IS YOUR VIRTUAL OR E-COMMERCE BUSINESS GOING GLOBAL?

The scale of the internet and the power of modern logistics means that quite small businesses can consider the whole world as potential markets for their goods and services, and sources for their supplies. Taking advantage of these opportunities will soon require you to navigate complex regulatory and tax systems.

There are three areas of tax you need to consider when you start to do business outside your current country:

- Taxes on the sale of products and services; Sales Taxes (ST), and Value Added Taxes (VAT)
- Taxes on moving goods across borders; Customs duties, Tariffs and Quotas
- Taxes on the profit from trading

Taxes on sales

Most countries levy a tax on sales to the end consumer.

In the US it levied at a state (and sometimes city) level, with the definition as to which types of goods and services it covers and the rate applied are defined, and the collection administered, by that state. Sales tax is levied only on the final transaction in which the goods or service is delivered to the end consumer.

Most other developed countries, including the UK, the countries of the European Union, India, China, Brazil, and many others use the more complex system of Value Added Tax. In this every sale (except some exempted items) has tax levied on its sales value at every stage of the manufacture of the product or service. Each producer reports how much tax they have charged their customer and how much tax they have paid their suppliers and pay over the difference between these two amounts to the tax authority. The main difference to this process is when goods and services cross country borders. Generally, no tax is charged on the sale of goods and services delivered outside the country, but tax is charged on all goods and services imported into the country.

When you start to sell your goods or services outside of your home country then sale or value added taxes will be the first issue you will need to address. You will need to know for each country (or US state):

- Are your goods and services subject to sales tax or VAT, and at what rate?
- What is the maximum value of goods or services that you can sell into that country or state before being required to register for the collection of tax, and to include the tax on your invoices? For most US states this level is $1 if you have a physical presence in the state, and about $100,000 if you have no presence (nexus) in that state. For VAT most EU countries require registration for sales levels above $30-40,000, and the UK at £85,000 ($115,000).
- How do you register as a collector of tax, and the processes that you need to follow?

Custom duties on imports and tariffs and quotas on exports

Customer duties are payable on the import of certain types of goods. The rate depends on both the country from which you are buying, and the type of goods you are buying.

Tariffs are what your customer will need to pay when buying from you, and there may also be quotas restricting the amount of a class of goods that can be sole to a particular country.

Generally, once you have complete custom forms describing the goods and their value your shipper will deal with the mechanics of reporting and payment. However, you need to factor in customer duties and tariffs when estimating the cost of your products and setting prices for customers.

Managing transaction taxes

If you are planning only to sell into or buy from only one or two countries, you may choose to deal with the administration yourself. However, the complexity of administration increases substantially as the number of countries you want to do business with grows. You will have a choice to either to invest in the systems and people that can handle this, or you can choose to sell only through a distributor organisation such as Amazon, e-Bay, or Etsy, who will handle the administration for you in return for a significant chunk of your profit margin.

Taxes on the profits from trading

The tax treaties between countries set out which country is entitled to tax the profit on your sales. The most common rule is that the profits on the sale of products in a country are taxable only in the country in which the company selling the products is resident unless that company has a "Permanent Establishment" in the country in which the sales take place and the profit arises. If there is a Permanent Establishment (PE) then profits attributable to the business processed through the PE are taxable in the country in which the PE is located.

You do not create a PE if you only establish a company in another country to simplify the administration of business in that country. Nor do you create a PE if you have an inventory of goods in the country for display, or for sale through an independent agent. You do however create a PE if you establish an office, shop, or factory, or if you engage an employee to run the business. A PE is not necessarily a legal entity. It can be run as just a foreign branch of you home company. However, if your plan is to trade in the country for the long term, it is often more convenient to incorporate a subsidiary company in that country.

In planning your international expansion your objective should be to build sufficient legal and administrative structure to meet your new legal and tax obligations, but to keep that structure as light and inexpensive as possible.

IF THIS LOOKS LIKE YOU CONTACT US FOR A CONFIDENTIAL REVIEW OF YOUR SITUATION, AND TO DEVELOP A PLAN TO MANAGE IT