



International Operations Strategies

May 28, 2009



Agenda

- Business opportunities
- Financial reporting issues - IFRS
- Current trends
- Tax – conducting business abroad
- U.S. tax consequences



Business Opportunities/Requirements

- Infrastructure
- Knowledge of foreign country
- Financial diligence
- Marketing plan
- Financing



Reason?

- Export strategy
- Take advantage of lower cost manufacturing capabilities in foreign countries
- Leverage technological knowledge
- Geographically closer to end customer



Financing

- Leverage existing relationships
- Programs are available to assist
- US Export-Import bank financing
- Current economic climate
- Long-term financing considerations



New Accounting Standards - IFRS

- International Financial Reporting Standards (IFRS)
- One common accounting body of knowledge
- Provides global consistency
- Rules–based approach (US GAAP) vs. Principles–based approach (IFRS)



IASB VS. FASB Standards

IASB

8 International Financial Reporting Standards (IFRS's)

41 International Accounting Standards (IAS's) – from 1973-2000

FASB

163 Statements of Financial accounting standards (SFAS's)

116 Statements on Auditing Standards (SAS's)

SEC's IFRS Roadmap

- The SEC extended the opportunity for responses to its “roadmap” until April 20, 2009.
- The roadmap is intended to ultimately lead to the mandatory change for all public companies to be required to file in IFRS
- The Commission plans to decide in a vote in the year 2011 if it will be mandatory for all public companies to use IFRS by 2014
- The SEC plans on allowing larger companies in specific industries to file using IFRS in 2009

Adopting IFRS – Key Concerns

- Must restate all historical financial statements for first year presentation
- People – time, energy, and training
- ERP System capabilities
- Must fully evaluate impact on financial statements as a result of conversion

Major GAAP/IFRS Differences

- IAS 12 vs. FAS 109 – deferred taxes
- Property, plant, and equipment (cost model vs. revaluation model)
- Inventory
 - LIFO not permitted

International Coordination

- Statutory filings
- Local GAAP
- Consolidation packages
- Tax filings



Risk Management

- Reporting systems in place (must)
- “People on the Ground”
- Laws and regulatory issues
- Must stay current

Other Issues

- Foreign currency
- Current trends



Current Trends

- Other countries now in play
- US companies continue to expand internationally
- Transportation concerns
- New barriers will emerge



Tax Issues

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Possible Tax Consequences of Doing Business Abroad

- Business level income tax
- Value Added Tax (VAT)
- Income tax, VAT, payroll tax registrations
- Employee level income and social security tax
- Employee benefits; difficulty in terminations, etc.

Ways to Conduct Business Abroad

- US company simply sells to foreign customer
- US company sells to independent distributor
- US company operates as a branch
- US subsidiary operates as a branch
- Foreign subsidiary (Query ownership)

Taxation of Business in Foreign Countries

- Is branch taxable?
 - Office?
 - Employee presence: at customer's office or working from home? How long?
 - Inventory
 - Tax treaties: permanent establishment? (see handout #1 & #2)
 - Construction sites
 - Fixed base
 - Real estate

US Taxation of Business Overseas

- Foreign tax credit
 - US C corp. owner
 - US S corp. partnership owner
 - US individual owner
- Check the box elections (see Form 8832 handout #3)
- State taxation (apportionment but no foreign tax credit)
- Repatriation of untaxed foreign earnings
- Deemed dividends (Subpart F, PFIC, FPHC)

Employee Taxation in Foreign Countries

- Income tax
- Social security tax
- Who pays salary? – US company or Foreign company
- Treaty exceptions
- Social Security Certificate of Coverage
- Split employment contracts

US Taxation of Employees Working Abroad

- Foreign tax credit
- § 911 Exclusion
- Housing exclusion
- No state tax relief unless individual lacks state residency
- Employee vs. independent contractor U.S. social security differences (Timothy Geithner example)

Tax Havens, etc.

- Controlled foreign corporations
- “Subpart F” income
- Passive Foreign Investment Company (PFIC)
- Foreign Personal Holding Company (FPHC)
- Repatriation of foreign earnings

Other Issues

- Transfer pricing
- Interest Charged Domestic International Sales Corporation (see Tax Savings handout #4)
- Import duties
- Foreign bank account reporting (see TDF 90-22-1 handout #5)
- Potential International Tax Law Changes (see handout #6)



Questions

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