Expanding Overseas

What you need to know

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CROSS-BORDER ACCOUNTING, PAYROLL, COMPLIANCE, FINANCE, HR AND ADMINISTRATIVE SERVICES FOR VC BACKED FIRMS, PUBLIC COMPANIES AND INSTITUTIONS DOING BUSINESS INTERNATIONALLY

Creating a presence in overseas markets is an exciting and potentially lucrative venture for many US technology organizations. It can also be a difficult one for companies new to international expansion. Beyond the operational challenges caused by differences in time zones, languages, and currencies lies a world of unfamiliar compliance regulations, tax codes, and quirky local employment laws. Rules for each vary from country to country and region to region, and the penalties for non-compliance can be stiff. In order to limit the number of challenges and frustrations that often accompany global growth, every company should consider these key points before heading abroad.

Have a plan. As obvious as that sounds, a remarkable number of businesses aren't clear about why they want to expand overseas. Rather than execute a well conceived plan, they enter international markets with a "Ready... Fire... Aim" approach, and they often incur unexpected costs and run afoul of confusing regulations. The right time to start looking at expansion is long before you need it to hit your top and bottom line. Take time upfront to discuss why you are going, research multiple markets, and know what you hope to achieve. Whether you are heading overseas for new market opportunities, tax reasons, proximity to customers, or in pursuit of a diversified revenue base, a clear set of objectives should be your number one priority. Do your homework and avoid the risks and costs associated with permanent establishment (PE) snarls, withholding tax stings, or transfer pricing errors.

Get internal buy-in. To make expansion a success, you need finance, HR, sales, shipping and other departments working in sync and complementing each other's focus and skills. Every department needs to understand what other groups are striving to achieve, and they need to understand that managing international business can take a particular toll on the finance staff. Get the entire company on the same page before stamping your passport.

Understand the full cost of hiring. Don't overlook the U.S. equivalent of the "all-in" costs of doing business overseas. You will want to know exactly what your budgets are beforehand, and you need to know how much you are expected to spend per employee. Companies often neglect important "details" that can significantly affect their success overseas. For example, costs for employer Social Security obligations, income and business taxes, and compliance issues can have a dramatically adverse impact on both the bottom line and your administrative time. Other employee costs may include company cars, fees for full-time contractors and mandatory pensions. In your cost-benefit analysis, you need to incorporate all of these variables, which differ from country to country. Be especially mindful of contractor vs. employee status overseas as well, and bone up on employment law or get help when hiring.

Know your VAT (value-added-tax) obligations. If you are going overseas to sell a product or a service, be aware of VAT's many ramifications. The 27 European Union member states have a harmonized VAT system, and the non-EU countries follow similar principles. Rates are high, from 15 percent to 25 percent, and there is little margin for error. Don't assume that VAT works just like sales tax in the United States (it doesn't), that VAT doesn't apply to non-European businesses (it does), or that VAT isn't an inescapable part of doing business in Europe (it is). Penalties for mistakes and non-compliance abound, so getting it wrong is costly in terms of both profitability and cash flow. For more about VAT registration and compliance, please see the sidebar.

Manage your employees' expectations. It can be challenging to keep employees on the same page when they are scattered among several continents and different time zones. Employees hired locally in subsidiaries may have a different view of performance benchmarks, corporate culture and acceptable business practice. Expatriate employees may require more time to achieve their goals, and they may encounter unforeseen snags. Keep communication strong, and lay out clear expectations of responsibilities and objectives. Assume that your U.S. office will likely outperform your newly formed overseas offices, at least in the beginning.

Whether your plans call for just a few employees overseas or operations in multiple countries, a clear strategy will help your organization avoid problems, putting you in a position to take advantage of the myriad opportunities that exist in foreign markets. Take your time, do your due diligence and seek out proper advice.

High Street Partners is a global advisory services firm which offers cross-border accounting, finance and HR-related services to organizations doing business internationally. The firm provides a wide range of services related to the implementation and ongoing management of international subsidiaries and other entities, including registration, payroll, accounting and bookkeeping, tax compliance, advisory, and HR localization services. For more information, please visit www.hsp.com.

The cost/benefit of a cross-border business transaction should always take into account any potential VAT impact. How to avoid the most common VAT problems:

1. Understand VAT 101. Businesses are supposed to be VAT tax collectors, not taxpayers. The simple objective is for your company to pay over VAT collected from customers, and get a refund of any VAT paid to vendors or on imports. When your business pays a VAT, it should usually be recoverable, if the rules are followed.

2. Get a VAT registration. Never do business in Europe without one. VAT registration gives your business EU VAT privileges and ensures you don't get stuck with irrecoverable VAT on purchases and on imports. It costs little to register, and although there is a compliance cost of keeping records and filing VAT returns, it is much less than the cost of getting it wrong.

3. Avoid being an importer into Europe if at all possible. Get your customer or reseller to do it and you will avoid many issues. Too often companies talk themselves into this avoidable situation -- mostly to please the customer and "take care of the VAT" without realizing what it really means.

4. If you must be an importer, always do so in your own name with your own VAT number. If you don't use your company's name and VAT number, you will be non-compliant and the VAT paid may not ever be recoverable, resulting in a hit to your bottom line.

5. Use EU cash flow benefits and minimize compliance headaches. Register for VAT in just one EU country, clear goods through customs in that one import country, and move those goods from there on to any customer in another EU country. This will keep your VAT registrations to a minimum and ensure that you pay import VAT only on goods that are staying in the import country. Additionally, customers outside the import country are neither charged VAT nor involved in customs formalities.

6. Know the local rules. While EU VAT rules are broadly the same, each EU member state has local variations. For example, in the United Kingdom, vendors of cell phones and computer chips have a different VAT regime than the rest of the trading community; France doesn't permit non-resident businesses to register for VAT except in limited circumstances; Ireland offers cash flow benefits for exporters and foreign businesses.

7. Take informed advice. Ignorance isn't bliss. VAT problems are difficult and time consuming to fix retrospectively. But there is good news -- VAT is entirely manageable when dealt with pro-actively beforehand.

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