Look before you leap

What to consider before doing business outside the U.S.

INTERVIEWED BY ADAM BURROUGHS

e-book: For more information on international tax, download *Going Global: International Tax Issues* at skodaminotti.com/INTL.

JASON RAUHE, CPA
Principal, International Tax Services, Skoda Minotti
(440) 449-6800
jrauhe@skodaminotti.com

Before conducting business outside of the U.S. for the first time, a company must establish the business case for doing so. That means looking beyond just the profit potential on the product or service to the other costs that can be involved, of which there are many.

"The culture of a country or a particular region affects how business is conducted," says Jason Rauhe, CPA, principal of International Tax Services at Skoda Minotti. "You need to understand the culture and have conversations with key people. That involves more than networking at a trade show. It can include getting feedback from local focus groups so you can understand the people and their needs — an important early step because U.S. products don't always translate well."

There are also logistical issues to consider, the most basic among them are how to ship your product to the country and who will be your distribution partner. It's far more complicated than shipping domestically.

Smart Business spoke with Rauhe about doing business outside the U.S. for the first time — the early steps and what to consider before making a move — and how to handle transfer pricing.

How long might it take to begin doing business outside the U.S.?

The timeline for launching a product or service in another country varies widely. One contingency is whether you're just shipping and distributing or you intend to set up your own legal entity. A thorough study should be conducted early in the process to determine its viability.

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Generally, it's important for companies that are considering doing business in a foreign country to slow down and think about all the aspects of it. Too often the sales department gets excited about the revenue potential. When you do your research and get into the details, however, it may not be as good of an idea as it first seemed.

You don't need a thesis-level study on the new market potential, but thinking ahead and soliciting the aid of an adviser who knows what questions to ask, especially if this is your first attempt at conducting business in another country, is always recommended.

What should companies expect in terms of compliance requirements for doing business overseas?

If you will be doing enough business in a foreign country that you have a taxable presence, you will have local taxes to pay. If you will have a subsidiary in the country that's tied to a U.S. headquarters, then you will also have a U.S. filing requirement.

The U.S. levies penalties for not filing forms when you have foreign operations that can be as much as $10,000 per form per year, which quickly adds up. Also, the country in which you conduct business will have its own penalties it will claim.

The tax situation, whether foreign or domestic, shouldn't drive business decisions. But if it's brought in to the discussion early, decisions can be made to enhance the business opportunity and avoid pitfalls.

What should companies consider if they already have foreign subsidiaries and are worried about transfer pricing?

Transfer pricing is the allocation of profit among legal entities in different countries. In the pursuit of revenue, countries want to maximize their profit in a taxing jurisdiction. Transfer pricing sets arms-length standards for how money is allocated. Have documentation and price accordingly or the country in which business is being conducted will make rules that favor it.

There are two main components of documentation. First, there are legal contracts between legal entities that determine responsibilities, pricing and other standard legal tenets such as interest rate, tangible goods price, hourly rate for service, etc. The second document, which is more economical and functional, outlines who bears what risk and assigns the expected profit for the risk each party is taking. That's determined through a search of public databases that generate the acceptable price range.

The Organisation for Economic Co-operation and Development has guidelines for transfer pricing. Some countries have additional requirements in their tax legislation. A global policy is established first, then local documents from the country in which business will be conducted are required. ●

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