Global Business Complexity Index 2020

Mapping the landscape: corporate compliance risk in 77 jurisdictions

TMF GROUP

Global reach
Local knowledge

FOREWORD

We have published an annual report on business complexity since 2013. Our 2020 report is overshadowed by the massive economic and social disruption caused by COVID-19. It is above all a personal tragedy for those directly affected and for the many who now face a threat not just to their health but also to their livelihood. Businesses are having to navigate unchartered waters. Many have had to abandon their investment plans, withdraw guidance and cease paying dividends in the face of dramatic drops in demand. The crisis will also likely affect all aspects of business from how and where goods are sourced, to where they are bought and sold, to where work gets done and to how it gets done.

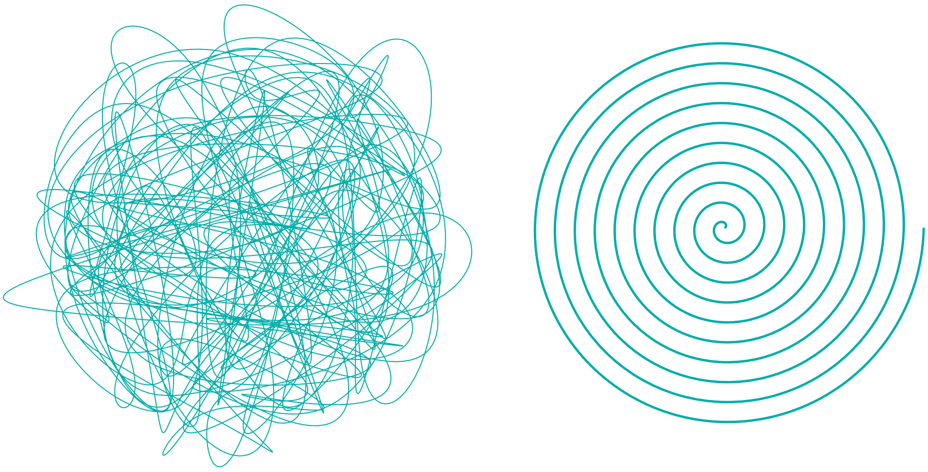
The consequences of COVID-19 for business rules and for international trade are unclear. Many governments will have to deal with heavy debt burdens and a reduced tax income, even in the most optimistic V-shaped recovery scenario. While some governments may seek to relax rules to encourage inward investment and to reduce the burden on businesses, others may seek to tighten rules to maximise income from tax and sanctions and to protect domestic firms from competition. The backdrop of rising nationalism, US–China tensions, a no-deal Brexit and a potential Eurozone crisis does not make the future any clearer.

We at TMF Group are just as caught up in these forces as every other business. We have moved to remote working in our 120 offices around the world; have navigated the delicate balance between employee safety and client service; and tried to anticipate the shifting needs of our clients, whether they are thriving or simply surviving as a result of the effects of COVID-19. Our purpose is to help clients invest and operate safely around the world. As a small contribution in this moment of crisis, we are maintaining a list of government support schemes around the world (available **here**) which now number over a thousand, together with links to the application pages.

Even before the crisis, businesses had their work cut out to operate safely within increasingly complex local financial, regulatory and employment rules for doing business. Post crisis, it is likely only to get more complex and with businesses having much lower resilience to absorb the consequences of getting it wrong. We hope the Global Business Complexity Index helps you to manage that complexity and to stay safe in these difficult times.

Mark Weil
Chief Executive, TMF Group

CONTENTS

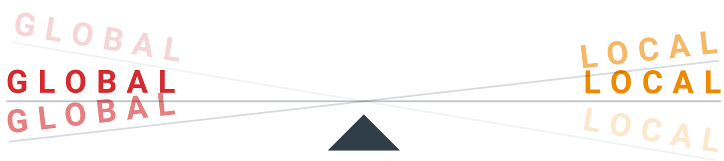


We make a complex world simple

INTRODUCTION

The Global Business Complexity Index 2020 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.

Businesses must contend with both global and local forces while striving to be successful. Among the widespread and rapidly changing trends are the accelerating growth of technology and the focus on cross-border compliance. Individual jurisdictions have very particular ways of doing things that can be confusing and potentially costly to outsiders.

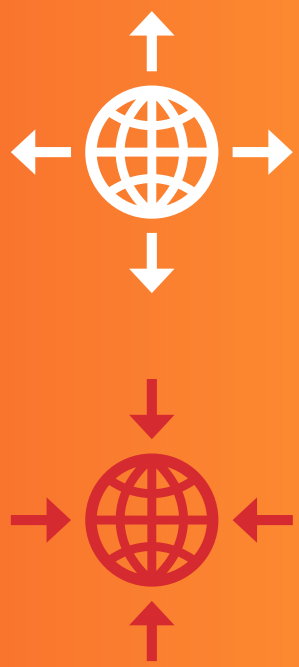


Accordingly, the GBCI 2020 has examined the interaction between global and local factors and their impact on businesses in terms of:

As in last year's report, the findings give rise to a global ranking of these 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.

INTERNATIONALISATION VERSUS LOCALISM

Expanding operations into new territories around the world offers huge commercial opportunities. Governments are continuing to open up to international business by improving the processes for assimilating them into their local economies, sometimes through offering incentives. However, as the GBCI 2020 shows, jurisdictions vary in their success at creating an easier environment for foreign direct investment.

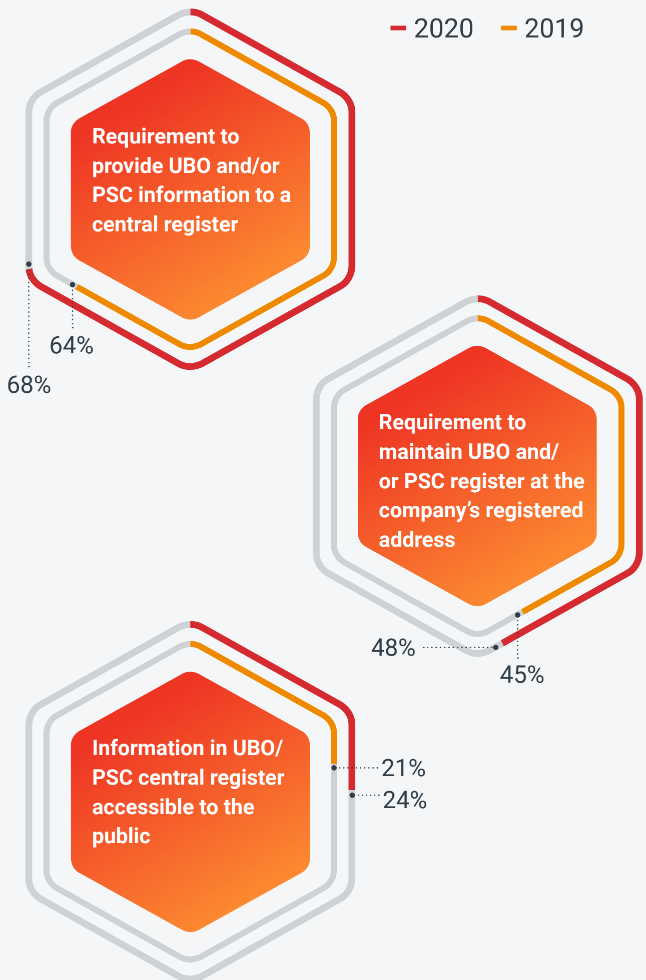


As in the GBCI 2019, most jurisdictions adhere to international regulations in some form or other, particularly on transparency and reporting frameworks. In 2020, 8 in 10 jurisdictions are committed to the Common Reporting Standard (CRS), an OECD initiative that makes sharing account data between financial institutions across borders more transparent.

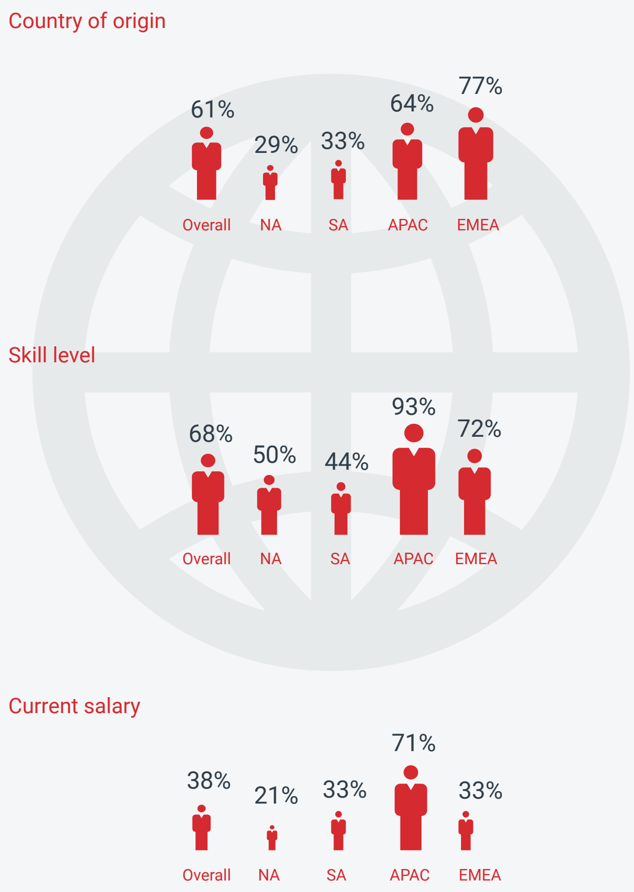
For all jurisdictions, regardless of their complexity, committing to legislation such as CRS demonstrates an international openness aimed at attracting overseas investment. Jurisdictions at both ends of the complexity spectrum are keen to adopt this standard. Jamaica is the only one of the 10 least complex jurisdictions that has not yet committed itself to CRS reporting, while Bolivia is the only of the 10 most complex jurisdictions that has not signed up.

Some national governments are following international trends and adopting their versions of the legislation. Transparency legislation in relation to ultimate beneficial owner (UBO) registers, which indicate significant ownership of corporate entities, looks set to be adopted by most jurisdictions around the world. However, the rules differ as to what counts as ownership. The European Union defines an owner as an individual or company that controls more than 25% of the shares or voting rights within an organisation. By 2020, 68% of jurisdictions had introduced a UBO register, an increase from 64% in 2019. Some 24% of all jurisdictions require them to be accessible to the public, an increase from 21% in 2019. UBO registers have been introduced in 79% of jurisdictions in Europe, the Middle East and Africa (EMEA).

Ultimate beneficial owner (UBO) and/or person with significant control (PSC) register requirements



Factors that affect the hiring of overseas workers



There is a time lag between jurisdictions committing themselves to producing these registers and its implementation. In the European Union, which required all member states to set up owner registers following its Fourth Anti-Money Laundering Directive (AML4) of 2015, Denmark implemented the legislation in 2017, while Greece is planning to roll out its UBO register only this year.

Some transparency frameworks include highly localised rules. Just under one third of jurisdictions require at least one director of an incoming company to be a local resident. The aim is to foster domestic accountability and to provide a legal basis for pursuing directors in the event of non-compliance. Requirements are even more stringent in the Asia–Pacific (APAC) region and in South America (SA), with 50% of jurisdictions requiring at least one director to be locally resident. Some jurisdictions may allow foreign directors in order to stimulate foreign direct investment. In Indonesia, small and medium-sized enterprises (SMEs), which are defined locally as those with an initial investment of up to $600,000, are not required to have locally resident directors. EMEA is particularly relaxed, with 85% of jurisdictions allowing companies to operate without local directors, in step with the European Union's rules for the free movement of labour and capital.

Many jurisdictions have stringent laws and requirements for hiring foreign workers. About 68% have rules on hiring workers from abroad that are based on skill levels. Political considerations relating to borders can affect the ability of companies to put together a workforce: 61% of jurisdictions have rules about prospective workers' countries of origin. In other cases, incentives are used to encourage the employment of local workers. Colombia is relaxing employee contribution payments for companies that agree to hire local workers who have never previously had a job.

MODERNISATION VERSUS TRADITION

Modernisation is broadly about demonstrating commitment to international standards and practices, whereas tradition is reflected in localised barriers to smooth operation. Governments may hold on to many traditions, which may be written into law or simply common practice. Such traditions make it more difficult for companies to operate because:

- they add to business complexity, as they are usually out of date and do not pertain to the modern world;
- embody idiosyncrasies which can add to the costs of getting to grips with what legislation demands of companies.

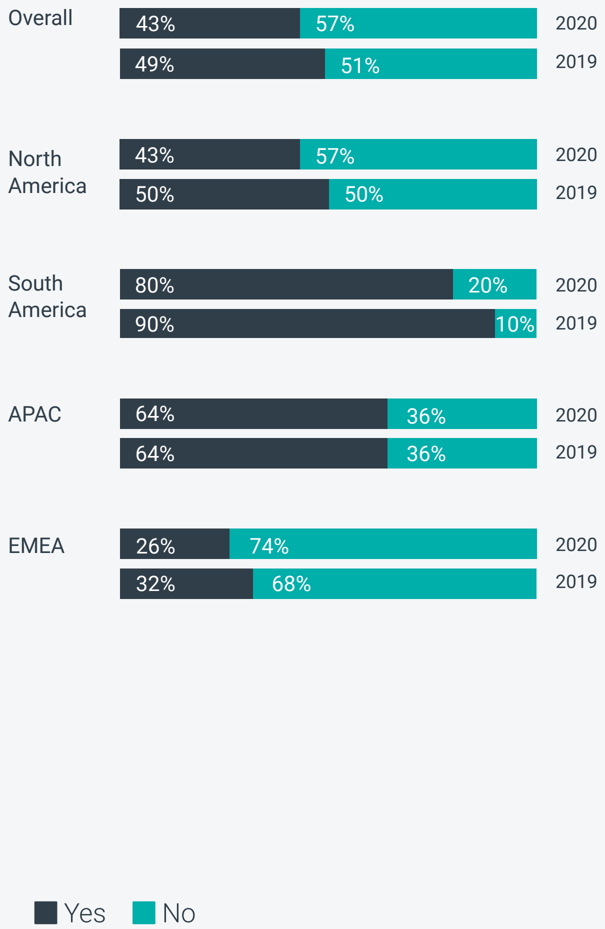
The traditional requirement of an official stamp, chop or seal on documents to ensure legal probity remains a hindrance in 43% of jurisdictions, although this has decreased from 49% in 2019. This year Argentina, Malaysia and Hong Kong have removed the requirement that documents include official chops or seals. A small number of jurisdictions introduced the requirement in 2019. Only 26% of EMEA jurisdictions require such marks.

The traditional requirement of in-person filing is much more complex in geographical and logistical terms. For a business to be incorporated in Ecuador, documents must be stamped at the Ecuadorian embassy in the incoming company's own country, after which the paperwork is sent to Ecuador for verification. In Greece, a company hiring its first employees has to visit the labour authorities on the same day and present online documentation of it within three days.

Reporting that is regarded as traditional is not necessarily paper based but is often required to be made in the local language. Some 86% of jurisdictions – including Israel, Malta and the Netherlands – require official documentation to be submitted in the local language, compared to 74% in 2019. In 73% of jurisdictions director and shareholder minutes must be recorded in the local language, compared to 65% in 2019. In Switzerland and Belgium, payroll data must be reported in multiple languages because of the countries' federal and multilingual character. Businesses that are unaware of these requirements may face unexpected obstacles and additional costs when interacting with the state.

Benefits packages that are regarded as more progressive are more prevalent in 2020 than in the previous year. They reflect a commitment to protecting workers' livelihoods and pay. A minimum wage is now mandated

Requirement of a stamp, chop or seal to legalise documents



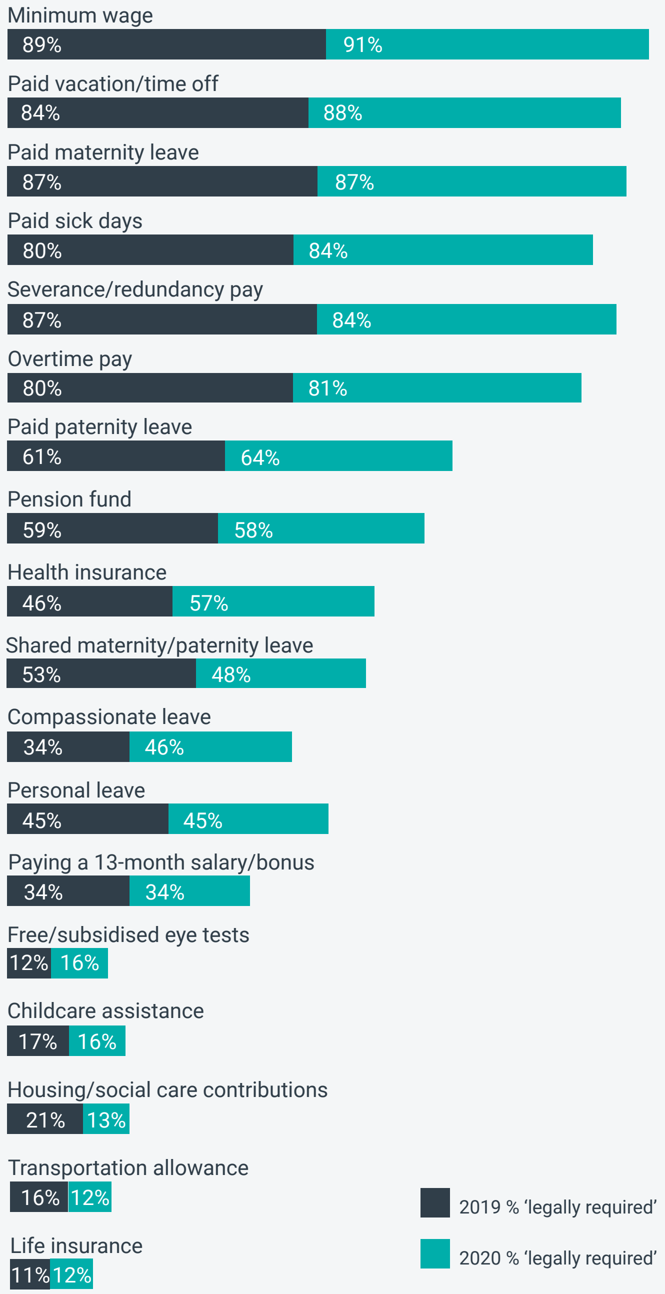
by 91% of jurisdictions, compared to 89% in 2019. The new jurisdictions now mandating a minimum wage are Turkey, the British Virgin Islands and Norway. There is provision for paid vacation or time off in 88% of jurisdictions compared to 84% last year. Paid sick days, paid paternity leave and health insurance have become more widespread.

Jurisdictions requiring documentation in the local language

Are official documents for submission to the local government authorities prepared and submitted in this jurisdiction's local language (other than English)? (YES)

Does local legislation state that the director and shareholder minutes should be created and maintained in this jurisdiction's local language (other than English)? (YES)

Legally mandated benefits for permanent employees



TECHNOLOGY AND SIMPLIFICATION

For a modern jurisdiction to appeal to international business, it has to adopt new technology. The least complex jurisdictions usually have a good track record of doing this. However, the most complex jurisdictions, as ranked by the GBCI 2020, have also often deployed technology to create a welcoming and straightforward environment for business while trying to minimise the local factors that might dissuade multinationals from setting up. This can lead to an initial spike in complexity as jurisdictions struggle to adapt to new digitalised systems while trying to bridge the gap between paper and online solutions. International legislation has become heavily reliant on communications technology. The CRS requires online data submission in consistent formats across all participating countries.

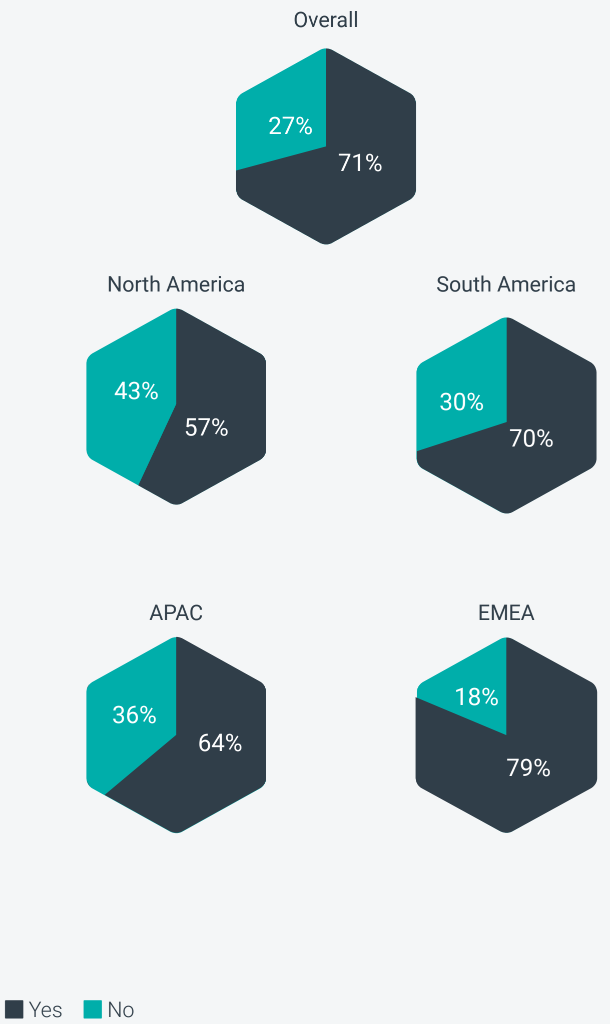
The cornerstone of technological advance for jurisdictions is the online submission of official documents across all the required areas, as this dramatically reduces the bureaucratic and reporting burden on companies. Encouragingly, official submissions to authorities are made electronically in 71% of all jurisdictions, although this has remained unchanged in the past year.

There is regional variation in the extent to which businesses can communicate with the authorities through electronic filing. EMEA leads the way, with 79% of jurisdictions claiming that official submissions can be done electronically. In North America (NA), the figure is 57%, the lowest of any region. It is also the region that is furthest behind in electronic tax filing: it is compulsory to submit tax returns in electronic formats in just 14% of its jurisdictions, compared to 39% worldwide. South America is the most advanced region, with 9 out of 10 jurisdictions requiring tax invoices to be submitted in an electronic format.

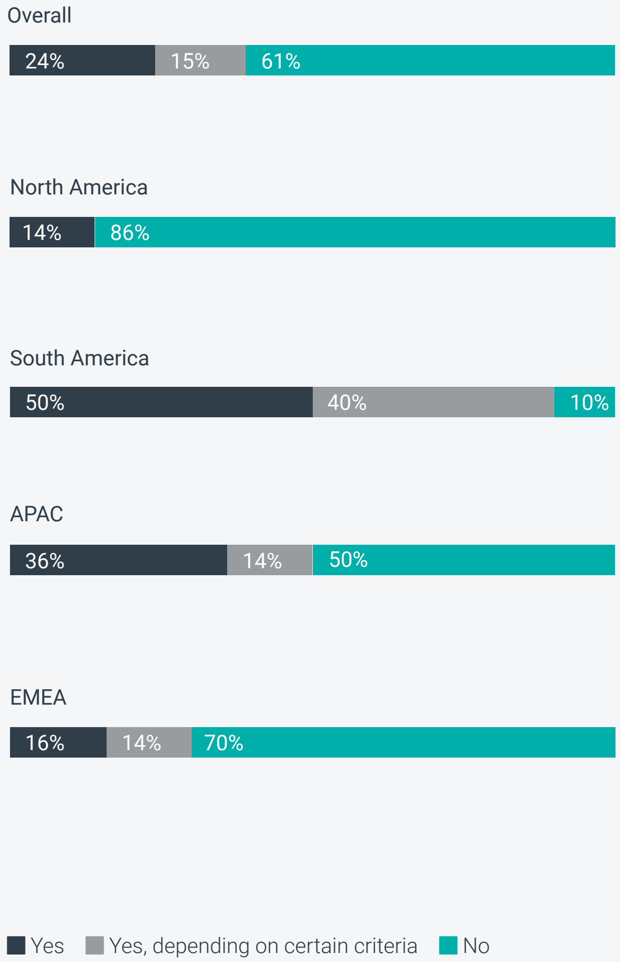
There is wide variation in the types of tax that must be submitted electronically. Of the jurisdictions that impose sales tax, 73% mandate electronic filing, while the comparable requirement for property tax is 36%.

Jurisdictions are striving to consolidate and streamline electronic reporting. Indonesia's Online Single Submission (OSS) platform aims to bring all interactions with the authorities under a single portal. However, the portal concept requires licensing bodies, which have yet

Jurisdictions where official submissions are made online



Requirement to upload tax invoices to authority portal



to be brought into the system, and this has resulted in a mixture of electronic and paper-based documentation. The Republic of Ireland has ended the annual reporting of payroll data and opted instead for a system of automatic electronic data reporting. Companies update their records online when changes occur, and the central government is automatically notified.

THE GLOBAL BUSINESS COMPLEXITY INDEX RANKINGS 2020

TEN MOST COMPLEX JURISDICTIONS

1	Indonesia
2	Brazil
3	Argentina
4	Bolivia
5	Greece
6	Mainland China
7	Nicaragua
8	Colombia
9	Malaysia
10	Ecuador
11	Turkey
12	France
13	Mexico
14	Croatia
15	Panama
16	Taiwan
17	Korea
18	India
19	Belgium
20	Serbia
21	Slovakia
22	Russia
23	Peru
24	Vietnam
25	Kazakhstan
26	Costa Rica

PAGES 12–17

27	Hungary
28	Cyprus
29	Spain
30	Slovenia
31	Portugal
32	Guatemala
33	Paraguay
34	Poland
35	Romania
36	Italy
37	South Africa
38	Sweden
39	Finland
40	Germany
41	Austria
42	Thailand
43	Uruguay
44	United Kingdom
45	Guernsey
46	Japan
47	Honduras
48	Czech Republic
49	Qatar
50	Luxembourg
51	Bulgaria
52	Venezuela
53	United Arab Emirates
54	Canada
55	Norway
56	Ukraine
57	Philippines
58	Australia
59	New Zealand
60	Singapore
61	Malta
62	Switzerland
63	Israel
64	Chile
65	Jersey
66	Hong Kong
67	Dominican Republic

TEN LEAST COMPLEX JURISDICTIONS

68	Mauritius
69	Cayman Islands
70	Republic of Ireland
71	El Salvador
72	The Netherlands
73	British Virgin Islands
74	Denmark
75	Jamaica
76	United States
77	Curaçao

PAGES 26–31

TEN MOST COMPLEX JURISDICTIONS

1 

Indonesia

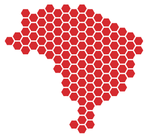
Indonesia's position as the most complex market globally is due partly to its traditional legislation. Its labour laws, which are aimed at protecting the workforce from exploitation, make it very difficult to take disciplinary action or to sack underperforming employees. These regulations are regarded as archaic by outsiders and remain one of the major deterrents to foreign investment in Indonesia.

The Negative Investment List, which restricts the percentage of foreign ownership within each industry sector, is regarded as one of the primary obstacles to business operations in Indonesia. There are 22 industry sectors, which are subdivided into approximately 200 subsectors.

There have, however, been moves to simplify Indonesia's business environment to attract foreign businesses and workers. One of these is the conversion of the Negative Investment List into a Positive Investment List, which is expected to be implemented over the next few years. This should open up more sectors of the Indonesian economy to foreign direct investment (FDI). The current draft contains plans to open up 16 of the 20 hitherto closed sectors to varying degrees of foreign ownership. This move should lower Indonesia's GBCI ranking in the years ahead.

"The president is very keen to boost foreign investment and is looking to ease things as far as possible. Indonesia is already an attractive and lucrative market and, with increased ease of doing business, it will become even more attractive."

Alvin Christian, TMF Group, Indonesia

2 

Brazil

Complexity in Brazil's business environment is driven mainly by rules concerning accounting and tax. There are dozens of different tax regimes, and businesses must comply with three levels of tax regulations: municipal, state and federal. Different regulations apply to international and local businesses seeking to establish themselves and to trade in Brazil.

"In spite of progress made in recent years towards digitalisation and more simplified taxes, including the launch of the digital system eSocial, Brazil remains a very complex business environment, with dozens of different tax regimes."

Rodrigo Zambon, TMF Group, Brazil

The Brazilian government is trying to simplify the business environment and to align it globally. In contrast to the past, it is not currently applying protectionist policies to imports or exports, and it is modernising labour agreements. The Law of Economic Freedom was introduced in September 2019 to give businesses greater flexibility in employing workers for non-traditional working hours. In addition, the tax authorities have launched a digital reporting system known as eSocial to digitalise information exchange with the government.

3

Argentina

It is not surprising that foreign businesses find incorporation and business operations challenging in Argentina. Since a change of government in December 2019, some of the previous government's efforts to simplify incorporation and business operations have been suspended. The new government is renegotiating public debt, and its sudden tax and regulatory changes have added to business complexity.

Foreign currency restrictions are perhaps the most pressing problem. Businesses have to present documentation to banks and submit to checks before they can transfer and receive money internationally, which slows down transactions and operations for multinationals considerably. Some foreign businesses are trying to adapt to these sudden changes, but others have been driven to liquidate and cease operation in the jurisdiction.

Argentina is aligned with international standards on transfer pricing and money laundering, but not with other standards such as the OECD base erosion and profit shifting (BEPS) standards.

> "As one the largest economies in Latin America, Argentina offers great opportunities for investment. Despite the complexity of operating here, opportunities in various sectors, including energy, agriculture and technology, should not be overlooked."
>
> **Claudio Cirocco, TMF Group, Argentina**

4

Bolivia

Bolivia found itself in a political limbo as disputed election results in late 2019 led to the resignation of the president, Evo Morales, after 14 years of relatively stable rule. New elections were scheduled for May 2020 but have been postponed because of the COVID-19 pandemic. Under Morales policy was inward facing, promoting economic self-reliance over international trade. This is reflected in the jurisdiction's lack of compliance: Bolivia is not signed up to international initiatives such as the CRS or OECD initiatives such as BEPS.

> "New entrants to the market may be confused by some of the more traditional practices in Bolivia, such as the requirement for apostilles to legalise certain documents."
>
> **Luis María González, TMF Group, Bolivia**

While this may ease the burden for multinationals, there are a host of national bodies with which companies seeking to set up have to register. Incorporation involves registering with the Chamber of Commerce, the National Tax Service, the Ministry of Labour, pension fund administrators, the Health Fund and financial institutions, and obtaining licences and permits from the relevant industry authority. In addition, municipal registration processes require further documentation.

When a company registers with the authorities, however, all other relevant bodies are automatically notified. Bolivia is one of only 6% of jurisdictions in which this happens. The process started with the linking up of the Chamber of Commerce with the National Tax Service and the Ministry of Labour, but the COVID-19 crisis accelerated the process of automatic notification.

5

Greece

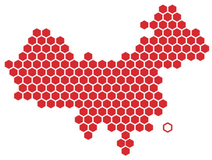
Although this country was at the heart of Europe's sovereign debt crisis just over a decade ago, the recently elected New Democracy Party is keen to demonstrate that Greece is as attractive to international business as other European nations. To stimulate foreign investment, corporate income tax was reduced from 28% to 24% in 2018, and a further reduction to 20% is planned. A UBO register will be introduced this year, reflecting the country's commitment to the European Union's anti-money laundering legislation.

Despite this, Greece has a long way to go in terms of modernisation, with most registration processes still having to be done in person. Accounting and tax complexities are the main reason for Greece's high ranking in the GBCI. Tax legislation is daunting for locals and foreign companies alike, with around 70 new measures being introduced every year. Companies struggle to find official advice on how to interpret the tax laws, as the Minister of Finance typically takes six to eight months to respond to requests for advice. While some tax rates are coming down, indirect taxes on goods and services are much higher in Greece than in other European countries.

> "Whatever transaction you can think of, there is a specific tax for it. These taxes also change very frequently, and it can be a challenge to keep on top of everything."

Yannis Goussiakis, TMF Group, Greece

6



Mainland China

China has hitherto been a labour superpower, supplying multinationals with workers to manufacture their goods, but a consumer economy is rapidly developing in the country, which has a professional class of approximately 400 million. There are ever more incentives for multinationals to market their products within China itself. The launch of the China International Import Expo, an annual trade fair held in Shanghai, reflects the government's promotion of this shift.

> "Before entering the market, companies need to understand how to avoid the most common pitfalls, especially those relating to the latest compliance requirements and the relation between national and local practices."

Thun Lee, TMF Group, China

The balance between Chinese imports and exports has been subject to much scrutiny in the past two years during its trade war with the United States. Restrictions on trading with the United States may be forcing some multinationals to look at alternative markets within China.

Once they are up and running, multinationals may well find Chinese legislation more layered than in other jurisdictions. There are significant regional variations in tax rates: corporate income tax has been set at 25% nationally, but regions, provinces and cities may modify the tax rate to attract foreign investment. Most jurisdictions have general conditions with regard to the obligations of employers and employees, but Chinese labour contract law details the terms of labour contracts extensively.

7

Nicaragua

Nicaragua can be a challenging jurisdiction for international businesses to operate in. The country went through a socio-political crisis in 2018 which impacted government-related transactions and led to inflation and exchange rate problems. These have had a huge impact on businesses, and have made incorporation and operations much more complex for international organisations. General elections scheduled for 2021 are giving rise to further uncertainty. Hopefully, the outcome will make Nicaragua a more stable jurisdiction for international operations.

Despite the political uncertainty, aspects of business incorporation and operation are quite progressive. Nicaragua is an internationally aligned jurisdiction, complying with OECD BEPS, Foreign Account Tax Compliance Act (FATCA) and transfer pricing regulations, thereby demonstrating a commitment to transparency. The country has developed a web portal for reporting salaries and payroll, a 'one-stop shop' for submitting tax declarations and payments.

> "Nicaragua went through a socio-political crisis in 2018, which affected investor confidence. The various stakeholders must come together to agree on a solution to the crisis."

Xilot Mejia, TMF Group, Nicaragua

8

Colombia

Like much of South America, Colombia functions through a highly regionalised structure of 1,100 municipalities, each with its own rules and practices, and variously subject to electoral politics. Parts of Colombia are home to local armed groups that control patches of territory. Businesses should make sure that they avoid these 'red zones'.

Despite its devolved politics, the Colombian government has many policies to promote its national workforce over foreign labour. There is a national scheme to improve youth employment whereby companies pay lower rates of employee contributions if they hire and train Colombians who have never worked before.

> "Companies must take great care to calculate their tax correctly. Failure to do so results in fines and any underpayment to the treasury is also subject to high levels of interest until the error has been corrected."

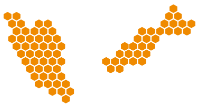
Daniela Diaz Quijano, TMF Group, Colombia

Multinationals operating in Colombia have to pay close attention to local policy to avoid high punitive fines. It is easy to make a mistake in submitting tax returns, given that regulations are not always clear and open to interpretation. Mistakes result in fines and any underpayment is subject to an annual interest rate of around 28%.

There are stringent and detailed rules for receiving capital from other countries. Entities have to declare currency income and outflow in any case, using a system of codes and complying with certain requirements. If a company uses a wrong code or does not comply with those requirements, it will result in the company facing severe penalties.

Detailed records of all third-party transactions are mandatory in Colombia, including those with suppliers, clients, banks and any other party. The Colombian authorities verify and cross-check all such records to ensure that entities pay the correct amount of tax and that mistakes in these type of informative reports result in penalties.

9



Malaysia

Incorporation in Malaysia involves obtaining licences for business premises, the industry sector and share capital. The incorporation process for a foreign business can take up to a month.

The official business language in Malaysia is Malay, with English as the second language. While some forms can be completed in English, most correspondence with the government takes place in Malay. As it was once a British colony, Malaysia's legal system is based on UK law, and its accounting practices are internationally aligned, including adherence to International Financial Reporting Standards (IFRS).

Malaysia deploys a digital submission platform for audits and financial statements. While its use is not compulsory, the government encourages it by giving companies an annual rebate of RM5,000 per year. This is part of the Malaysian government's strategy of simplifying processes to attract FDI. The jurisdiction is likely to move towards a lower ranking in future GBCI reports.

> "Investors in Malaysia must be able to evaluate its changing social, political and economic landscape, as the country's legislation has a large impact on day-to-day business operations."
>
> **Sharon Yam, TMF Group, Malaysia**

10

Ecuador

A large driver of complexity in Ecuador is its uncertain political situation. In October 2019 the jurisdiction spiralled into a political crisis which paralysed the economy, business operations and production for almost two months. This uncertainty has led to rapid changes to legislation, for example a recent rise in withholding tax, which has increased the complexity of the jurisdiction.

> "While doing business in Ecuador may be complex, some factors make it simpler than other jurisdictions. We adopted the US dollar in 2000 and use the internationally recognised IFRS."
>
> **Diego Mantilla, TMF Group, Ecuador**

Despite its complexity, Ecuador is an internationally aligned jurisdiction, which increases its attractiveness for FDI. Since 2000, the local currency has been US dollars, which makes it particularly appealing to US businesses as they can use their home currency for operations. The jurisdiction has adhered to IFRS regulations since 2012.

As a result of technological advances and the digitisation of many documents, the time taken for incorporation in Ecuador has decreased from around six months in 2018 to three to four weeks in 2020. However, incorporation time for foreign businesses can be doubled by the need for documentation to be translated into Spanish, sent to the Ecuadorian embassy of the home country, stamped and returned to Ecuador.

CROSS BORDER COMPLIANCE

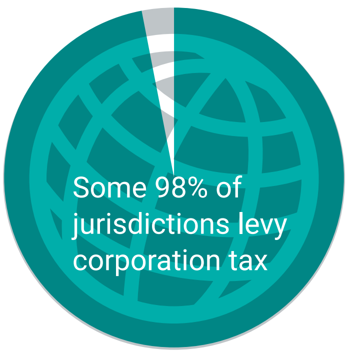
ACCOUNTING AND TAX

Using taxation to attract investment

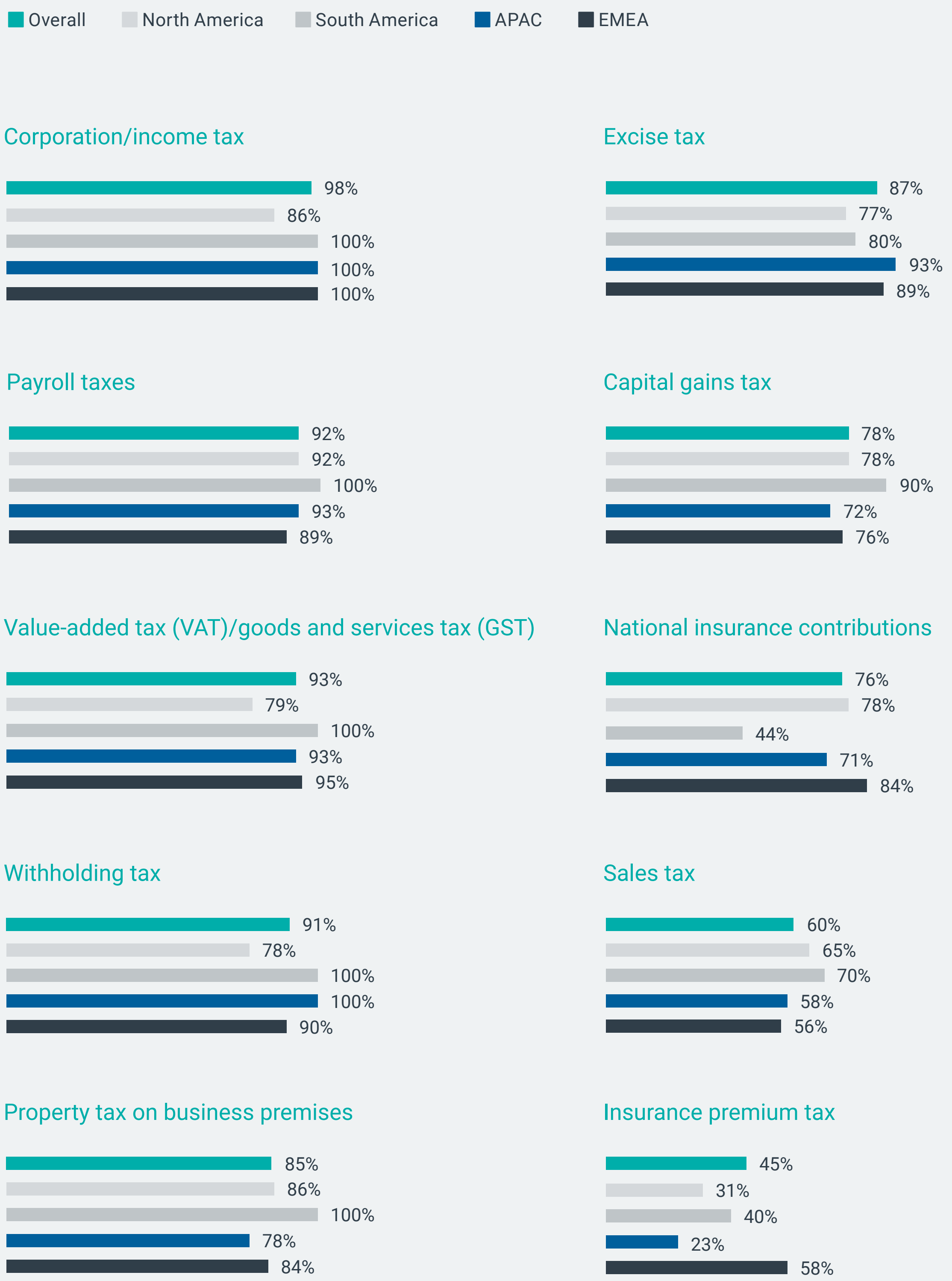
Across the globe, there is significant convergence on the types of tax collected, with little regional variation. However, each jurisdiction has its own complexities that businesses must navigate. Some 98% of jurisdictions levy corporation tax, while 9 in 10 have payroll, business premises, withholding, value-added and excise taxes.

Exceptionally, jurisdictions such as the Cayman Islands and the British Virgin Islands do not impose a corporation tax in a successful bid to appeal to foreign business investment. This partly explains their position as two of the least complex jurisdictions in the GBCI 2020.

While taxes are often levied by the central government, some regions or municipalities choose the specific rate of tax paid by companies in their territory. In China, some regions are allowed to deviate from national government policy and to charge a lower corporation tax to attract FDI. For example, the six provinces of the Western Regions charge a corporation tax rate of 15% rather than the fixed national rate of 25%.



Types of taxes levied on business



Changes in tax legislation

Legislative change is a major cause of complexity, particularly if it happens suddenly and requires a substantial effort to adapt to new practices and rates. In Ecuador, political instability has led to frequent changes in tax legislation with almost immediate ramifications, such as the recent increase in the withholding tax rate. In Greece, about 70 new tax laws are introduced every year, typically in March or April, which are applied retroactively to the start of the calendar year. Companies are forced to retrofit their accounts and tax submissions to comply with these changes.

States and businesses: from transactional relationships to partnerships

Some state institutions around the world are attempting to act more as a partner to businesses. The number of jurisdictions that require mandatory audits of company accounts has decreased. In 2020 12% of jurisdictions require all companies to have their accounts audited, compared to 17% the previous year. The jurisdictions driving this trend are Bolivia, India, Luxembourg, Malaysia and Ukraine. In the Republic of Ireland, a comprehensive online taxation system allows authorities to choose to audit a company if its submissions look suspicious or are clearly incorrect, cutting down on audits for their own sake. Greater digitalisation of tax processes around the world in the wake of the COVID-19 pandemic is likely.

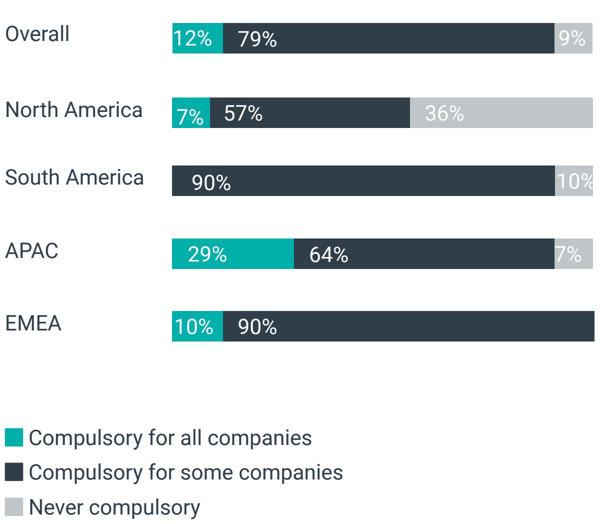
More governments are allowing companies to correct errors in their tax returns voluntarily without being fined. This has risen from 32% in 2019 to 39% in 2020, and reflects changes in jurisdictions such as Italy, Bolivia and the Netherlands. The majority (60%) of jurisdictions allow tax errors to be corrected with a fine. Japan is the only jurisdiction that does not allow corrections.

However, the burden of tax auditing on companies remains significant in many countries. In 27% of jurisdictions, organisations that meet the criteria for a tax audit are given no warning, while in 16% they are given up to a week's notice.

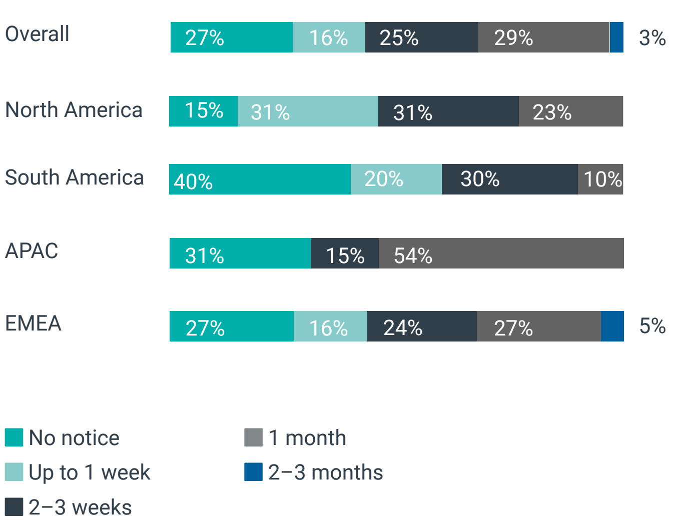
Many jurisdictions still penalise non-compliant organisations heavily. In Colombia, taxation legislation is often difficult to understand and, in the case of the Industry and Commerce Tax (ICA), varies across its 1,100 municipalities. Fines are not only commonplace but high, and a staggering 28% interest is charged on poorly calculated taxes – around seven times the inflation rate.

Fines are a fact of life even in more business-friendly, digitalised jurisdictions. In the Republic of Ireland, businesses have nine months to prepare their end-of-year statutory accounts. If they do not meet the deadline, a fine is automatically imposed. In Kazakhstan, tight deadlines for submitting electronic accounting documents are accompanied by significant fines for non-compliance.

Requirement for account audits



Notice period for tax audits



JURISDICTIONAL COMPLEXITIES

RULES, REGULATIONS AND PENALTIES

Time taken for incorporation

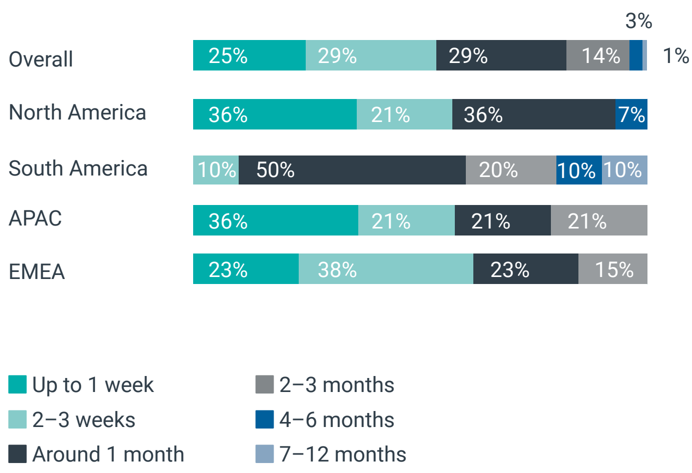
In most jurisdictions, incorporation can take place within weeks, but in others the process takes significantly longer. In some South American jurisdictions, such as Argentina and Venezuela, it takes more than three months on average.

In Brazil, the length of time it takes for incorporation varies significantly between states. In São Paulo, businesses can be incorporated within days, while in other states it can take weeks. This variation contributes greatly to Brazil's overall complexity, placing it second in the GBCI 2020.

A lengthy period of incorporation reflects factors such as the need to obtain wet signatures and to notify multiple bodies and associations, and also a lack of technological fluency.

Many jurisdictions are addressing these factors to make incorporation as simple and straightforward as possible. The Irish government guarantees incorporation within five working days. In Curaçao, businesses in some industries can be incorporated within a day. Some 4% of jurisdictions – the Cayman Islands, the British Virgin Islands and the United Arab Emirates – allow operations to commence before a business is tax registered.

Average incorporation time for private companies



From incorporation to full entity activation

In most jurisdictions, the national government is the common point of authorisation for incorporation, followed by city- or local-level requirements. In some jurisdictions the incorporation process involves 30 or more interactions with various bodies. In the most complex of these, businesses have to register with multiple authorities, depending on the industry in which they are operating.

In Indonesia, entity activation involves obtaining up to 11 permits. There are 22 industry sectors and about 200 subsectors, each with different requirements for notification. This legislative minefield for incorporation is reflected in Indonesia's high ranking in the GBCI 2020. However, the country is trying to streamline the process in the coming years with legislation designed to simplify incorporation.

There has been substantial progress across the globe: in 71% of jurisdictions the relevant authorities are automatically notified during the incorporation process. This streamlining lessens complexity and saves incorporation time.

The British Virgin Islands (BVI) operates a registered agency model. Foreign businesses have a single point of contact – their registered agent – who engages with and notifies all the relevant bodies and agencies on their behalf. This simplicity is reflected in the BVI's GBCI 2020 ranking as one of the least complex jurisdictions.

Opening a bank account

While South America includes some very complex jurisdictions in which to incorporate a business, opening a bank account takes on average less than a month in 80% of jurisdictions. Incorporation in EMEA jurisdictions can be faster and simpler than in South America, but it can be more complex and take far longer for an international business to open a bank account. It takes over six months in Denmark, Finland, Greece, Honduras, Qatar and Venezuela.

In Denmark, where incorporation is straightforward, the government's focus on stringent anti-money laundering (AML) legislation means that the onus is on banks to ensure that foreign investors are legitimate and law abiding, and this contributes to the length of time it takes to open an account.

International alignment

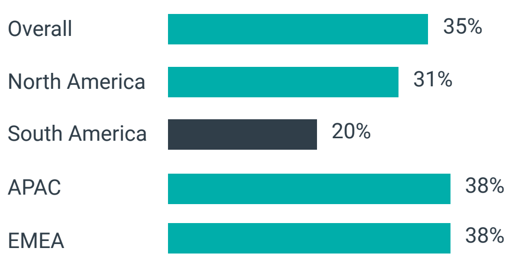
Jurisdictions in EMEA are more internationally aligned on supranational legislative initiatives than those in other regions. Some of the least complex jurisdictions, such as Mauritius, subscribe to a multitude of international standards including IFRS and the European Union's General Data Protection Regulation (GDPR). Alignment reduces complexity and increases investor confidence.

Conversely, more complex jurisdictions tend to have more localised legislation that requires foreign businesses to align with unfamiliar, specialised local processes.

Jurisdictions requiring interaction with 30 or more bodies to incorporate

- Indonesia
- Qatar
- United Arab Emirates
- Brazil
- Costa Rica
- Slovakia
- Ecuador

Jurisdictions where it takes over a month to open a corporate bank account



WORKING IN UNFAMILIAR MARKETS

HUMAN RESOURCES AND PAYROLL

Wages and benefits

Almost without exception, permanent workers worldwide are entitled to a group of basic benefits, including

- minimum wage (91%);
- paid time off (88%);
- paid maternity leave (87%).

Surprisingly, in Finland and Denmark – countries that are regarded as having a great work–life balance and solid industrial relations – there is no legal requirement for organisations to pay workers a minimum wage or to grant paid maternity leave.

South America, for the most part, leads the way in mandating a broad provision of employee benefits, which are reinforced by progressive policies such as shared parental leave. The region generally mandates other benefits such as a 13-month salary (an extra month's pay annually as a bonus). Ecuador has a profit-sharing system whereby companies are mandated to distribute 15% of their profits to employees. The amount each employee receives depends on the number of children they have.

Unsurprisingly, temporary workers are legally entitled to fewer benefits than permanent employees. These differences are less pronounced in relation to non-wage compensations like health insurance or childcare assistance, but greater in relation to monetary benefits such as paid time off and sick leave, and redundancy pay.

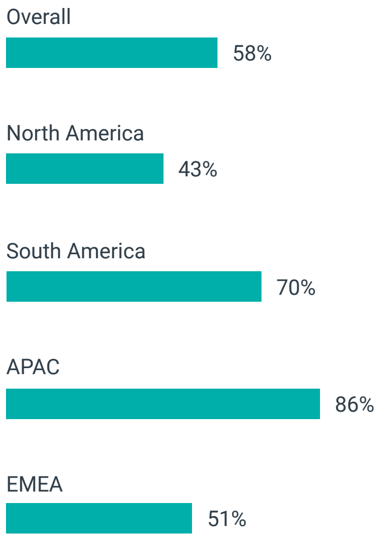
The Netherlands has long been an attractive environment for temporary workers. Recent legislation in that country further reduced the gap in legal protection and monetary differences between fixed- and indefinite-term employees, leading to an influx of contractors. With fewer full-time workers to choose from, it is more difficult to make permanent appointments, while temporary workers are more expensive.

Workplace pensions

APAC leads the way in mandating workplace pensions, with 86% of jurisdictions legally requiring them for permanent workers, compared to 79% in 2019. Australia and New Zealand are strong advocates of private pensions, while Hong Kong and Singapore have compulsory savings schemes for both private and public sector employees. In January 2020 China's social security system was extended to the neighbouring jurisdictions of Hong Kong and Macau.

North America and EMEA lag significantly in offering workplace pensions, with jurisdictions rarely requiring them. This is likely to change in the next couple of years as the United Arab Emirates and the Gulf region introduce wider-reaching workplace savings regimes. Caribbean jurisdictions rarely have pension funds in place, while some more developed South American jurisdictions are moving to introduce pension schemes.

Jurisdictions with a legal requirement for employees' pension funds



Mandating pay increases

Globally, 32% of jurisdictions mandate pay increases. In South America the figure is 70%.

Jurisdictions with a legal requirement for mandatory pay increases

Firing employees

The notice period required for firing underperforming staff varies considerably between jurisdictions. Those in North and South America require the least notice, with around 40% of jurisdictions obliged to give only a day. Paraguay is the only jurisdiction in South America where more than a month's notice is generally required.

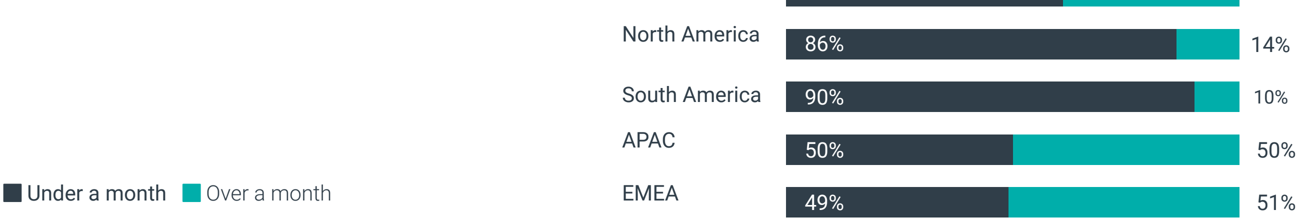
In EMEA and APAC, companies are required to give workers on average one month's notice. In Italy, Romania, South Africa and Indonesia, companies must give on average over 25 weeks' notice. Indonesian labour laws make it extremely difficult and expensive to fire underperforming workers, and this is one of the factors contributing to its high ranking in the GBCI. These laws discourage foreign investment in Indonesia, although the government is now seeking to reform them.

Reporting of data

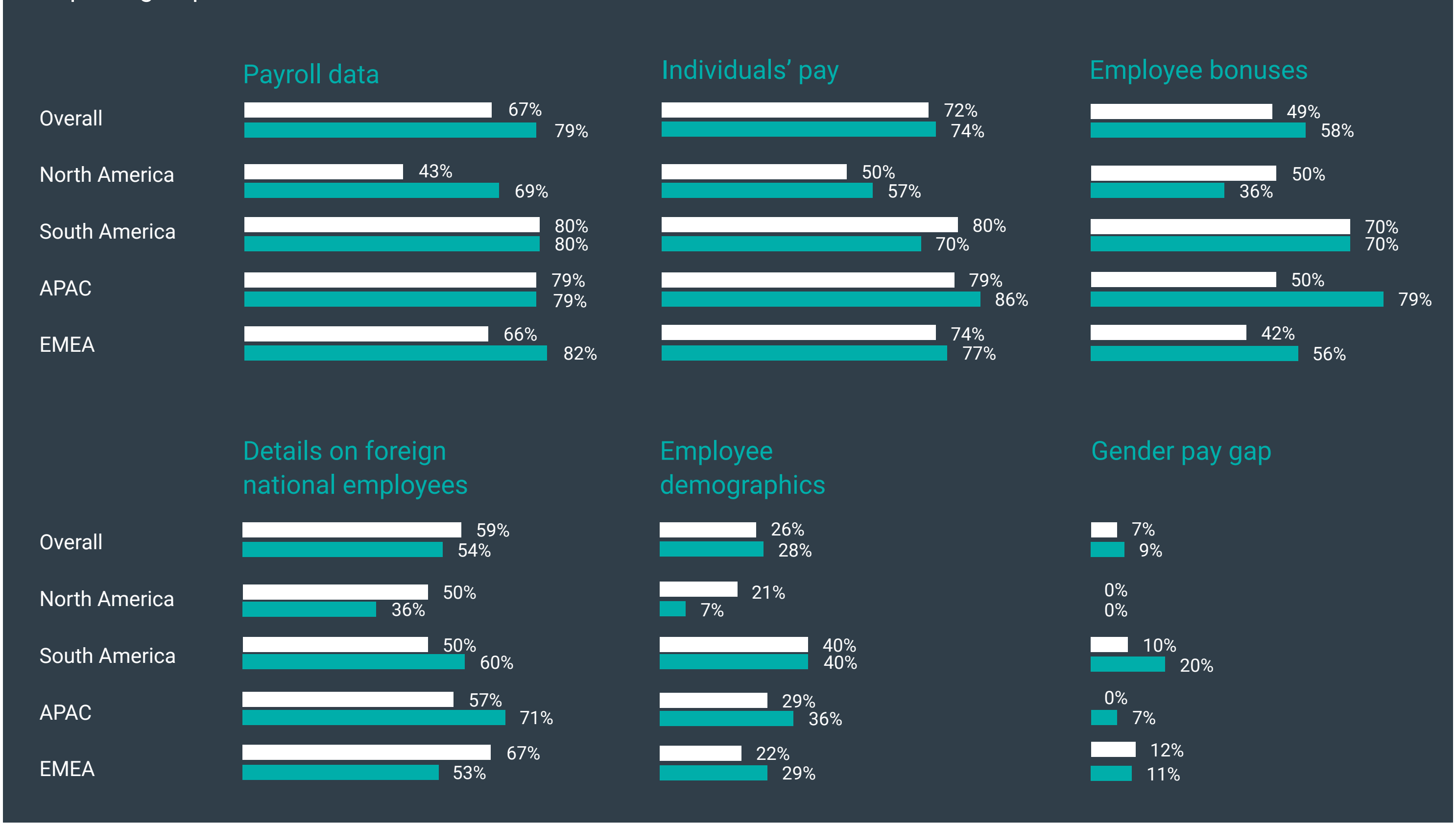
Overall, governments are requiring more data on employees to be reported by businesses. Some 79% of jurisdictions require all organisations to report payroll data to government authorities. The reporting of employee demographics and the gender pay gap remains uncommon but has increased. In 2019 only 26% of jurisdictions required employee demographics to be reported and only 7% of jurisdictions information on the gender pay gap. These figures increased to 28% and 9% respectively in 2020.

Reporting requirements in APAC jurisdictions have increased significantly in the past year, and APAC now leads the way in monitoring workforces. This trend is set to continue.

Notice period required to fire employees



Reporting requirements on human resources



TEN LEAST COMPLEX JURISDICTIONS

68

Mauritius

Mauritius' low ranking in the GBCI 2020 is unsurprising as the government has deliberately simplified legislation to make the jurisdiction more attractive to foreign businesses. The Business Facilitation Act, implemented in 2019, sets limits on the time taken to process work permits and licences. This makes it quicker and easier for businesses to be incorporated in Mauritius. Recent elections extended the government's mandate for a further five years, which ensures stability in the jurisdiction and allows the programme to be fully implemented.

Mauritius is aligned with European standards established by the OECD, including FATCA. Documents are usually submitted in English or French rather than Creole, the local language, which makes it easier for foreign businesses. Online submission has been in place in Mauritius for seven years, making it a pioneer of digitalisation. No paper-based filing is accepted, and government departments collaborate to ensure that incorporation is as streamlined as possible.

"All the measures introduced by the government have made it easier to do business in Mauritius. The government's policy is to make Mauritius a business hub that operates in line with the best international practices."

Naiken Veerasamy, TMF Group, Mauritius

69

Cayman Islands

"Despite the increased pressure by the international community over AML (anti-money laundering), CFT (counter financing of terrorism) and PF (proliferation financing) regulations, the Cayman Islands remain a politically, socially and economically stable environment with ready access to high-calibre and highly respected professionals and service providers."

Lesley den Exter, TMF Group, Cayman Islands

The Cayman Islands is a tax-neutral jurisdiction, with no income, payroll or capital gains taxes or national insurance contributions. Further, there is no difference in the authorities' requirements for operating local or international businesses.

Over the past year, the Cayman Islands has come under significant pressure to become more internationally aligned. As a result, various changes, including anti-money-laundering regulations, have been introduced. This has led to a short-term spike in complexity as businesses have adapted to them.

The Cayman Islands remains highly committed to attracting overseas investment and will ensure that the economic environment continues to be stable. The government is moving towards real-time automated systems and introducing technologies to streamline processes. Its beneficial ownership regime means that files no longer have to be delivered by hand to government offices.

70

Republic of Ireland

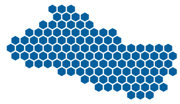
The Republic of Ireland is very internationally aligned, particularly with the United Kingdom. It adheres to international standards, including KYC (know your customer), AML4 and OECD BEPS, and to EU requirements. This is attractive to foreign businesses that are already familiar with global standards and legislation. Ireland is also a highly digitalised jurisdiction, with an online system for incorporation and for reporting ongoing obligations such as tax returns and payroll data.

Digitalisation has streamlined business operations. The Irish government assumes that tax returns are submitted correctly. The tax authorities review tax returns submitted through the online system and audit businesses only where there are inconsistencies or problems. This eliminates unnecessary audits. Digitalisation has also led to real-time reporting of payroll data. The Irish government is automatically notified of any changes to company payroll, which makes the day-to-day management of payroll easier and more transparent for both businesses and employees.

"The Republic of Ireland has a strong history and culture of welcoming foreign companies. We are a jurisdiction that is continually trying to balance the requirements of the OECD and the EU while ensuring we remain competitive in the international marketplace."

Kevin Butler, TMF Group, Republic of Ireland

71



El Salvador

Since the GANA party came to power in the 2019 elections, El Salvador has made a concerted effort to attract FDI by simplifying business operations in the jurisdiction and ensuring stability for investors and businesses. The powers of some institutions and authorities have been separated to make them more secure and less vulnerable to criminal activity.

"Macroeconomic and regulatory stability, and access to important markets in South America, are what make El Salvador attractive to foreign businesses and investment."

Xilot Mejia, TMF Group, El Salvador

A digitalised and internationally aligned jurisdiction, where the same laws and regulations apply to both national and international businesses, El Salvador is attractive to FDI. The country adheres to IFRS, FATCA and transfer pricing regulations, and offers a transparent business environment for the incorporation and operation of foreign entities. There is a web portal for businesses to submit all their tax documentation and reporting online, removing the need to present documentation at a local office and visit a bank to make tax payments.

72

The Netherlands

Multinationals have long registered in the Netherlands, which is a highly internationalised jurisdiction, particularly because of its mature trust industry. Shell companies in the jurisdiction must ensure that they are compliant and have enough local economic substance. The country has adapted well to the increase in international compliance legislation in the past few years and maintained its reputation. AML and KYC legislation were adopted quickly and are now smoothly integrated into operational procedures.

Given its substantial history in international trade, the Netherlands is primed for incoming multinationals. It is extremely easy to access advice on setting up. The Netherlands Foreign Investment Agency provides a website and help desk, and even advocates on behalf of companies at national and EU levels. Fluency in the English language is embedded in Dutch society, with English taught from primary school onwards. All government information is provided in both Dutch and English. The capital city, Amsterdam, is a European transport hub, with Amsterdam Airport Schiphol at its heart. These are some of the reasons why many large multinationals have moved their headquarters from the United Kingdom to the Netherlands following Brexit.

"The Dutch business approach is open-minded and internationally oriented. We speak your language and will translate any documents or instructions to make processes easier for you."

Ron Arendsen, TMF Group, The Netherlands

73

British Virgin Islands

There has been pressure on the British Virgin Islands to prove it is being as transparent as possible about the money flowing in and out of the jurisdiction. Consequently, the BVI is at the forefront of AML, KYC and all other compliance regulations. It has been 'white-listed' by the European Union as satisfying all its tax compliance requirements.

The BVI operates a fundamentally different model for setting up multinationals compared to most jurisdictions, whereby companies are required to use registered agents – government-licensed companies that undertake all interaction with the authorities on their behalf. There are around 100 registered agents operating in the jurisdiction – of which TMF Group is one of the largest – which essentially act as a privately outsourced administrative facility.

"Doing business in the British Virgin Islands is simple and straightforward for foreign direct investment, as the jurisdiction is supported by a host of registered agents who will cater to your needs."

Charlotte Bailey, TMF Group, British Virgin Islands

Registered agents themselves are closely monitored and must comply with a host of regulations to maintain their licences, so they bear much of the compliance burden for companies. Companies communicate with agents using email and phone calls, leaving them to complete the technical documentation to be submitted to the authorities.

This system does mean that the authorities are not as technologically advanced as in other jurisdictions. Agents operating in the BVI use digital tools, but much of the communication from the authorities remains paper based and personal. TMF Group's BVI offices receive information from the Financial Services Commission on paper.

74

Denmark

Denmark has been ahead of the curve in adopting internationally recognised compliance standards, which makes it quite a strict jurisdiction. Yet it has become one of the most straightforward jurisdictions in terms of rules, regulations and penalties.

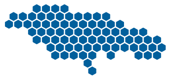
Denmark was one of the first countries in the European Union to introduce a UBO register in 2017. The required UBO information must be submitted annually, together with other required reports. Danish authorities have clamped down on the use of shell companies to lighten the burden of compliance. All companies with a physical presence within the jurisdiction are now registered as 'permanent establishments'.

Hiring and managing employees is relatively straightforward in Denmark. This simplicity may, however, be offset by the introduction of the Danish Holiday Act, which shifts employees from an accrued to a concurrent holiday regime, whereby holiday entitlement no longer has to be delayed but can be taken after just one month of employment. Short-term complexity may result from the switch in systems, with some employees getting twice their entitlement as the country transitions.

> "Compliance is becoming more complicated and is being monitored more closely as the government tries to close the loopholes for companies to avoid paying tax. Denmark has implemented such measures earlier than other jurisdictions and the processes are smoother."

Dannie Wai, TMG Group, Denmark

75



Jamaica

Starting a business in Jamaica is a relatively straightforward and quick process, but ongoing business operations can be more complex.

> "Maintaining tax obligations without a local representative continues to be a hurdle for companies planning remote operations."

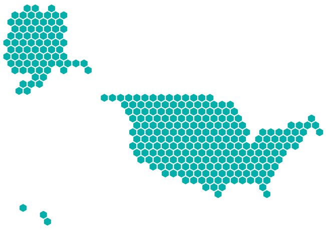
Juan Carlos Rubio, TMF Group, Jamaica

The government is keen for Jamaica to become a logistics hub between North and South America, and so grants incentives to attract foreign investment in some sectors, such as call centres, which benefit from its time zone and Jamaicans' fluency in English.

The government is also working to draw up more free trade agreements with other jurisdictions in the region, again to attract more FDI.

Many of the regulatory processes for businesses now take place online.

76



United States

Under Donald Trump's presidency, the United States has leaned towards less international alignment and the protection of national industry over foreign trade. This has so far not translated into very much change in terms of legislation, and the United States remains very much open for business.

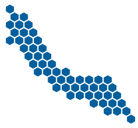
Registering an entity with the federal government is very straightforward, involving online incorporation documents and an application for a tax identification number. Companies must also register at state level. This can be advantageous since individual states offer incentives to businesses to attract foreign investment. Delaware is a popular choice for international investors as it does not require local directors' and directors' names to be disclosed on formal incorporation documents.

There are few US employment regulations. Although workers can be fired with a day's notice, businesses have to reckon with a culture of litigation. It is common for former employees to sue for unfair dismissal, which means that companies need to have a robust legal framework. They should also be wary of high legal fees.

"While the United States has become less internationally aligned in political terms – walking away from international bodies, for example – we haven't seen much change in business legislation on the ground."

Ernesto Guzman, TMF Group, United States

77



Curaçao

Curaçao, part of the Kingdom of the Netherlands, is the most straightforward jurisdiction of all those surveyed. This island state is very internationally aligned, which enables decisions to be made and implemented very quickly.

"The government's moves to increase the use of technology should make life easier for investors."

Evert Rakers, TMF Group, Curaçao

Most companies in Curaçao do not have to be audited unless they exceed thresholds for employees and revenues or operate in a regulated industry such as banking.

The government is using technology to become more customer-centred on multinationals. Tax returns are filed electronically, and there is a move away from cheque and cash to card payments.

Political stability and a strong tourism industry have increased Curaçao's attraction for investors.

CONCLUSION

In a constantly changing commercial environment, there is an underlying momentum for business that is unparalleled in this globally connected world.

The GBCI 2020 has found that a global outlook, alignment of international laws and regulations, and increasing deployment of technology have given rise to a greater synergy in international business. Overall, these factors have combined to make jurisdictions less complicated for multinational businesses.

The COVID-19 pandemic should be seen as a big blip, slowing economic growth substantially, particularly as a result of the closing of international borders. The effects will last for years, and may be enhanced or mitigated by measures brought in by individual jurisdictions.

Global businesses will always have to reckon on individual jurisdictions promoting their attractiveness and national interests and insisting on protecting established practices and processes. The use of local languages in official communication and documentation will persist.

The GBCI 2020 has again revealed significant variations in business complexity between jurisdictions, as a result of their specific rules and regulations. The least complex jurisdictions have used information and communications technology to enhance communication and contract mechanisms so that setting up and operating a business becomes much easier.

Other jurisdictions will want to ensure that they are not left behind. Given that 3 in 10 jurisdictions do not currently make official submissions to the government electronically, many of them may not have the tools to adapt to an environment that increasingly relies on the latest technology. Such tools are a fundamental requirement for operating at full throttle in the global economy. The successful jurisdictions will be those that offer the common international practices preferred by overseas companies.

Following the COVID-19 pandemic, we are likely to see a continued impetus towards a global business environment, with international bodies stepping up measures to coordinate and regulate trade across borders to benefit all stakeholders. With 8 in 10 jurisdictions already signed up to the OECD's CRS, there is a clearly a desire to continue participating in international regulatory alignment. It is likely that further global governance initiatives will follow in its wake.

Internationalisation is more crucial than ever. Unification, technology, modernisation and simplification will surely be the drivers to place the post-pandemic global economy back on its feet. Businesses need to be aware of and to act in response to complexity in their markets.

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 2020 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,[1] 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;
- rules, regulations and penalties;
- HR and payroll.

The data for each jurisdiction were statistically weighted and combined to produce an overall complexity score, as well as a score in each of the three areas.

Visuals are based on survey results across 2019 and 2020. Those who answered 'don't know' in the survey have been excluded from the analysis.

To gain a better appreciation of trends and developments, the initial quantitative fieldwork was supplemented by a qualitative stage after the index was created. This consisted of:

- a survey asking each TMF Group to respond to trends in complexity within their jurisdiction;
- a series of in-depth interviews with TMF Group specialists from the 10 highest- and 10 lowest-ranking jurisdictions.

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.

[1] A jurisdiction is a specific territory governed by a set of laws. A country can consist of several jurisdictions. Curaçao is part of the Kingdom of the Netherlands but it is a separate jurisdiction from the Netherlands. Businesses have to take account of the fact that nation-states will adhere to supranational and international laws and regulations to varying extents, while continuing to promulgate their own laws and regulations and, in some cases, to delegate or allow sub-jurisdictions in their region and localities to impose their own requirements on businesses, particularly those based overseas.

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.
BEPS	Base erosion and profit shifting refers to tax avoidance strategies used by multinationals, and the OECD regulations used to combat them.
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.
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.
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.
GDPR	The General Data Protection Regulation is a European Union law that sets out rules for protecting the personal data of EU individuals.
Globalisation	Globalisation is a process of global convergence whereby economies and cultures become increasingly interconnected and aligned around the world.
IFRS	International Financial Reporting Standards are a set of global standards issued by the IFRS foundation and the International Accounting Standards Board.
Incorporation	Incorporation refers to the process of establishing a new legal entity.
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 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.

This is a publication of TMF Group B.V., P.O. Box 23393, 1100 DW Amsterdam, The Netherlands (contact@tmf-group.com). TMF Group B.V. is part of TMF Group, consisting of a number of companies worldwide. Any group company is not a registered agent of another group company. A full list of the names, addresses and details of the regulatory status of the companies is available on our website: tmf-group.com

ABOUT TMF GROUP

WE MAKE A COMPLEX WORLD SIMPLE

One world of local service

TMF Group is an independent global multinational with some 7,800 in-house experts across 120 offices covering 80-plus jurisdictions. Together we deliver a broad portfolio of consistent, integrated but localised services covering the business administrative essentials of accountancy and tax; HR administration, global payroll and employee benefits; and global entity management, corporate secretarial and regulatory compliance.

Rapid response consultancy solutions support cross-border projects large and small, at every stage, across all our disciplines, and in every market.

Specialised teams support fund and capital markets administration and private wealth and family offices.

Because we know how to unlock access to some of the world's most attractive markets – no matter how complex – swiftly, safely and efficiently, over 60% of the Fortune Global 500 and FTSE 100, and almost half the top 300 private equity firms, use us.

So, whether you are operating across one border or many, with a handful of staff or several thousand, we have all the flexible, coordinated, business-critical support needed to open up in new markets, build strong businesses and stay nimble, efficient and in good standing everywhere.

www.tmf-group.com

TMF GROUP