Business Abroad

Three things every company should consider before going international.

BY MATT MEDLIN

THANKS TO DIGITAL TECHNOLOGY, the world just keeps getting smaller. It's easier than ever for companies to develop business and sell products outside the United States. Companies should definitely consider every opportunity to profit abroad, but they need to get the right advice from the beginning to understand the risks and how to manage them effectively. Here are three areas companies often overlook in their rush to profit from the global economy.

ANTI-CORRUPTION LAWS

The United States has strong anti-corruption laws in the form of the Foreign Corrupt Practices Act (FCPA), and we are far from alone in imposing severe penalties for corruption. Unfortunately, running afoul of these laws is easier than you might think. The FCPA applies to virtually every U.S. business and citizen with the potential for criminal, as well as financial, penalties — think jail time. There are ways to protect yourself, but they are less helpful after corruption occurs. Understand these issues thoroughly in the context of your industry with the advice of an experienced attorney.

In some countries, corruption is commonplace, meaning you should approach these countries with extreme caution. The Corruption Perception Index, issued by Transparency International, ranks countries according to perceived incidence of corruption and is a good place to start your research. If corruption is endemic, be very careful.

AMERICANS LIVING ABROAD

Americans, including Green Card holders, are subject to U.S. income tax regardless of where they live and work. In other words, their worldwide income will be subject to U.S. income tax. Depending on the duration of their work outside the United States, Americans can also be subject to tax in other countries. To address the impact of double taxation, Americans may receive a credit for some or all taxes paid to another country.

Another tax break for expatriates is the Foreign Earned Income Exclusion. If Americans move abroad, they can exclude non-U.S. earned income up to $100,800 and non-U.S. housing costs if they are physically outside the United States for a certain number of days.

Some employers use tax equalization to ensure that the tax costs incurred by an expatriate approximate what the taxes would have been had the employee remained in the United States.

Finally, Americans living abroad must also report their non-U.S. bank or investment accounts to the Internal Revenue Service if they meet the reporting threshold.

COMPANY TAXATION

Selling across borders can bolster your bottom line, but it can also make your company's tax returns much more complicated. One of the best things you can do is get your taxation structure in place before you make your first non-U.S. sale. The U.S. tax code requires you to make decisions about how your non-U.S. operations are reported for U.S. tax. And you cannot wait until you file your tax return; rather, you must report these decisions to the IRS within 75 days. If you don't, you can lose beneficial treatment and end up paying more taxes than necessary.

Another critical issue is situating assets in the right country, especially intellectual property such as software, which can drastically change in value. If you can get these issues figured out before your intellectual property is valuable, you can save a lot of money.

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CONCLUSION

Selling outside the United States is great for growth, but it can expose you to significant legal and financial risks. Before you expand abroad, make sure you have legal counsel and other experts by your side — and that they truly understand the specific countries and regions in which you plan to do business. If you're not willing to invest in the right advice, you're probably better off sticking closer to home.

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