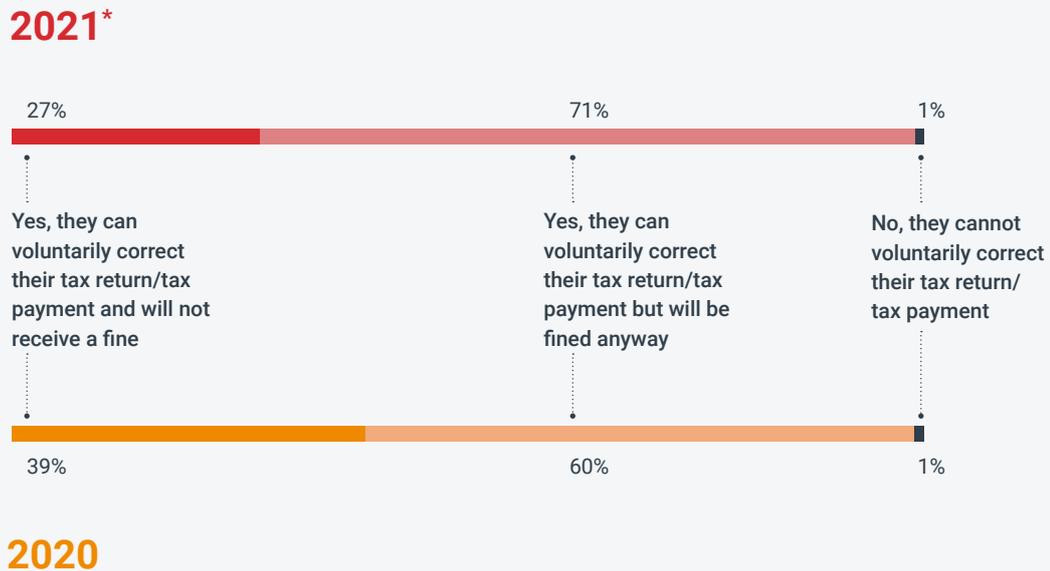
Penalties imposed in the case of...

		Fines	Suspension of activity	Imprisonment	Licence suspension	Prevention from doing further business	Other	None of the above
Doing business without being tax registered	2021	93%	68%	39%	45%	47%	8%	3%
	2020	84%	57%	43%	36%	34%	12%	5%
Missed deadlines for tax filings	2021	97%	19%	10%	14%	13%	10%	0%
	2020	97%	20%	16%	14%	13%	13%	1%
Inaccurate calculations for tax filings	2021	95%	25%	22%	14%	18%	13%	1%
	2020	93%	13%	24%	9%	8%	16%	3%

Penalties imposed in the case of...
(10 most complex jurisdictions only)

		Fines	Suspension of activity	Imprisonment	Licence suspension	Prevention from doing further business	Other	None of the above
Doing business without being tax registered	2021	100%	80%	60%	60%	70%	10%	0%
Missed deadlines for tax filings	2021	100%	30%	10%	30%	20%	10%	0%
Inaccurate calculations for tax filings	2021	100%	10%	20%	0%	10%	20%	0%

Percentage of jurisdictions in which certain conditions apply to correcting tax returns



* Total is not 100 because individual percentages are rounded to the nearest whole number.

Non-compliance can have personal consequences for directors

Furthermore, the sanctions for misdemeanours or for failing to remain compliant can extend beyond punishments issued to organisations. The likelihood of individuals, most frequently company directors, being held liable is high globally. 89% of jurisdictions overall report that directors can be held personally liable for wrongdoing by their own company, but there is some regional variation. Whereas directors are always held personally liable by companies in EMEA, this is only the case in 69% of jurisdictions in North America.

As for directors being held personally liable by authorities, the percentage is consistent at 88% overall; North America and APAC are the regions where this is less likely to be the case (79%). The penalties handed out to individuals vary between individual jurisdictions, but in the most extreme cases, directors can be punished by imprisonment.

Employees have gained more protection as businesses are encouraged to be responsible employers

There has been a shift as industrial relations are now becoming more employee focused than ever before. This is, in part, related to the Covid-19 pandemic leading to huge uncertainty for businesses and authorities. Some jurisdictions responded to meet the needs of employees and offer them protection during this challenging time. For example, in Denmark the government recently revised the Working Environment Act (updated May 2020) which ensures that the physical and psychological environment for employees is both safe and suitable.

In line with this shift toward a more employee-focused workplace, since 2020 it has become more difficult to dismiss employees without citing a reason. It was permitted in 29% of jurisdictions in 2020, dropping to 20% in 2021.

Ability to dismiss an employee without citing a reason
– shown globally and regionally for 2020 and 2021



2021 | **23%**
2020 | **64%**



2021 | **0%**
2020 | **0%**



2021 | **70%**
2020 | **80%**



2021 | **13%**
2020 | **13%**

Looking at this shift at a regional level, we see that the change is driven by both North and South America. In 2020, 64% of 14 jurisdictions in North America permitted the dismissal of employees without a reason, dropping to 23% in 2021. In South American jurisdictions that figure decreased from 80% to 70% .

In Argentina, this has been taken a step further. Due to the Covid-19 pandemic, the Argentinian government has made it illegal to dismiss employees, for any reason. This means that, throughout the period of economic uncertainty following the pandemic, Argentinian employees have had total job security, regardless of their individual performance or the performance of their organisation. While this is clearly a pandemic-driven outlier, our experts predict that employers will continue to see the rise of pro-employee legislation, which simultaneously encourages companies to act responsibly in their local communities and increases the level of complexity that they must navigate.

Since 2020 it has become more difficult to dismiss employees without citing a reason.

It was permitted in 29% of jurisdictions in 2020, dropping to **20%** in 2021.



GLOBAL TREND

#2

SIMPLIFICATION
THROUGH
DIGITALISATION

In 2021, we've continued to observe the trend of simplification through digitalisation on a global scale. This has, in part, been accelerated by the Covid-19 pandemic, which has rendered physical procedures impractical. We have seen the dual forces of a decline in the requirement of in-person processes, combined with the rise of technologies and automation as enablers of simplicity.

↑
rise of technologies
and automation as
enablers of simplicity

↓
decline in the
requirement of
in-person processes

Digitalising the relationship
between businesses and the state

This year, the requirement of a physical stamp, chop or seal for legal entity documents has substantially declined, with only 38% of jurisdictions globally now necessitating this in-person officiation (vs 43% in 2020). In South America, where the requirement of physical processes is higher, Covid-19 has caused significant delays and highlighted the antiquated nature of such requirements. For example, the timeframes for incorporating businesses in Colombia, Guatemala, and Argentina have increased, as certain documentation can only be approved during in-person appointments.

Elsewhere, Covid-19 has sped up the process of digitalisation, with authorities in Portugal, Paraguay, India and the Dominican Republic temporarily permitting digital signatures. In Portugal, at least, it is predicted that this step towards digitalisation will be a long-term change which will last beyond the pandemic.

Jurisdictions where official entity documents require an official stamp, chop or seal to be legally effective.

2021 | **38%**2020 | **43%**

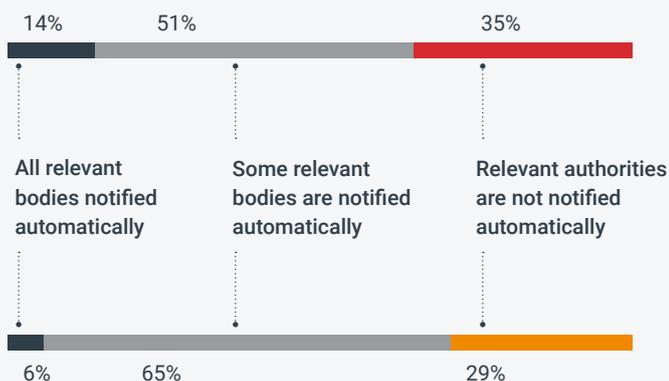
State investment in digitalisation

2021 has also seen an increase in the automatic notification of relevant state authorities when incorporating a company, rising to 14% of jurisdictions globally where all authorities are notified. EMEA and APAC lead the way in this transition. One good example is Mauritius, where an online platform has been introduced to ensure smoother coordination between various government bodies and to reduce processing downtime during incorporation.

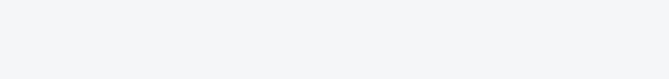
Meanwhile, we've seen a growth in online portals being introduced for the electronic submission of documents. It is now compulsory for tax invoices to be uploaded via an online system in 27% of jurisdictions globally (vs 24% in 2020). South America leads the way in this respect, with seven out of ten jurisdictions already having an online portal in place.

Percentage of jurisdictions where other relevant authorities (eg tax, payroll, industry-specific bodies) are notified automatically as part of incorporation

2021

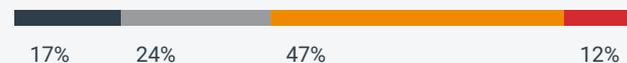


2020



Percentage of jurisdictions where it's compulsory for tax invoices to be issued in an electronic format

Overall



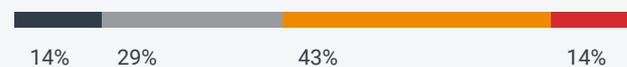
North America*



South America



APAC



EMEA



■ Compulsory for all ■ Compulsory for some
 ■ Not compulsory ■ N/A

* Total is not 100 because individual percentages are rounded to the nearest whole number.

While online systems are intended to simplify processes, it is common that they will lead to an initial short-term increase in complexity, especially if authorities lack alignment. In Turkey, for example, each authority is using a different technology platform, resulting in an increased demand on businesses to familiarise themselves with a variety of separate portals. Elsewhere, jurisdictions such as Poland and Hungary require that all businesses must submit documents in their local language. This adds to complexity for foreign businesses.

Differing approaches to digitalisation

Most jurisdictions can be mapped onto a trajectory of a gradual, lengthy and incremental process of digitalisation. The introduction of technological systems and phasing out of physical processes is rarely a smooth process, and businesses need time to adjust to these requirements.

In stark contrast, we've seen a minority of jurisdictions championing a rapid digitalisation strategy. By way of

an example, Indonesia has undergone the huge task of creating an Online Single Submission system (OSS). This all-at-once strategy has been highly problematic – a contributing factor to Indonesia placing 6th in the GBCI – and regular changes to legislation (eg the new Omnibus Law) must be updated in the system too. Yet this strategy does highlight that a gradual step-by-step process isn't the only possible route to digitalisation. And as jurisdictions compete globally for foreign investment through simplification, we may well see more governments following Indonesia's lead in embracing rapid digitalisation.

Whether embarking on a gradual or rapid digitalisation strategy, one thing is clear: the process will be arduous. Yet we're seeing mounting evidence that the results are worthwhile. Some of the most digitalised jurisdictions globally are proving highly attractive to foreign investment, and Covid-19 has further widened the complexities of operating in jurisdictions at extreme ends of the digitalisation spectrum.

The benefits of a digitalisation programme

The Netherlands has a digital incorporation system in place, meaning UBOs of companies can be identified digitally via scanned passports and aren't required to physically verify themselves in this jurisdiction. Its sophisticated digital infrastructure has allowed the jurisdiction to operate as normally as possible for incorporation processes throughout the pandemic.

The Republic of Ireland can also be looked to as a jurisdiction which has undergone an effective digitalisation process. The international investment has naturally followed, with Dublin being home to the European headquarters of Google. Interestingly, the Republic of Ireland is also in the process of implementing a broadband plan to establish a nationwide fibre optic network. This will ensure that the country can support a highly productive home-based workforce.

While technology is a tool to overcome physical boundaries, for island states or other geographically small jurisdictions, it is questionable whether full digitalisation is as much of a necessity. The Caribbean island of Curaçao, with a total area of 444km², is so small that visiting the offices of various authorities is a straightforward task. Similarly, the compact footprint of Luxembourg makes maintaining physical links between businesses and regulators or authorities simple.

Our expectation is that we will continue to see jurisdictions take steps to digitalise in the years to come. Covid-19 has highlighted the necessity of moving to a largely online infrastructure and will likely accelerate this global trend. As the pressure mounts to swiftly digitalise to compete for foreign investment, will more governments follow Indonesia's lead with a highly disruptive, yet rapid, digitalisation strategy?

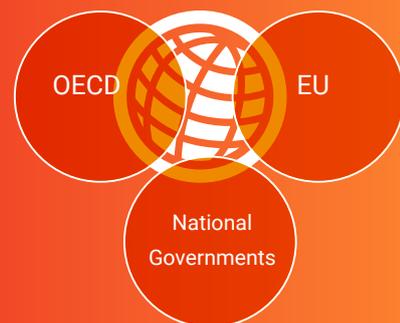
GLOBAL TREND

#3

INTERNATIONAL VERSUS LOCAL COMPLEXITY

As we have seen in previous years of the GBCI, regulations developed by international bodies continue to be followed by jurisdictions globally. The Organisation for Economic Co-Operation and Development (OECD) and the European Union (EU) are two such transnational bodies that coordinate international legislation, though national governments may sometimes dictate international practices.

International legislation is typically a result of the economic globalisation that has seen international trade expand rapidly in the past 50 years. As trading relationships have become internationalised, legislation has had to scale beyond national borders in order to regulate and govern those relationships. International legislation, therefore, often overlaps with the themes of responsible governance already covered in the report.



International reporting

The OECD's Common Reporting Standard (CRS) is a prime example of international legislation that aims to regulate international trading arrangements. The standard requires governments to share details of the accounts individuals hold in their jurisdiction with other participating jurisdictions, including information such as name, account number and balance. This communication between jurisdictions promotes transparency, making it more difficult for individuals and companies to hide undeclared wealth in jurisdictions beyond where they are based.

Our data shows that 83% of jurisdictions have now committed to the exchange of information under CRS, a slight increase on 82% last year. The uptake of CRS varies significantly by region, with the highest being in EMEA and APAC.

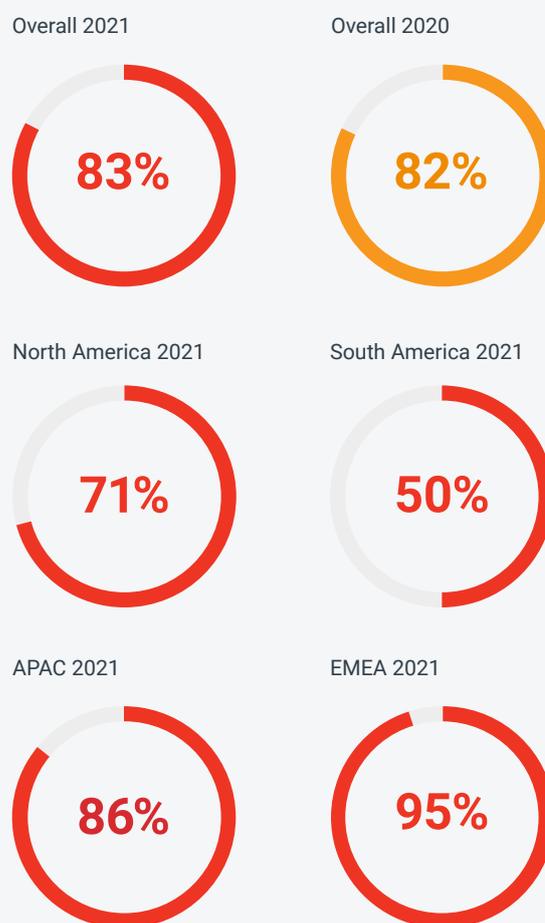
International laws introduce legislative complexity for businesses – in the case of CRS companies will be required to submit their account information to the authorities. However, complying with international legislation can also have a reputational element for jurisdictions – Costa Rica, for example, complies with international laws (including the CRS) that many countries in Central America do not, resulting in a more robust reputation as a jurisdiction open to international business within the region. This has knock-on benefits for corporations looking to set up there, through a greater influx of international capital and trade.

Despite international customs making the global regulatory landscape more uniform, it's worth noting that many jurisdictions have 'specialisms'. Despite the Netherlands being a less favourable location for 'tax aggressive' structures than it was in the past, it is still a hotspot for setting up joint ventures due to the historic legislative infrastructure. As another example that geography is still important in an internationalised world, Curaçao is often the favoured location for wealthy South American individuals looking to hold investments abroad due to its proximity to the continent.

Dismantling complex local systems to open up jurisdictions

In addition to international legislation having further reach, individual jurisdictions are attempting to dismantle localised laws and decrease friction for international businesses looking to invest there. In some cases, this might be a large-scale, systematic restructuring, specifically with the aim of creating a simpler business environment for foreign investment, as is the case with Indonesia's Omnibus law

The percentage of jurisdictions that have committed to the exchange of information under CRS



reforms. In previous years, many sectors of Indonesia's economy had been closed off to foreign investment, while sectors that were open were categorised as part of an incredibly complex tax code system. The Omnibus reform has opened up sectors that were previously nationally regulated, and has reduced the number of regulated sector codes from 515 to 356. However, incorporating under the wrong code will still have tax consequences and may leave businesses liable to penalties. A similar 'ease of doing business' reform in the Philippines aims to reduce the administrative burden for entities – for example, even for minor processes such as obtaining a VAT refund, the number of documentary requirements was reduced from 65 to 41.

Efforts to improve the ease of doing business may be much narrower and more targeted in scope – for example, around language requirements for official documents. Data from the GBCI shows that jurisdictional governments are relaxing requirements around submitting documents in their local language, a process which adds complexity for foreign

businesses. While a majority of jurisdictions still require official documents for submission to local government and director/shareholder minutes to be submitted in their local language, the percentage of both requirements has decreased significantly since 2020.

Percentage of jurisdictions where the following documents must be submitted in the local language.

2021 | **78%**
2020 | **86%**



2021 | **59%**
2020 | **73%**



Local legislation dominates in some business areas

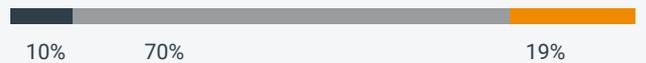
While progress towards a more internationalised business landscape is being made, there are certain areas of business management where international practices are very much secondary to local customs. For example, our analysis of accounting practices suggests that local accounting regulations are much more dominant than internationally aligned processes. In 57% of jurisdictions, all companies must adhere to a set of local Generally Accepted Accounting Practices (local GAAP). In contrast, the International Financial Reporting Standard (IFRS) is only required by all companies in 19% of jurisdictions. Furthermore, the percentage of

Percentage of jurisdictions where accounting standards are applied: IFRS, US GAAP, local GAAP

- This standard is not applied within the jurisdiction
- Companies may have to adhere to this standard, depending on certain criteria
- All companies must adhere to this standard

2021

IFRS*



US GAAP



Local GAAP



2020

IFRS



US GAAP



Local GAAP



* Total is not 100 because individual percentages are rounded to the nearest whole number.

jurisdictions where all companies are required to adhere to some form of local standard has increased since 2020, suggesting accounting practices are becoming even more localised.

Nevertheless, there may be opportunities for further alignment in the area of accounting and tax. The OECD is currently considering a requirement for jurisdictions to commit to a minimum corporation tax threshold, which would challenge and standardise the fiscal models of many jurisdictions.

Even within a jurisdiction, there is often legislative variation

Differences at the sub-national level can cause a significant amount of complexity for corporations. For example, during the incorporation process, while the national government is the most common authority that entities must notify in order to register, 27% of jurisdictions require notification at the provincial or state level, while 42% require notification at the city or local level. In some instances, jurisdictions may require notification at all three levels, essentially tripling the administrative burden of the incorporation process.



Sub-national complexity also varies between jurisdictions, as some have far more regionalised structures than others. Colombia has more than 1,000 municipalities, meaning it is difficult to avoid crossing municipal boundaries with the operations of a single business. As an example of the complexity that this causes, tax filings must be completed for each municipality in turn, meaning companies must keep a detailed, regionalised ledger of their transactions so that taxes are paid correctly in each municipality.

Regional complexity can also create opportunity for corporations, particularly in cases where some regions have preferential business environments. For example, the UK is rolling out freeports – regional trade hubs – where international businesses will be able to trade with more favourable tax rates on imported goods than in the rest of the UK.

The international and local complexities of assembling a workforce

In many ways, the pandemic has made the workforce less internationally mobile, notably by closing borders as national governments have attempted to keep Covid-19 at bay. At the same time, remote working has become embedded in corporate culture, meaning workers can easily log in from any location with just a laptop and an internet connection. However, current payroll legislation is very much set up for a pre-Covid world, meaning that any companies looking to take advantage of a more globalised workforce will also need to understand the administrative complexities of hiring overseas.

The size of a jurisdiction can also have a big impact on the hiring processes a company is likely to have to go through. In smaller jurisdictions, such as small islands, the local talent pool is often fairly limited, meaning that corporations may need to consider making foreign hires. In some cases, however, jurisdictions may recruit workers who have particular skills – despite being small, Curaçao has a highly specialised workforce made up of individuals with financial and legal backgrounds, due to the nature of business that takes place on the island.

In larger jurisdictions, cross-border difficulties may occur even within national boundaries. In the US, for example, income tax is filed state-by-state. Consequently, during the pandemic, many companies sought to hire workers from other parts of the country due to rising popularity of remote working, which led to more complex situations arising when calculating and reporting payroll.

THE GLOBAL BUSINESS COMPLEXITY INDEX RANKINGS 2021

	2021	2020
TEN MOST COMPLEX JURISDICTIONS	1 ^	Brazil (2)
	2 ^	France (12)
	3 ^	Mexico (13)
	4 ^	Colombia (8)
	5 ^	Turkey (11)
	6 v	Indonesia (1)
	7 v	Argentina (3)
	8 v	Bolivia (4)
	9 ^	Costa Rica (26)
	10 ^	Poland (34)
	11 ^	South Korea (17)
	12 v	China (6)
	13 v	Greece (5)
	14 v	Nicaragua (7)
	15 ^	Italy (36)
	16 ^	Kazakhstan (25)
	17 ^	Belgium (19)
	18 v	Ecuador (10)
	19 ^	Portugal (31)
	20 v	India (18)
	21 ^	Vietnam (24)
	22 v	Malaysia (9)
	23 ^	Slovenia (30)
	24 v	Peru (23)
	25 v	Panama (15)
	26 v	Russia (22)

PAGES
18-23

TEN MOST COMPLEX JURISDICTIONS



1 Brazil



While Brazil is the most complex jurisdiction in the GBCI 2021, it is also an attractive destination for investment given that it is ranked as the 13th largest economy in the world and has grown rapidly in recent years.

Complexity in Brazil is driven by a multi-layered system of governance, where federal, state-level and city-level authorities all have significant legislative power. Brazil is one of the few jurisdictions where incorporating companies must register with all three of these levels of government. Various taxes are also levied at each level of government, meaning that tax rates differ from city to city and state to state.

There are significant tax reforms taking place, but these are complex due to the tensions between the multiple levels of government. For example, the federal government is looking to increase VAT across the jurisdiction, but such sweeping changes can affect areas very differently, as economic wealth is concentrated in some of the more affluent cities and states. The devolved structure is therefore very difficult to navigate or unify, leading to complexity for multinationals.

Much of the labour law in Brazil dates from the 1940s, though reforms in the last five years have given employers more flexibility and seen some relaxation of strict unionisation requirements. These reforms allowed companies to hire contract workers without the same responsibilities as full-time workers, at a time when many jurisdictions are looking to restrict the use of contract workers. In addition, while all employees in Brazil were required to be members of a labour union, this rule has been relaxed in recent years.

While the country has been hit hard by Covid-19, the pandemic has modernised many business practices, such as allowing electronic documents for a variety of business activities. However, many businesses were slow to take up support packages provided by the authorities because they were often unclear, and companies were reluctant to commit to schemes that could potentially leave them with unknown liabilities in future.

“ The Brazilian Government has a comprehensive list of reforms that, once implemented, should facilitate doing business and attract international investors. ”

2 France



France's place as the second most complex jurisdiction is driven by complexities in accounting and tax processes, and heavily employee-centric HR regulations.

All accounting in France is subject to local language requirements, which can prove challenging to non-French speaking businesses. In addition, France has been one of the first jurisdictions to put the EU regulation of SAF-T (an electronic exchange for accounting data) into place. The French government has strongly endorsed a process of digitalisation, with all tax audits expected to be completed digitally in the near future.

“ Even though France still requires much administrative work to comply with requirements, the country is also encouraging investors through various schemes, such as temporary exemption arrangements for innovative start-ups and new businesses. ”

The French government is proposing more services in English to foreign investors on its institutional websites and has introduced the initiative of 'Business France' – a website to assist foreign companies in navigating the complexities of French accounting standards. Yet these standards are subject to constant change, with new financial laws being enacted each year. Moreover, the presidential election is scheduled for April 2022, with all tax audits expected to be completed digitally in the near future.

As a very employee-focused jurisdiction, France is also highly complex when it comes to HR and payroll. The conseil de prud'hommes – a specific court for employment litigation – rules in favour of the employee in more than three out of four cases. The government, however, has introduced a scale which allows companies to anticipate the amount they are likely to have to pay. Employees have a high holiday allowance, and staff benefits, including mandatory health and life insurance, must be paid monthly.

Covid-19 has further added to complexity with the introduction of chômage partiel (France's equivalent of the furlough scheme) which has been very generous to employees. Yet from an employer standpoint, this scheme has added complexity, necessitating updates to payroll software and the addition of tax credits or postponed payments.

3 Mexico



Mexico moves up ten places in this year's rankings to number three. Major drivers of this increase in complexity are the need for in-person interactions with the state, and a reliance on hard copy documents in order to incorporate. These factors have been compounded by the Covid-19 pandemic.

However, it is worth noting that the need for in-person interactions is more limited when it comes to accounting and tax, hiring or dismissing employees and payroll. Furthermore, with the effects of the pandemic beginning to ease in the jurisdiction, these processes should become simpler over the next year.

In order for foreign businesses to incorporate, Mexico requires that documents are provided in hard copy and need to be notarised in their country of origin. This means, for instance, that businesses coming from the US must send the required documentation back to the US to be notarised, before being returned to Mexico. Prior to the pandemic, this process would take around a week. However, in light of the crisis, this can now take over a month.

“ Regulations and processes in Mexico may seem excessive and lengthy at first glance. Tradition and different interpretations of how to apply regulations are common. But with the right knowledge and understanding, investors can navigate complexity and realise the benefits. ”

Furthermore, in Mexico in-person interactions are required to register with the authorities. During the pandemic, appointments have been hugely limited in order to meet Covid-19 regulations, meaning that waiting times for certain interactions can now be over two months. Businesses must also demonstrate that they have a physical company address in Mexico, in order to operate legally. It is not enough to simply have a virtual Mexican address.

Another factor that adds to complexity in the jurisdiction is the need to have a Mexican legal representative in order to incorporate. While foreign businesses do not need to have locally resident directors, they must have a locally resident legal representative. In the case of tax misdemeanours, this legal representative will be easily traced, providing a form of security for the Mexican authorities.

4 Colombia



Colombia is currently going through its eighth tax reform in the last ten years – which is indicative of the pace of change that companies must adapt to keep up with local legislation. Although there were no tax increases in 2020, the latest project of reform has currently been withdrawn for review, and will likely be submitted again.

“ Colombia is a growing economy and is emerging as a strategic point for the regional supply of reliable and quality goods and services, thanks to its strategic location. Colombia can take advantage of its extensive network of trade agreements, which allow it preferential access to more than 60 countries and 1.5 billion consumers around the world. Despite the complexity in taxes or regulated laws, Colombia is a great place to invest. ”

The key changes in the most recent tax reform project involve a requirement for certain sectors to pay more of certain types of tax. For example, the standard Value Added Tax (VAT) rate in Colombia is 19%, though some industries are on a lower tier of 5% VAT. Tax codes can also be quite granular – medicine systems providers have just been added as a sector where the 5% VAT rate applies in the latest reforms.

Colombia has become more digitalised in recent years. Following a process spanning the last two years, electronic invoicing has now been made mandatory for all companies. Sharing payroll information with the DIAN (tax and customs national authority) will also be electronic as of autumn 2021. Furthermore, the DIAN has also been increasing the use of technology in different processes, for instance, in the last few months the process of electronic notification has been regulated.

Following the Covid-19 pandemic, many banks in Colombia mandated electronic pension payments from corporate bank accounts to pension funds. This digitalisation was in place before the pandemic but was optional, whereas now it is fully mandated. Before digitalisation, employees had to manually ask for a cheque from the bank and present it to their pension provider.

5 Turkey



Turkey has moved into the top ten in 2021, up from number 11 in 2020. Compared to other jurisdictions, its accounting and tax regulations are particularly complex.

Turkey supports a highly localised regulatory system and enforces local language requirements – both of which prove challenging to foreign investors. Moreover, the government passes frequent legislative changes (most recently passing new legislation to restrict the finance cost relief that can be deducted from taxable income) and companies often must adapt within very short timeframes.

It is positive to see that Turkish authorities are engaging in a process of digitalisation, yet the absence of a collaborative cross-government approach is increasing complexity in the short term. Each authority has adopted a different technology platform, meaning businesses must learn to use and submit documents via multiple portals. It is hoped that this increased complexity is only a temporary uptick as businesses adjust and, in time, Turkey's digitalisation strategy will work to simplify the process of doing business within the jurisdiction.

6 Indonesia



Indonesia is a rapidly growing market that is demonstrating a commitment to opening up to foreign direct investment. The jurisdiction is currently undergoing a great deal of change due to the introduction of the 'Omnibus law', a sweeping set of reforms that aims to make the jurisdiction much more attractive to Foreign Direct Investment (FDI).

As part of the reform, one of the key changes is to open up various sectors of the economy that have previously been closed to foreign companies. However, even within the sectors that are open for business, there is a huge deal of complexity in terms of the filing structure in Indonesia: despite the tally decreasing from 515, there are still 386 regulated sectors into which businesses must be categorised. Businesses must identify their sector correctly in order to comply with the maximum foreign share ownership regulation. This also impacts whether a business can enjoy certain fiscal incentives, such as tax holidays, tax allowances and import duty exemptions, or non-fiscal incentives, including support in obtaining business licenses, work permits, energy, raw materials, labour and infrastructure. This task is not easy, given that the definition of many sectors is open to legal interpretation.

Furthermore, the Omnibus law is largely principle based, meaning that much of the detail of the law has not yet been worked out in practice. For example, there have been updates to labour law legislation affecting disciplinary action, temporary contract employees, working hours, overtime and rest periods, but these laws sit on top of the previous labour law reform introduced in 2003. Understanding how these regulations interact will be determined by official guidance, as well as precedents set by future court cases.

Many laws have been applied retrospectively. For example, the new law stipulates that contracted employees are also eligible for compensation payments from their latest employment term, leaving many employers with unexpected costs from hiring temporary labour.

“ The government is fully aware that in order to realise its vision of 'Indonesia 2045', there is an absolute need to significantly change the country's regulatory landscape. Through the issuance of the Omnibus Law, the government has demonstrated its commitment to creating an open and transparent business atmosphere, to make Indonesia an attractive and sound investment destination. ”

7 Argentina



The key drivers of complexity in Argentina are constant legislative changes, difficulty sending and receiving foreign currency and high levels of inflation.

In December 2019, president Alberto Fernández was elected. From that point onward, there have been a series of rapid, and sometimes unpredictable, legislative changes in the country. One such change, brought about in response to the Covid-19 pandemic, is the inability to dismiss underperforming employees, meaning that Argentinians have had total job security throughout the pandemic. However, this adds significant complexity for businesses operating in the jurisdiction, as employees must leave a company of their own volition, or else the business can face massive penalties.

“ The key thing that foreign direct investors need to know about Argentina, is that it is a jurisdiction with a high number of constantly changing rules and regulations. TMF Group can help companies to remain compliant with these. ”

For those operating in Argentina, it can be challenging to send and receive money to or from abroad, as there are regulations in place that severely limit the international transfer of money. Any money that can be transferred, for example, to pay off import invoices, requires rigorous documentation, adding significant complexity for foreign businesses looking to incorporate and operate there.

Argentina is also facing issues with inflation, with the current rate sitting at over 50%. This is an important risk factor causing uncertainty for foreign businesses considering incorporating and operating in the country.

8 Bolivia



Complexity in Bolivia has been driven by a long process that began with a civic strike against electoral fraud in October 2019 and reached its peak with the Covid-19 pandemic, along with the assumption of a new government through elections, after a period of governmental transition.

Both the Covid-19 pandemic and the inauguration of a new government have accentuated complexities surrounding the functional immobility of workers. These factors compounded a workforce mobility situation which was already tricky. Due to the Bolivian Constitution and the existing labour legislation, employees who face a situation of dismissal can appeal to the Ministry of Labour to reinstate the position.

On the other hand, in some sectors, such as finance, the Bolivian government has begun to introduce measures to combat money laundering and tax evasion. These measures aim to instil best practices within the sector, in a bid to increase transparency.

Looking ahead, our experts predict that similar regulation will be introduced in other sectors of the economy, increasing the likelihood of Bolivia becoming a more complex place to do business in the coming years.

9 Costa Rica



Complexity in this jurisdiction is primarily driven by a need for businesses to demonstrate high levels of transparency. Costa Rica has seen significant fiscal reform, aimed at increasing transparency to combat tax evasion. It is also the first Central American country to become a member of the OECD. It is inevitable that these reform efforts will bring about additional requirements that increase the complexity for foreign companies seeking to operate in Costa Rica.

Another of the reforms adding complexity in this jurisdiction is the implementation of UBO legislation, enacted in 2019. Compliance with these regulations can entail a lengthy administrative process, which often requires local support.

However, despite the complexity in the jurisdiction, it is still an attractive destination for FDI. Amazon and Microsoft have large operations in Costa Rica and given their educated workforce, increasingly we see companies selecting Costa Rica for nearshoring operations. Although the need for transparency adds complexity, it also adds security, making it an attractive location for foreign business to establish operations.

Costa Rica has a free trade zone regime that has existed for more than two decades. Although the application process is complex, it has allowed the country to successfully attract foreign investors.

“ While the country offers highly qualified labour, it is important to note that Costa Rica is one of the most expensive countries in the region, in terms of production. Investors should carry out feasibility studies, in collaboration with professionals familiar with the current situation in Costa Rica. ”

10 Poland



Legislation in Poland often changes quickly, leaving businesses little time to react and implement changes in accordance with new laws. This has been exacerbated during the pandemic, which has brought about quick responses on the government's part to a fast-moving situation. For example, lockdown restrictions have been introduced and removed at short notice, while longer term law changes in response to the pandemic have stayed in place (eg economic relief packages), resulting in confusion about which laws apply at any given time.

“ All official documentation in Poland has to be submitted in the local language, sworn translated, or accompanied by an apostille certificate. Foreign investors should make sure they consult with professional legal and tax advisors to make sure they are aware of all requirements and obligations. ”

Some recently introduced laws have also lacked clarity in specific cases, such as the recent roll out of the Employee Capital Plans, a scheme that allows employees to invest part of their salary in shares and bonds. Employees of foreign companies should currently be covered by the plans but, as yet, there is no clear way for foreign companies to manage this for their employees.

The government is currently undergoing a process of digitalisation and has adopted electronic signatures. This is particularly noteworthy in accounting and tax, as companies are now required to submit financial statements electronically. However, Polish authorities currently don't accept many internationally accepted signature providers such as DocuSign, and instead require signatures from specific local providers, adding to complexity in the jurisdiction.

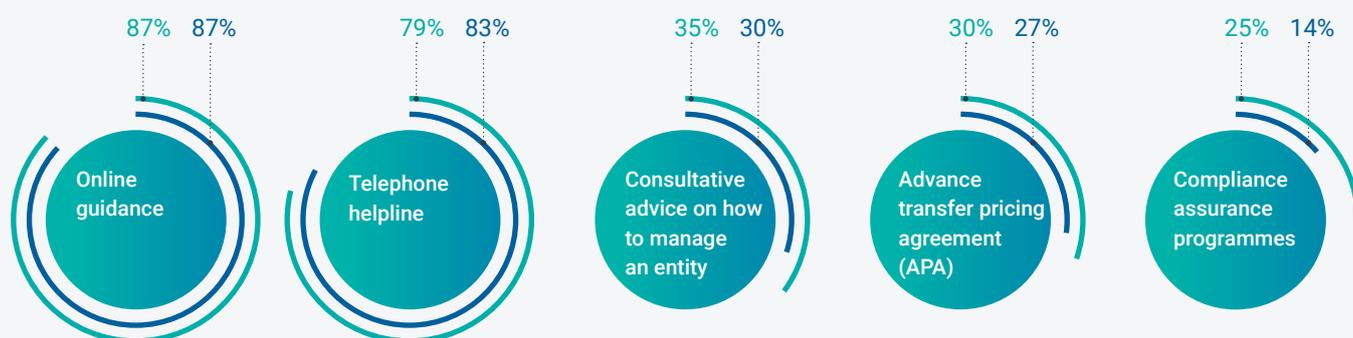
ACCOUNTING AND TAX



In many ways, 2020 was a year of unprecedented support for businesses, with governments making efforts to stabilise their economy. During 2021, support has gradually been phased out, with variation between jurisdictions depending on the local prevalence of Covid-19, as well as each government's approach. Challenging times lie ahead as businesses must learn to revert to a more 'business as usual' scenario without this support. In the area of accounting and tax, government support has focused on making tax administration simpler, while creating short-term relief via tax incentives, in order to help companies through the crisis. These measures do mean that there is likely to be an increased tax burden, or better tax enforcement, in the future to compensate for the increase in government spending.

Which of the following types of guidance can be obtained from local authorities about how to abide by local rules and regulations?

— 2021 — 2020



Tax administration

Governments have made an effort to simplify the processes of tax administration throughout the pandemic, particularly by offering companies advice and information in order to help them manage processes more smoothly. Around nine out of ten jurisdictions (87%) offer online guidance to companies in 2021, which is consistent with last year's findings. At the same time, eight out of ten (79%) offer a telephone helpline. This has slightly decreased from 83% in 2020, suggesting that some governments are phasing out these additional measures that were introduced during the height of the pandemic. Nevertheless, there is also evidence that some forms of support are now more widely available than a year ago, such as compliance assurance programmes, which are currently offered in a quarter of jurisdictions.

In a bid to attract foreign direct investment and reduce the friction that business may face, authorities are offering guidance through multiple channels. Many jurisdictions have services in place where advice is offered by phone, mail, or email, with some jurisdictions (such as Guatemala) offering webchat services. Other jurisdictions, including Spain and Australia, use artificial intelligence as part of these communication systems to more efficiently answer questions that prospective companies may have.

Improved access to guidance is not, however, always a solution to the underlying issue of complex and sometimes ambiguous legislation. In some jurisdictions, legislation can be unclear and open to interpretation, which is particularly common where new laws have been introduced but precedents have not yet been set. In the Philippines, it is difficult to understand the official interpretation of accounting and tax laws, as government officers themselves can have differing viewpoints, a situation that creates confusion and potentially deters foreign investors.

In markets with frequent revisions to the tax legislation, such as Chile, it is therefore advisable for businesses to consult with local advisors who can assist in interpreting new laws. In fact, a growing minority of jurisdictions are mandating that firms' tax returns need to be prepared by a certified advisor (17% vs 12% in 2020).

A key element of simplifying tax administration is digitalising tax processes, in order to make filings and payments more straightforward. This is not a new trend and is an area where we have seen continual progress over the last few years. Instead, Covid-19 has accelerated the existing tendency to simplify and digitalise processes and interactions between businesses and the state apparatus. As demonstrated in the chart below, companies are now able to pay nearly all taxes digitally. While electronic payment was common before the pandemic, the percentage of jurisdictions where taxes can't be paid electronically has fallen across many different types of tax.

In the last year, some governments have looked to eliminate redundant, duplicated or antiquated processes to reduce the time and effort involved on the part of businesses. For example, in Thailand, the Revenue Department and Ministry of Commerce now work using a single, unified VAT registration number, whereas they previously each had their own distinct systems and identifiers. Similarly, in Mexico, the submission of a Foreign Investment Report quarterly and annually is now by email instead of a physical submission directly to the Economy Secretary offices.

Other jurisdictions have fully embraced the use of digital portals through which businesses can interact with the local tax authorities. In Chile, the Internal Revenue Service, the local tax authority, has facilitated the payment of taxes and the presentation of documentation via its website.

Which of the following best describes how the following types of tax can be paid?

Corporation / income tax*

64% 36% 1%

Value-added Tax (VAT) / Goods and Services Tax (GST)

64% 36%

Sales tax

63% 37%

Capital gains tax*

62% 40%

National insurance contributions

62% 35% 3%

- It is mandatory to pay electronically
- It can be paid electronically
- It cannot be paid electronically

Payroll taxes

61% 36% 3%

Insurance Premium Tax (IPT)

56% 41% 3%

Withholding tax*

55% 42% 4%

Excise tax

53% 44% 3%

Property tax on business premises

37% 51% 12%

* Total is not 100 because individual percentages are rounded to the nearest whole number.

Digitalisation can substantially simplify the process that businesses are required to go through with tax authorities. However, in some instances it can actually have the opposite effect in the short term, introducing change and complexity. In Turkey, the Ministry of Finance has been working to digitalise most of its tax compliance processes, in order to improve the business environment for both local and foreign investors. This is making it more difficult to navigate in the short term, but it is believed this will be justified by the long-term benefits.

Tax incentives and relief

In response to the combined effects of the economic shock and social upheaval of the Covid-19 pandemic, tax authorities across the globe introduced short-term measures to ease the tax burden on companies. As well as making the administrative duties of accounting and tax simpler, authorities have simply waived certain tax payments, or extended deadlines in order to help businesses stay afloat during difficult times economically. Our experts expect these to be temporary changes to enable businesses to weather the storm, and do not foresee them remaining in place for the medium to long term. These changes do, however, indicate an agility and flexibility that was not previously associated with tax regimes, showing that there is an ability to rise to emerging challenges in an ever-changing world.

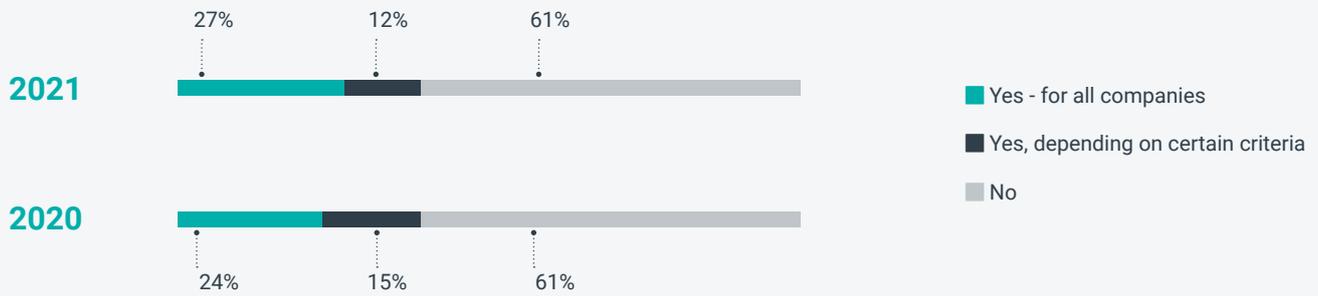
For example, in jurisdictions as widespread as Canada, Germany and Singapore, authorities introduced extensions to the deadlines for the submission of tax filings. Other jurisdictions took a different approach, with Switzerland opting to suspend penalties for the late filing of tax returns. However, it should be noted that this short-term approach to reduce the tax administration burden on firms was not universal: in Russia no extensions to tax filings were applied, so there is significant local variation.

Tax enforcement

Given the recent rounds of economic stimulus and relief across the world, our experts predict that there will be an increased tax burden for companies in the coming years, as governments look to reduce their budget deficits. This is likely to make the tax landscape more complex for multinational businesses to operate in, as the various markets in which they operate see changes to legislation to increase tax revenue, alongside greater scrutiny from authorities to enforce the payment of taxes.

Due to growing government deficits, many jurisdictions are putting additional pressure on transfer pricing in order to secure a larger portion of entities' profits for their tax bases. This is an important consideration, as taxpayers will need to evaluate the impact this will have on their businesses. This can result in the risk of 'double' taxation of the same income

Is it compulsory to upload the tax invoices on a tax authority's system/portal?



by two jurisdictions, or penalties for failing to properly allocate income among two or more jurisdictions.

In addition, increasing international alignment between jurisdictions could result in a global minimal standard of corporation tax: the OECD is currently considering a requirement for jurisdictions to commit to a minimum corporation tax threshold. As jurisdictions across the globe look to increase their tax revenues and historical 'tax havens' are encouraged to raise rates in line with their neighbours, multinationals should plan for a greater tax burden in the future.

With greater levels of government spending and reduced tax revenues resulting from the pandemic, authorities are placing greater emphasis on tax enforcement. In jurisdictions as varied as Sweden, Nicaragua and South Africa, our experts have observed a marked increase in the focus on auditing by tax authorities. In Thailand, to cite a specific example, a tax audit will be performed for every tax refund applied for by a company.

We have, however, seen a change in the notice period that tax authorities give to businesses: only 22% of tax authorities can conduct an audit with no notice, compared to 27% in 2020.

What is the notice period given by local authorities when performing a tax audit?



GLOBAL ENTITY MANAGEMENT

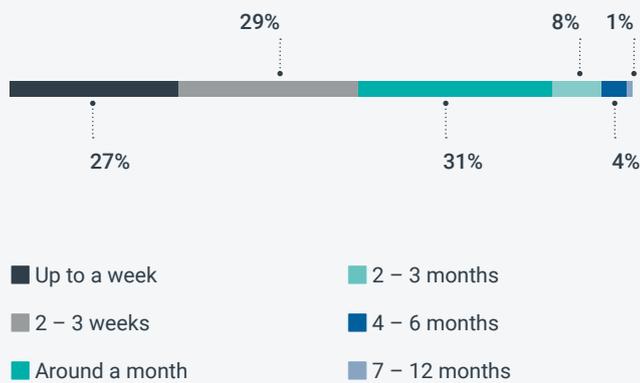
Global entity management (GEM) involves anything related to the creation and ongoing management of corporate structures. In an ideal world, local rules would be identical, allowing corporations to manage their portfolio of entities as part of a single cohort. In reality, processes for entity management vary hugely between different jurisdictions. The challenge for businesses is to be able to manage this local complexity while maintaining a strategic global view of entity management.



Incorporating companies and other entities

The first step in managing an entity is to set one up. Business thrives on fast-paced decision making – but the process of establishing a company, or other entity, varies massively between jurisdictions. This means that companies must plan ahead in order to get up and running within a viable timeframe.

Average incorporation time - private companies



In the majority of jurisdictions, a private company can be set up within a month. However, there are some notable examples where incorporation takes far longer.

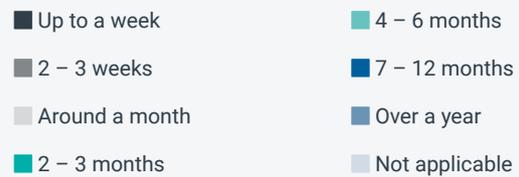


In contrast, some jurisdictions have very fast incorporation times, with some boasting the ability to set up an entity in 24 hours or less. However, even in these jurisdictions, this quick turnaround is often dependent on the specific requirements of the registering entities. In the Netherlands, while incorporation within a day is possible, the process is often drawn out longer than this, as entities usually require amendments to the articles of association, which specify the activities of the company, the responsibilities of directors and information on other internal affairs.

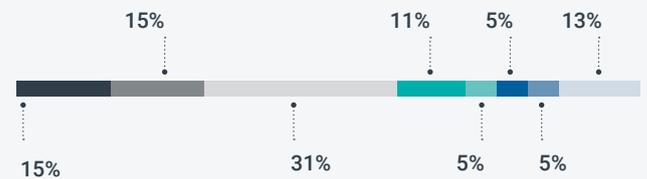
Other types of entities

Compared to private companies, other types of entities typically take longer to establish globally. For example, public companies (those listed on some form of public exchange) take longer on average due to the additional compliance burden of establishing a company that is in public hands – in 87% of jurisdictions private companies can be established in a month or less, while the same is true of only 61% of jurisdictions when it comes to public companies. Funds also typically take longer to set up than either public or private companies, regardless of whether those funds are regulated or unregulated.

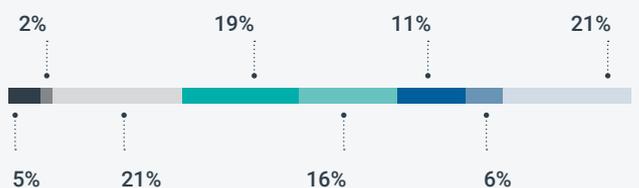
Average time needed to establish public companies, regulated funds and unregulated funds



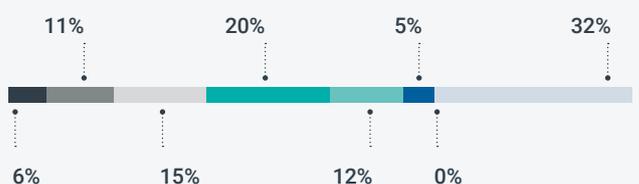
Public Companies



Regulated funds*



Unregulated funds*



* Total is not 100 because individual percentages are rounded to the nearest whole number.

Processes requiring registration with two or more bodies

Establish a regulated fund



Obtaining operating permits/licenses



Recruit employees



Open a bank account



Incorporating the business



Register the premises



Register with relevant social authorities



Register with tax authorities



From incorporation to full operation

Another aspect which influences the time taken to become operational is the number of authorities or other bodies that companies must notify. For example, many jurisdictions require specific authorities to be informed for particular areas of business operation. New entities may have to notify different bodies to recruit employees, obtain particular licences in order to operate in a certain sector, register their business premises, and so on. In the majority of cases, incorporation itself actually requires the notification of at least two authorities – ie there is not a single central authority for matters of incorporation.

Other activities also frequently require notification with two or more authorities, meaning the total number of notifications that companies must make can quickly add up. Interestingly, establishing a regulated fund is the area where the most jurisdictions require more than two bodies to be notified, perhaps explaining why the time to incorporate a fund is often lengthy.

There is also significant regional variation in the requirements around these processes. For example, for the process of incorporation, in South America an average of four to five bodies are required to be notified. In contrast, the average for all other regions is just two to three.

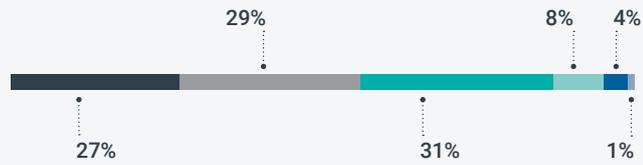
Private sector complexity

In some cases, delays to setting up may not come from the jurisdictional government, but private sector bodies such as banks. In many jurisdictions, banks are highly regulated, and undertake substantial checks before setting up entities with corporate bank accounts, particularly when accounts are opened from abroad. On average globally, setting up a bank account from abroad actually takes longer than the incorporation process.

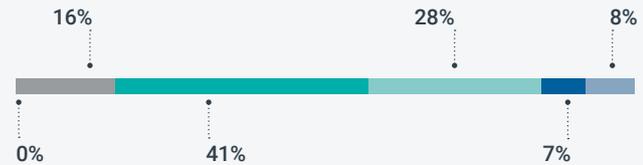
In some jurisdictions, there are vastly different timeframes for incorporation and opening a bank account. For example, in Malta, Hong Kong and the Netherlands, incorporation typically takes place in a week or less, while opening a bank account from abroad takes more than six months.

Average time needed to incorporate and set up a bank account

Incorporate a private company



Set up a bank account



- Up to a week
- 2 - 3 weeks
- Around a month
- 2 - 3 months
- 4 - 6 months
- Over 6 months

Personnel requirements for GEM

Many companies have a dedicated company secretary, a specific position for entity management within a particular jurisdiction. However, data from the GBCI 2021 shows that only 25% of jurisdictions globally require a company secretary by law, with 3% requiring a company secretary in some parts of their territory (eg particular states). But while the official position may not often be required, there is evidence that the responsibilities of entity management are becoming more professionalised. In 45% of jurisdictions, a qualification is required to prepare corporate changes or statutory submissions on behalf of a legal entity – rising from 37% last year.

In addition, it is not just internal staff that are required for entity management, as many jurisdictions require other professional parties or individuals to participate in or process procedures related to GEM. For example, as part of incorporation, notaries, attorneys, lawyers and banks are frequently required.

Four in five jurisdictions require some kind of third party to be present as part of the incorporation process, and this has remained stable since 2020. However, the percentage of jurisdictions that require notaries and attorneys has increased since last year. It's also worth noting that these third parties may themselves be subject to particular restrictions. In Mexico, for example, a legal representative is required who must also be a local resident of the country.

Percentage of jurisdictions requiring each type of professional party as part of the incorporation process

■ 2021 ■ 2020

Notaries



Lawyers



Other



Banks



Attorneys



None of these



HUMAN RESOURCES AND PAYROLL



Minimum wage, paid time off and paid sick days top three mandated benefits globally

The requirements for the provision of employee benefits have largely remained consistent since 2020, particularly more standardised benefits such as minimum wage, paid sick days, and paid maternity leave. There has been an increase in the requirement for paid time off, which is now mandated in almost all jurisdictions.

Looking at more progressive benefits such as childcare assistance and housing or social care contributions, there have been increases to the legal requirement of these benefits for permanent employees since 2020. This shift has been driven by jurisdictions in APAC and EMEA, demonstrating some regional changes since last year, and represents a trend towards a more employee-driven and supportive working culture.

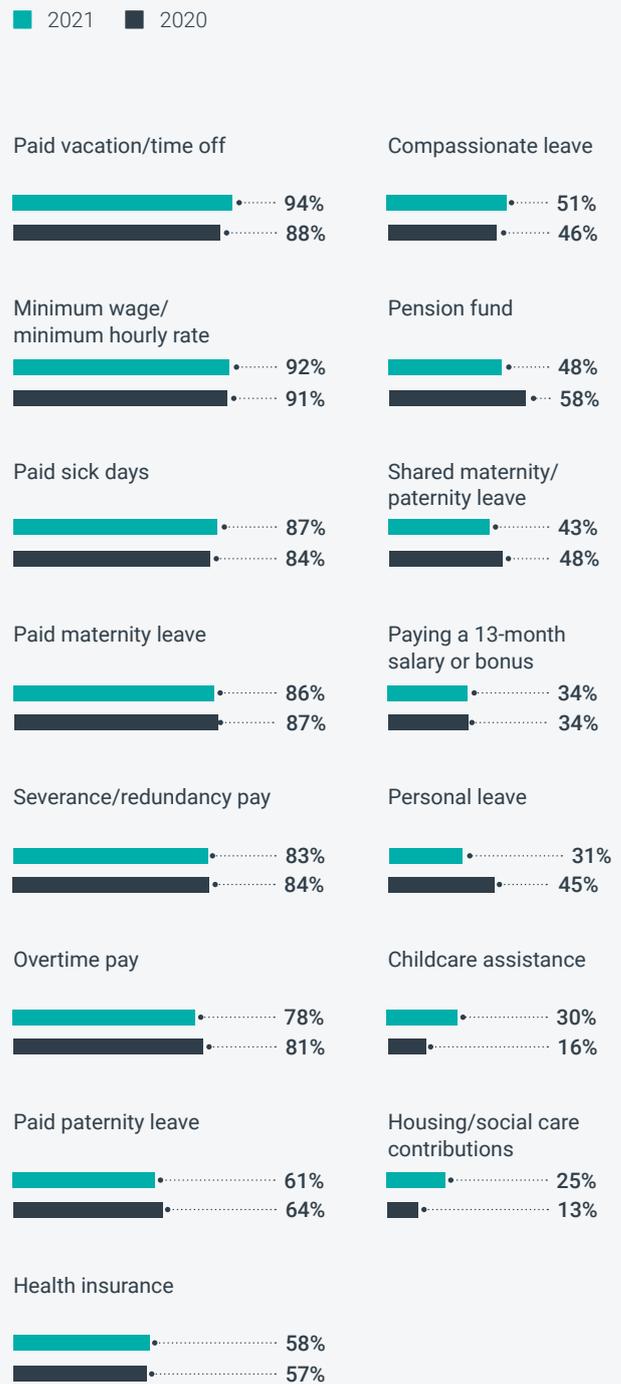
There are also some interesting regional differences when it comes to certain benefits. For example, South American jurisdictions lead the way in mandating 13-month salaries and paid paternity leave or shared maternity and paternity leave.

There are also some interesting jurisdictional nuances when it comes to maternity leave. In Bulgaria, for instance, maternity leave is 12 months long for all employees. In Mexico, the process of applying for maternity leave is digitalised, with employers and legal representatives able to submit approval for maternity leave online.

In Greece, there is a requirement to pay the equivalent of a 14-month salary in 15 unequal instalments, adding to complexity in this jurisdiction, which is ranked 13th in the GBCI 2021.

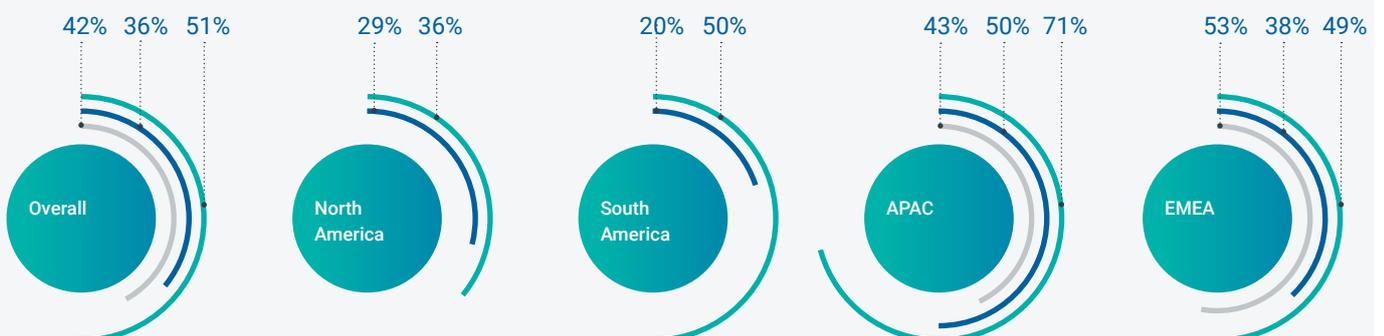
When looking at non-wage compensations, we see that these are increasingly subject to taxation, particularly in APAC. In 2019, 43% of jurisdictions mandated the taxation of non-wage compensations, rising to 51% in 2021.

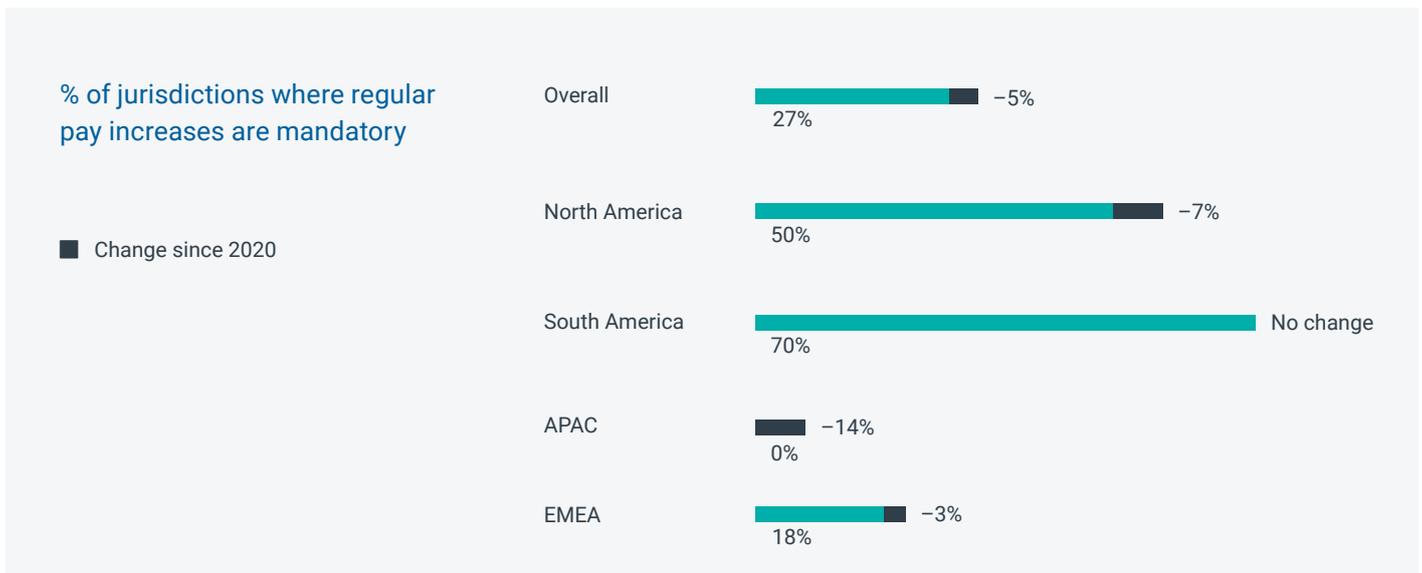
Benefits legally required to be offered to permanent employees



Are non-wage compensations taxable? (% answering yes)

2019 2020 2021





There is a global shift away from mandating regular pay increases, although it remains common in South America

In North America, 50% of jurisdictions mandate regular pay increases. This is also the case in 70% of jurisdictions in South America. No APAC jurisdictions and only a small percentage in EMEA mandate increases, demonstrating real regional differences in this area.

Since 2020, the frequency of jurisdictions in which regular pay increases are mandatory has decreased by 5%. The greatest change in this respect can be found in North America and APAC, where mandated regular pay increases have dropped by 14%.

However, a considerable number of jurisdictions are still mandating pay increases, in some cases to address issues caused by inflation, which has potentially worsened due to the impact of Covid-19. Luxembourg is an example where salary indexation is mandatory and based on inflation ratios.

Companies are increasingly required to provide employee reports to their governments

The percentage of jurisdictions where employee reports are required for all organisations has steadily increased for payroll data, individual pay, employee bonuses, details on foreign national employees and employee demographics. This demonstrates a move towards greater transparency. By monitoring this information, organisations are held accountable for how they support their employees and national governments can build reliable datasets on which to base policies.

While many of these types of reporting are now becoming commonplace globally, mandating the measurement of the

gender pay gap remains a rare move by governments. In Switzerland, for example, the government has taken steps to more closely monitor the pay gap by mandating that companies with more than 100 employees now need to complete regular pay equity checks.

In the UK, however, where gender pay gap reporting is enshrined in law, reporting has been put on hold until October 2021, to ease the workload for businesses and HR professionals during to the Covid-19 pandemic. Our experts believe this is only a short-term setback to what will gradually become more commonplace across the globe.

Looking at the frequency with which these reports are required to be submitted, we see that the more commonly required employee reports such as payroll data and individual pay are also the most frequently reported.

This frequent need for reporting can add to complexity due to the requirement for physical documentation in some jurisdictions. For example, companies in Honduras must present four-monthly reports that include pay reports that include salary information to different institutions, and they are generally presented as a hard copy, adding to the administrative compliance burden for companies operating within this jurisdiction.

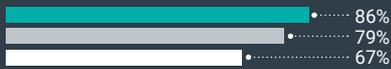
The most frequently considered parameters for gross-to-net payroll calculations

When it comes to parameters considered for the calculation of gross-to-net payroll, the most common is legal and HR-related updates, with 71% of jurisdictions reporting that this parameter is considered. The least common are socioeconomic factors, with only 13% of jurisdictions considering this.

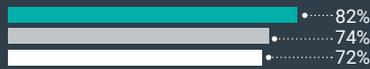
Percentage of jurisdictions where companies must provide reports on the following to government authorities.

2019 2020 2021

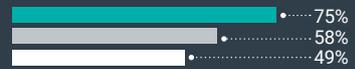
Payroll data



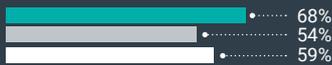
Individual's pay



Employee bonuses



Details on foreign national employees



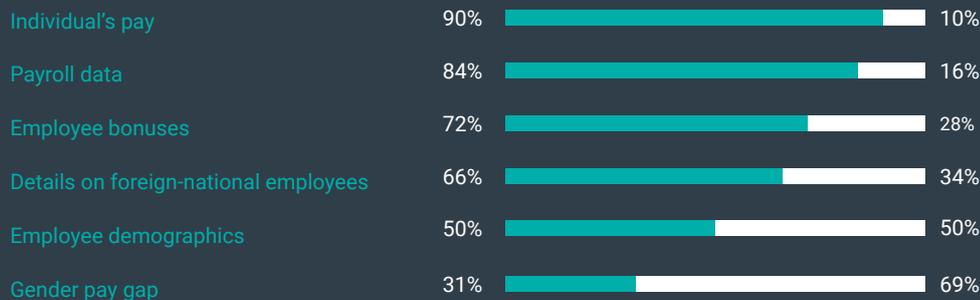
Employee demographics



Gender pay gap



Frequency of submission of employee reports where they are required in a jurisdiction in 2021



At least once every 3 months
Less frequent than every 3 months

Parameters considered for the calculation of the gross-to-net payroll in 2021

Legal and HR-related updates



Type of employee (eg gender, income)



Region or city



Retro-calculations



Number of payroll runs per month



Socio-economic factors



TEN LEAST COMPLEX JURISDICTIONS



68 Mauritius



Mauritius is a very attractive jurisdiction for foreign investment. The island is strategically placed as the 'gateway to Africa' and has strong trade links with India. Mauritius boasts a well-educated and bilingual workforce, and its political status makes it a highly stable and appealing environment for businesses.

However, Mauritius is currently on the FATF 'grey list' and has been identified as a 'high risk third country' by the EU. As such, transactions going through the jurisdiction are currently considered at increased risk of involvement in money laundering and are subject to extra scrutiny. In order to be removed from these lists, efforts are being made to bring Mauritius in line with international regulations. One example of Mauritius becoming more internationalised is its decision to align with the EU GDPR framework, despite not being located in Europe.

“ The legal and regulatory framework in place in Mauritius helps to secure the interests of foreign investors. Government institutions and highly qualified service providers can support the establishment and conduct of business activities here. ”

69 El Salvador



El Salvador has increased efforts to attract foreign investors and one of the elements driving simplicity in this jurisdiction are the less burdensome rules and regulations for foreign investors. For instance, the country has not implemented UBO legislation – something that can entail a lengthy process in neighbouring jurisdictions. This makes it simpler for foreign business to start up, but the jurisdiction is less aligned to international efforts in implementing legislation aimed at providing transparency in beneficial ownership.

Other drivers of simplicity are the ability to use US dollars as currency in the jurisdiction, and its solid banking sector. These make it more attractive to those coming from the US to operate in El Salvador.

Furthermore, the measures implemented in late 2020 and during 2021 in response to the Covid-19 pandemic, and the vaccination efforts being made, meant that business did not suffer additional lockdowns that were put in place in other jurisdictions in the region.

70 The Netherlands



While the Netherlands has traditionally been a haven for organisations looking for an advantageous tax regime, there are fewer entities setting up purely with this goal in mind, as global tax legislation has become less favourable. As an example, the jurisdiction keeps abreast with trends in compliance legislation – it has recently implemented an Ultimate Beneficial Owner (UBO) register, which came into force in 2020. Nonetheless, based on its legacy, the jurisdiction is considered a business-friendly environment, offering openness to international trade and a highly service-oriented culture.

The Netherlands is a highly digitalised environment. The recently introduced UBO register is already digitalised, with relevant individuals only having to submit a scanned passport copy in order to be identified – a process which can also be done from abroad. Board meetings are permitted digitally as well as physically. This digital ecosystem meant that the Dutch authorities coped well throughout the pandemic, with entities incorporated and operating in ‘business as usual’ mode.

The Netherlands is also an educated and highly skilled jurisdiction. There are a significant number of providers for any corporate service that new or expanding entities might need. Furthermore, much of the population is extremely proficient in non-native languages, particularly English, but also other European and global languages. This enables smooth interactions with authorities, but also gives companies a large and able workforce to draw on.

“ The Netherlands offers a very stable business environment and internationally focused infrastructure for investors. ”

71 United States



The USA has a very simple legislative environment, particularly at the federal level, though differences between states can add to complexity for businesses. The accounting system in particular is predominantly trust based, as there are no requirements to submit accounts, contrasting with other locations in the Americas where monthly reporting requirements are often incredibly detailed.

The incorporation process is simple and sequential, despite requiring communication with multiple levels of government. Companies are required to notify the local state government of their wish to incorporate, before requesting a tax ID from the federal government, which is usually returned in two days if the process is done online. The tax ID then enables a corporate bank account to be set up, meaning the entire process of getting a business up and running often takes around two to three weeks.

“ The USA has a set of federal regulations applicable to all entities, however investors need to remember that state legal, commerce, and tax regulations could vary significantly by state. A clear scenario analysis upfront, during legal and tax planning, is imperative to avoid unpleasant surprises. ”

However, regional complexity can come into play when it comes to ongoing entity management. Taxes are decided at state level, so there are different taxes paid in different states, as well as different thresholds for those same taxes. Income taxes are also levied at state level, so companies that employ workers across various states will have to keep track of local payroll practices – something that has become more common as remote working has become more prevalent throughout Covid-19.

There are possible distant changes to the tax system, with new president Joe Biden setting out an agenda of corporation tax increases, with the most business friendly states such as Delaware in his sights. However, any changes will take time to implement as they will have to be debated and ratified, giving corporations enough time to act.

72 British Virgin Islands



As with other island jurisdictions that appear at the least complex end of the GBCI, much of the business in BVI is focused around holding assets for businesspeople and wealthy families. Setting up a business for many different purposes is straightforward, and there is a great deal of flexibility in the legal structure of companies, allowing investors to tailor their investment vehicle to their own purposes.

“ The BVI offers quick and easy ways to set up structures, both for operational businesses and for holding assets. The flexibility offered here is ideal for demanding clients who work across borders. ”

Accounting and tax is a very simple area, with no corporate income tax, which simplifies accounts. There are no obligations for filing accounts, unless the business is in a regulated industry, which rarely applies to individuals looking to hold assets.

The legal infrastructure on the island is incredibly well established, with talented lawyers present and a range of firms to choose from, as the nature of business on the island often requires legal expertise (eg IPOs are frequently set up in the BVI).

Corporate processes are not fully digitalised – document seals are automated, but stamps are not. However, this is not a barrier to trading due to the size of the island. Much of the service-based and legal infrastructure is clustered around a small commercial centre, and the authorities are quick to turn around any physical documentation required.

73 Curaçao



Curaçao has traditionally been used as a financial centre for corporate entities with their operations predominantly based elsewhere. Global economic substance regulations mean this practice is fiscally almost impossible without moving the headquarters to Curaçao, but the jurisdiction remains an attractive destination for private individuals looking to manage their wealth offshore in purpose-built entities. Many of these individuals are from South America, for whom Curaçao offers a nearby and safe place to hold large investments. The jurisdiction also hasn't yet adopted a central UBO register, meaning that individuals aren't required to identify themselves as owners of the investment vehicles, which many prefer from a privacy and security perspective.

The island has a simple incorporation process, which typically takes around two days, and within the last four years tax filings have been digitalised. While not all aspects of entity management are digitalised, the small size of the island means that manual, in-person processes, such as delivering letters, are not arduous. The government also works collaboratively with industry leading companies to make changes to legislation, such as the recent discussions about reducing certain licensing requirements that have been in place since the 1970s, such as the requirement for a foreign exchange licence when opening a bank account in a foreign currency.

“ Curaçao is open to foreign investors and is one of the most developed islands in the Caribbean. We still advise using professional service providers when setting up your business, to make sure your business is fully compliant. ”

Compared to similar island jurisdictions, such as the Cayman Islands and the British Virgin Islands, Curaçao is slightly more complex in terms of HR and payroll. For example, individuals are required to pay income tax and various types of social security contributions in Curaçao, which they are not on the other two islands, meaning that companies will have to administer this as part of salary processing. Deregistering employees is also complex at the moment, as this is difficult to do before a company itself is dissolved and involves submitting complex administrative documentation to the labour authorities.

74 Republic of Ireland



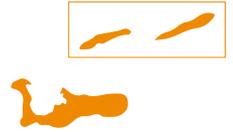
The Republic of Ireland is known for being an attractive location for investing in capital markets. The industry is long established, meaning that there is a wealth of local knowledge and talent, and regulators are keen to work with businesses to resolve issues. As a result of being in the EU, the Republic of Ireland has adopted many compliance initiatives including Anti-Money Laundering (AML) legislation and base erosion and profit shifting rules, which prevent companies routing their capital through the Republic of Ireland while being based elsewhere. It's also worth noting that capital markets investors often get 'caught' in these rules, despite them being aimed more towards traditional corporations.

Due to the UK leaving the EU, the Republic of Ireland is now the predominant English-speaking nation within the bloc, meaning it's an increasingly popular trade hub for those looking for access to the single market. Given that the legal structure is relatively similar to the UK, the Republic of Ireland is also a popular choice for UK-based businesses that are looking to set up ancillary offices in order to retain access to the single market.

Covid-19 has ushered in the rollout of electronic filing across the Republic of Ireland. The jurisdiction is also currently in the middle of implanting a national broadband plan, the aim of which is to ensure that all properties in the jurisdiction have access to high-speed fibre optic broadband. This plan is likely to be a great asset in the transition towards more home working, as businesses will be able guarantee that employees have access to high quality broadband connections within the next few years.

“ The Republic of Ireland continues to attract investment, whether that be in funds and capital markets or through the establishment of regional headquarters. Factors that make it so attractive include a stable and fair regulatory environment, competitive tax regime and a deep talent pool with language skills. ”

75 Cayman Islands



As a tax neutral jurisdiction, the Cayman Islands are extremely simple from the point of view of complying with accounting and tax regulations. Looking back at the 2020 GBCI, Cayman Islands had risen slightly to 69th position due to new legislation around local substance requirements which came into force at the start of 2020. Businesses are now familiar with these updates, and the Cayman Islands has returned to being one of the three simplest jurisdictions in the world.

“ The Cayman Islands remains very positive about foreign direct investment. It boasts a well-established legal and regulatory framework, tax neutrality and offers high-quality service providers. ”

The process of incorporating a company in the Cayman Islands is extremely quick and straightforward. The process typically takes two to three days, with an 'express option' of 24 hours available. Covid-19 has led to a slight extension of processing times within government departments, but overall the impact has been minimal.

A new parliament has recently been sworn into the Cayman Islands, and high on the priority list will be to get the jurisdiction removed from the Financial Action Task Force (FATF) 'grey list', which flags jurisdictions in which money laundering is not sufficiently legislated against. Compliance with all aspects of the FATF (focused on areas such as rule enforcement) will be reviewed in July 2021, and it is hoped that the jurisdiction will be removed from the grey list and avoid being added to the EU's own grey list.

76 Hong Kong



Considered the ‘financial hub of Asia Pacific’, Hong Kong is ranked as the second simplest jurisdiction to operate in globally.

A major factor behind this prestigious position is the highly structured and clear nature of HR and employment laws. For example, pension funds are mandated at a monthly saving of 5% of an employee’s salary, capped at HK\$1,500/month. This single rule makes it a very straightforward calculation for companies.

Hong Kong is a jurisdiction which has fully embraced globalisation and international alignment. In the area of accounting, for example, the jurisdiction follows the Hong Kong accounting principle, but this is closely aligned with IFRS.

“ Hong Kong has one of the most attractive tax systems globally: there’s no VAT, nor is there capital gains tax or dividend tax. Setting up a company here is relatively simple and quick, especially if done electronically. ”

While politically Hong Kong is part of China, the ‘one country, two systems’ policy has allowed Hong Kong to historically follow a separate legal system. There are mounting concerns that, as the US-China trade war increases, political tension with China and other countries around the world could also impact Hong Kong. It is a rapidly changing political landscape, and there is a risk that Hong Kong may be required to align more closely with China’s regulations, which could add significant complexity to the jurisdiction in the future, potentially deterring foreign investment.

77 Denmark



Denmark’s position as the simplest jurisdiction for doing business in 2021’s GBCI is driven by a straightforward incorporation process, high levels of anglicisation and a commitment to digitalisation.

In Denmark, you can incorporate a company within a day, due to the fact that there is one single entry point for all registrations, and all necessary bodies and organisations are automatically notified. This means that there is no need to conduct manual filings with the business authority and tax administration. The rapid incorporation process is facilitated by exceptional digital fluency in the jurisdiction.

The other key driver of simplicity in the jurisdiction is the fact that crucial documentation can be accessed and submitted in English. The Danish government is continuing to translate more and more aspects of their online services related to incorporation and operation, to ease processes for those more comfortable with the English language.

Denmark has also offered support packages to businesses struggling during the Covid-19 pandemic. However, it should be noted that applications to this support could be complex, showing the challenge that the pandemic represented to even the most simple of jurisdictions.

CONCLUSION

While Covid-19 has been the hot topic of recent months, the GBCI 2021 demonstrates that the world was already a very complex place outside of the pandemic. Much of the content covered in this report will remain salient after the pandemic has abated, though its significance is undeniable.

In some areas the pandemic has increased complexity, with closed borders creating barriers to trade and the movement of workers, and lockdown restrictions causing economies to shrink. At the same time, it has accelerated many processes, particularly the path to digital interaction between governments and businesses, the benefits of which should be felt for years to come. Digitalisation allows faster and more seamless communication for administrative essentials such as incorporating and filing, and an easy-to-use digital infrastructure also makes a jurisdiction much more attractive to prospective businesses.

National governments may not always have complete control over the legislative environment within their jurisdiction, as they enact laws devised by international bodies or to bring their country in line with global standards and best practices. Organisations such as the OECD and the EU are playing an increasingly prominent role in regulating the business environment, particularly in areas of international trade related to combating tax evasion, money laundering and financing terrorism.

Alongside these complexities, governments are trying to ensure that corporates are acting responsibly, resulting in increased filing and reporting obligations and more obligations to employees. This will rightly penalise companies who are acting irresponsibly, but will also leave many companies with a greater administrative burden than before. They may additionally find themselves paying higher tax rates and spending more on payroll and staff benefits as a consequence of the shift towards responsible governance.

Looking ahead to 2022, there are clearly uncertainties in the short and medium term for businesses to navigate. Key factors include:



How quickly the global economy recovers from the effects of Covid-19.

The extent to which employees will want to work in physical offices.

How much support the business world receives from governments as it emerges from the pandemic.

While considering these, it is vital that companies also remember that the global and local legislative environments in which they operate will likely change too, and even jurisdictions that are pushing to simplify cannot do so overnight.

METHODOLOGY

The Global Business Complexity Index was created by TMF Group, the experts on global and local business complexity, and Savanta, a specialist market research agency. Combining subject-specific knowledge with a solid grounding in data and analysis, the GBCI 2021 is built on robust multi-method research.

The index is generated from an in-depth survey of TMF Group's in-market experts in 77 jurisdictions, and the data is also compared to the survey results used in last year's GBCI report. The survey covers three areas of business operations:

- Accounting and tax;
- Global entity management;
- HR and payroll.

The data for each jurisdiction was statistically weighted and combined to produce an overall complexity score, as well as a score in each of the above three areas. Visuals are based on survey results across 2020 and 2021. Those that answered 'don't know' in the survey have been excluded from the analysis.

About Savanta Group

Savanta is a fast-growing data, research and consultancy firm. We inform and inspire change through cutting-edge data collection and analysis across a wide range of sectors.

GLOSSARY

AML	Anti-money laundering refers to a suite of laws and regulations that aim to stop criminals from claiming illicit funds as legitimate income.	GDPR	The General Data Protection Regulation is a European Union law that sets out rules for protecting the personal data of EU individuals.
BEPS	Base erosion and profit shifting refers to tax avoidance strategies used by multinationals, and the OECD regulations used to combat them.	Globalisation	Globalisation is a process of global convergence whereby economies and cultures become increasingly interconnected and aligned around the world.
CRS	The Common Reporting Standard is an OECD initiative to combat tax evasion. Participating jurisdictions have to require financial institutions in their jurisdictions to disclose information annually on financial accounts held with them by foreign residents, and to require the local assigned regulatory authority to exchange relevant information with the account holder's country of residence.	IFRS	International Financial Reporting Standards are a set of global standards issued by the IFRS foundation and the International Accounting Standards Board.
Economic substance	Economic substance is a principle in international tax that determines that a reasonable level of local economic activity must exist for an enterprise to claim tax residence in a specific jurisdiction, and that the establishment should exist in that jurisdiction for a more significant purpose than only the reduction of tax liability.	Incorporation	Incorporation refers to the process of establishing a new legal entity.
FATCA	The Foreign Account Tax Compliance Act is a US federal law requiring foreign financial institutions to disclose the financial accounts of their customers who are US persons or entities that are controlled by US persons, under penalty of substantial withholding tax on all US source income.	OECD	The Organisation for Economic Co-operation and Development is an international organisation that aims to promote global trade.
		PSC	A 'person with significant control' is a term used in various global regulations to refer to a person who has a significant level of control or influence over the actions of a legal entity. The exact definition varies according to the laws of different jurisdictions.
		UBO	The 'ultimate beneficial owner' refers to a natural person who directly or indirectly owns or controls a significant interest in an entity or arrangement. The exact definition of UBO and what constitutes significant interest varies according to the laws of different jurisdictions.

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