Going Global: International Expansion and Business Implications

August 2016
Few Housekeeping Items

- Heather Burton, goTransverse, Moderator
- Recording today’s conversation
- Participants are in listen-only mode
- Submit questions via Chat (bottom panel)
Today’s Speakers

Mike Murphy, Chief Business Officer, goTransverse
Mike is a finance executive with 20-years experience managing the back office to drive global revenue. He has experience managing global accounting, revenue operations and finance organizations in fast paced technology companies through the transition to “as-a-Service” and international expansion.

Colin Matthews, Senior Manager of Global Tax, Avalara
Colin has worked in indirect tax for 8 years and specializes in the VAT implications for non-resident trading. Colin helps companies understand local legislation and assists them with their VAT registration and ongoing compliance obligations.

Patrick Neu, Avalara
Patrick Neu is Avalara’s in-house Sales Tax Expert in the recurring and subscription billing space, bringing numerous years of experience in the Finance and Technology industries. He specializes in working with strategic partnerships bringing sales tax automation to businesses of any size and using many different software solutions.
Today’s Topics

- Understanding why, when and where to start global expansion
- The HOW: think globally but act locally
- Considerations for success beyond regulations and compliance
- Taxation food for thought for the digital economy
Why Do Companies Go Global?

- **Growth**
  - Companies that deliver solid growth get rewarded
  - Global expansion is a way to fuel the growth strategy

- **The World is Flat**
  - Borders are no longer barriers for products, brands, technologies, etc.
  - Customers find you via Internet, digital marketing

- **World of opportunity outside of the US**
  - The US accounts for roughly 22% of the World’s GDP*
  - However, 78% of the world’s economy is outside the US

*Source: International Monetary Fund
When Should Companies Go Global

Depends. What can be capitalized on?

- Cyclical buying patterns?
- Partners moving into international markets?
- Requests from key customers?
- Inbound requests from foreign customers?
- Domestic country saturation?
1. Do your homework

2. Act global – think local

3. Develop a plan of action
Do Your Homework

- **Target countries**
  - Beachhead strategy
  - Similarities to domestic country
    - Languages
    - Cultures

- **Law of the land**
  - Obligations to customers
  - Collections for goods / services
  - Imports / Exports
Nuances and Between the Lines

Power Cables Not Compatible

Business Cases

Inadequate Infrastructure (Roads, Ports, etc.)

Technology Protocols

Consumer Buying Power

Exchange Rate Fluctuations

Access to Needed Skillset (Labor)
Think Global / Act Local

- Local presence
  - Employees / agents
  - Legal entity

- Mission Statement and Code of Conduct

- Partnerships
  - Key to success with expanding internationally
  - Ease transitions into a new region
  - Provide creditability in the market
  - Align and abide to code of conduct
    - Foreign corrupts practices
Develop a Plan of Action

- Do you need to create a legal entity?
  - Tax implications
  - Hiring implications

- Export compliance

- Data privacy considerations

- Back office considerations
Back Office - Things to Consider

- **Legal Entity Structures**
  - May need local representatives on legal entity Board of Directors
  - How do you manage Delegation of Authority?

- **Bank Accounts**
  - Understanding what is needed
  - Large multinationals can help, but can be SLOW!!

- **Contracts**
  - US law does not apply
  - Various regulations and rules may make your normal Terms and Conditions in adequate
Back Office - Things to Consider

- Statutory reporting requirements
  - Reporting both to the local country and US
  - Potential audit requirements

- Taxation
  - Income Tax considerations
    - Inversions
  - Sales/Use or VAT Tax considerations
Vastly Different Between Countries, States
Common International Expansion Scenarios

- Manufacturers trading internally and externally across borders
- Importing or domestic supplies and the obligations to register in each country
- Intra-community application, domestic reverse charge and triangulation
- Intrastat and reporting reconciliations

Chain Supplies

- Retail goods sold over the internet to consumers
- Distance selling thresholds for VAT registrations
- Understanding global warehousing implications
- Additional reporting requirements

E-commerce

- New EU rules for 2015 on B2C
- Use of the reverse charge across EU and globe on B2B
- Other withholding, transfer pricing and direct taxes considerations

Digital Services

- General rule
- Live events and conferences
- Use and enjoyment

Services
Must Consider

1. Taxable statuses?
2. What is the taxable supply?
3. Place of supply?
4. Is there an Exemption?
5. Who is liable?
Chain Supplies - Domestic

Purchase Invoice
Net 100
VAT 19

Sales Invoice
Net 200
VAT 38

German Vendor

US Company

German Customer

EUR 19
EUR 19
EUR 38

© 2016 Transverse LLC - Confidential & Proprietary
Output VAT

€100

Less input VAT

-€100

VAT due

€100

-€100
Output VAT

Less input VAT

VAT due

€100

€100

€0

€0
It is necessary to understand the other legs in the chain since only one party is permitted to perform the zero rated supply.

If B does the dispatch then C cannot. Companies must be careful how they structure their chains.

Traders will also require proof of export if the export/dispatch is performed by another trader to zero rate a supply.
Customer is Importer of Record

US Seller
US Warehouse

Customer pays UK import VAT and duties

Consumer
In UK
Seller is Importer of Record

US Seller
US Warehouse

UK Import
20% VAT to pay

UK Sale
20% VAT to collect

Consumer
In UK
E-commerce - Distance Selling

- Shift in place of supply to where consumer is based
- Thresholds set to avoid burden on small e-commerce vendors
- Thresholds set by each member state: €35k or €100k, or local equivalent.
  - Germany, Netherlands, UK, Luxembourg at higher threshold
- Option to VAT register prior to threshold being breached
- These rules only apply for countries in the EU where you have no physical presence, e.g.
  - Registered address
  - Other Permanent Establishment
- In these scenarios, you will be required to register for VAT from day 1
Digital Services – What are they?

- **Broadcasting Services**
  - Radio, television, film streaming, terrestrial, satellite cable
  - E.g. Netflix, Amazon Prime, Sky

- **Telecommunication Services**
  - Transmission of messages for communication
  - Voice, text and images through means such as landline, mobile phone, IM services & video call services
  - E.g. Skype

- **Electronically Supplied Services (e-Services)**
  - Online fan club memberships, dating websites, online subscriptions
  - Digital downloads of media: films, software, apps, games, literature etc.
- Difficult and time consuming to register for and report VAT in all 28 states
- EU-wide Mini-One-Stop-Shop (MOSS) filing
- Similar to old VoES return used by non-EU suppliers
- US (& all non-EU providers) must register for MOSS
- Rules on which country to register in:
  - Any member state if no P/E; or
  - In country of P/E
### Place of Service - Exceptions

<table>
<thead>
<tr>
<th>Service (B2B &amp; B2C)</th>
<th>Place of Supply</th>
</tr>
</thead>
<tbody>
<tr>
<td>Services relating to real estate</td>
<td>Country of real estate</td>
</tr>
<tr>
<td>Admission to cultural, artistic and sporting events</td>
<td>Country of performance</td>
</tr>
<tr>
<td>Passenger transport</td>
<td>Country of transport</td>
</tr>
<tr>
<td>Restaurant and catering services</td>
<td>Country of activity</td>
</tr>
<tr>
<td>Restaurant and catering services onboard</td>
<td>Country of departure</td>
</tr>
<tr>
<td>Short-term hire of means of transport</td>
<td>Country of disposal</td>
</tr>
<tr>
<td>Rest</td>
<td>Country of customer</td>
</tr>
</tbody>
</table>
Please use the Chat function on the goToWebinar (Bottom of Panel)
Thank You

Mike Murphy  |  goTransverse
mmurphy@gotransverse.com
www.gotransverse.com

Colin Matthews  |  Avalara
colin.matthews@avalara.com
www.avalara.com

Patrick Neu  |  Avalara
patrick.neu@avalara.com
www.avalara.com