

Financial challenges for exporters. Is your business in control?

Globalisation has brought overseas expansion within the grasp of more and more businesses and how best to take advantage of the opportunities is moving up the board room agenda. This change in direction will undoubtedly be taking companies outside their comfort zone, and the uncertainties and how to deal with them could cause many opportunities to remain unfulfilled. The challenge for businesses is to find a way to manage and control the process so that ambitions become reality and the business succeeds in foreign markets.

Research the market

To be able to succeed, thorough research into the strengths and weaknesses of a particular market is a must. It is essential to gain an in-depth understanding of the target market including its regulations, business etiquette and culture, as well as the local trading conditions. This research must be focussed on assessing whether or not a market is right for your product or services. Time spent on the ground immersing yourself in a particular territory is likely to be time well spent, and participating in overseas events and trade fairs can be a good first step to test the market and identify potential customers and contacts for the business.

Strategic decisions

Having researched a market and assessed the opportunities for your business, you will gain an appreciation of the way in which your product or services can enter the market. Different strategies will work well for different types of business, but it will be useful to assess the options, such as:

- A natural growth strategy;
- Joint venture arrangements;
- Licensing or franchising arrangement;
- Acquiring an existing business.

Discussing the alternatives and resolving the most suitable strategy for your business will be a fundamental process to work through prior to committing further time and investment into the expansion process.

Taking advice

Successful exporters of products and services are likely to have taken a considerable amount of advice along the way. Getting upfront financial advice will almost certainly pay dividends at a later date, and an experienced adviser can help ask the right questions, making you aware of what you need to know at the right time. Doing things in the wrong order could result in serious delays and possible loss of work. So what sort of issues need to be on the radar? From a financial perspective the type of issues that should be discussed with your advisers would include:

- **VAT and customs duty**

The VAT and custom duty implications need to be advised on very early in the process. It is important to have good internal communication with the departments that manage sales, finance and logistics, as each department has a key responsibility in making the transaction not only VAT compliant, but also VAT efficient.

The basic position is that VAT is due on the sale of goods in the location when they are sold. Manufacturing stock in another country will normally mean that a local VAT registration has to be considered, so it is worth checking to see if there are any simplifications or local rules that can prevent this. If you sell goods to private individuals in European Union (EU) countries, who are not registered for VAT, such sales are charged with UK VAT, subject to the distance selling rules. Each EU country has a distance selling threshold which means that once the local threshold is breached, UK VAT is no longer applicable on the sale and instead, the business must register for VAT in the customer's country and charge local VAT on the supply.

As customs duty is not recoverable by a business, it is imperative that the two key points of classification and valuation are considered. The tariff code will determine the rate of duty applicable. This should be checked for every type of product sold as seemingly minor differences can impact the duty rate. The valuation will generally be based on sales price and delivery for third party transactions. Where the sale is made between connected parties, the valuation will be subject to further scrutiny and transfer pricing agreements can affect with the valuation position.

- **Import and export procedures**

Understanding the import and export procedures for the country will enable your transition to be made on time and hassle free. The opportunities for importing and exporting have never been greater, but the details involved in these operations can be quite complex. To understand the country specific import/export procedures, you'll need to be equipped to deal successfully with banks, freight forwarders, customs brokers, and foreign customers. You, therefore can provide your business with cost effective and timely execution of your orders.

- **Business Structure**

The usual decision is whether to run the business through a branch of the existing UK company or to set up a local company. Local advice from the international territory which you intend to trade with is highly recommended, as there are usually different tax and legal requirements for the various types of entity. In making this decision you should consider both the short term and long term implications, as trying to make changes down the line may be both costly and time consuming.

- **Funding and foreign exchange**

In a recent study by HSBC, 33% of international UK businesses cited dealing with foreign exchange as their biggest challenge. This is an area to consider in some detail, and it is important to devise a corporate strategy for managing the foreign exchange volatility, risks and exposures that arise. Included within this strategy should be consideration of the accounting and tax treatment of foreign exchange gains and losses, which can vary in different territories.

Direct tax

Managing your international tax burden can make a considerable difference to the financial reward that is ultimately achieved. In broad terms, the tax planning should consider the following impact areas:

- **Tax attribute management:** This requires an understanding of the foreign tax system that you will be exposed to and maximising any opportunities that arise. For instance, what are the tax rates? Are there tax incentives for certain industries or

locations? What are the thresholds giving rise to a taxable presence? Asking the right questions to local advisers will enable you to build up a profile of the tax system, how it will impact on your business and what advantages may be available to you.

- **Trading and profit positioning:** This requires getting under the skin of the transactions that will actually be taking place and assessing where the profits of the business will be arising. There are a number of fundamental tax issues that need to be considered, and the areas that your advisers should be assisting you with include:
 - Reviewing the company transfer pricing on the inter-company transactions so that the profit in each territory can be appropriately supported;
 - Identifying the withholding tax implications of contractual arrangements that are entered into;
 - Assessing the implications of the UK Controlled Foreign Company regime, and how this impacts where the profits of the business will be taxed;
 - If an overseas company is incorporated, how this will be managed and controlled and where the strategic decisions of the business will be carried out;
 - If an overseas branch structure is adopted, deciding whether or not to elect into the new tax exemption regime for overseas branches.

- **Finance and cash management:** This involves looking at how the overseas activities are going to be funded, and the cash management and movements within the business. For instance, there are different taxes, as well as practical implications for funding debt or equity, and this decision may vary depending on what territories are involved. Additionally, the currency of funding will need to be considered from a foreign exchange perspective, and as many countries have thin-capitalisation legislation, the terms of such arrangements will need to be carefully considered. Another issue to think about would be the company policy regarding how and when funds are to be repatriated back to the UK, with the tax implications for this fund needing to be assessed at both the overseas and UK levels.

As businesses evolve and expand into new territories, companies more than ever feel the need to be able to control the process within their business comfort zone. Creating a framework to proactively manage this, and taking full advantage of the opportunities, will always be a combination of your knowledge and understanding of the business, combined with the support from external advisers. With suitable help and communication throughout the process, exporting into and trading in foreign markets should be a rewarding rather than frustrating journey.

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