

Key considerations for *successful* International Expansion



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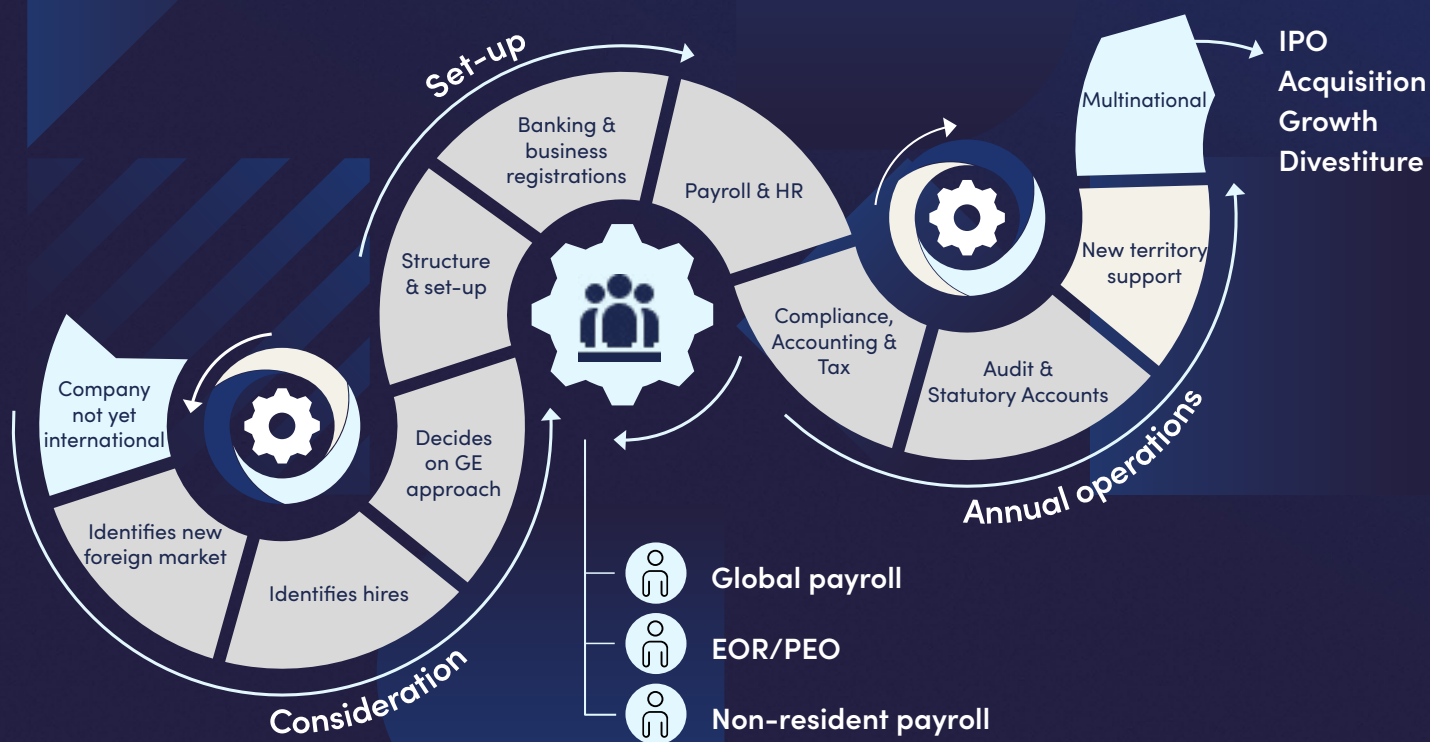
Whether you're a seasoned entrepreneur or a growing startup, venturing into new global markets opens up a realm of exciting opportunities and potential growth.

Global expansion presents various challenges and complexities for businesses, making it a daunting endeavour. Navigating diverse markets, cultural differences, regulatory landscapes, and logistical hurdles can be overwhelming.

Each country presents its own set of unique challenges; from cultural nuances, regulatory compliance, opening bank accounts and managing payroll to selecting the most cost-effective options for establishing an in-country presence.

Successful international expansion requires *meticulous* planning and for many businesses, setting up internationally means starting from scratch; a new company, new tax registrations and, importantly, new employees.

Global Expansion Typical Journey

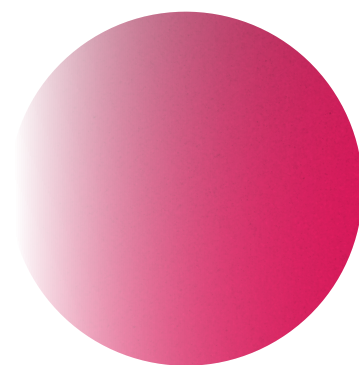


How to get Global Expansion right

Expanding internationally represents a significant investment for companies, demanding substantial time, careful consideration, effort and collaboration with both colleagues and external advisers.

While these factors may be challenging to quantify, they are crucial for the success of cross-border ventures.

Underestimating the resources needed can lead to costly setbacks and hinder progress.



In preparation for expanding your operations beyond domestic borders, it's essential to address key questions that can *shape* your strategy and its success.

The following questions are a good place to start.

Key Questions to Address

Company Set-up and Structure

- What legal structures are available and which one will best protect my business?
- What does the incorporation process entail?
- What are our cash handling and banking requirements across different countries?
- Where and why do we need to register to do business?
- Are there any mandatory in-country officer roles e.g. local resident directors? How are they appointed?

Regulation, Accounting & Compliance

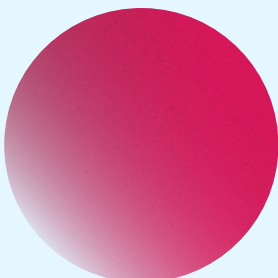
- How do we ensure that all group entities maintain compliance with all local legal and regulatory requirements?
- What regulations on investments might we face?
- What accounting and audit requirements can I expect to encounter?
- What type of general and liability insurances are available to protect my business?

Employment

- How can we establish a competitive hiring and staff-retention strategy?
- What type of visas are required if we expatriate key employees to the new location?
- What employment laws are in place, and what are the common expectations for salary and benefits?
- What is the process to hire and terminate employees?
- How are individual taxes structured?
- Is the talent we require available in the local market?

Tax

- What are the corporate tax rates in the target country? Are there any tax incentives or exemptions available for foreign businesses investing or operating in the target countries?
- What are the rules regarding transfer pricing, and how might they impact our international operations and tax liabilities?
- How will we navigate the complexities of withholding taxes on cross-border transactions, dividends, and royalties?
- What are the local regulations concerning value-added tax (VAT) or goods and services tax (GST), and how do they apply in each new market?



What is the best legal structure to establish?

One of the first decisions a business makes is choosing the appropriate corporate structure. While there are numerous forms of business entities, the structure most commonly used is a Private Limited Company, offering flexibility for international expansion.

There are various company structures to choose from and each type of entity has its own advantages and disadvantages.

Subsidiary

A subsidiary is a common route for those who are committed to a new market, providing legal recognition with customers, banks, as well as governments and tax authorities. A subsidiary typically refers to a wholly-owned or majority-controlled company by a parent or holding company.

A foreign subsidiary typically provides separate liability from the parent company and, in many countries, can be created quickly so that you can focus on growing the business knowing you have taken a compliant route to market.

Branch

Subsidiaries often set up foreign branch to further expand their reach and operations in new territories. Although both a subsidiary and a branch are entities owned by the same parent company, they operate differently.

A branch serves as a direct extension of an existing legal entity within the company group, operating in a new country. There is no legal identity distinct from overseas parent company and liability is retained at parent level.

When deciding on your legal structure, numerous factors must be considered, including the legal characteristics and tax implications of each option.

These considerations are essential for making an informed decision that *aligns* with the company's objectives and regulatory requirements.



Do I need an entity when expanding into foreign markets?

Generally, in order to employ people and conduct business in other countries, you must establish some form of legal presence or entity due to local employment laws, tax requirements, and regulations.

However, there are alternative ways a business can legally employ staff in another country, each with its nuances and specific applications.

Non-Resident Payroll

Certain countries with tax treaties make it easier for employers to operate internationally without establishing a local legal entity.

A Non-Resident Payroll registration can provide a company with an in-country tax identification, to enable the company to legally hire employees in a new location. These arrangements are only available in certain countries and can go by different names depending on the jurisdiction.

Non-Resident Employers may encounter fewer regulatory requirements, and be more cost-effective than setting up a legal entity; however this model is usually used for short term market development and carries compliance risks in relation to tax avoidance.

Employer of Record/Professional Employer Organisation

Employer of Record (EOR) can offer companies the ability to hire employees in foreign countries directly through a third-party.

The EOR takes care of the employer administration such as HR, payroll and benefits generally, for a fee either fixed or based on a % of the employee's remuneration. In the event of a dispute with the employee, the client of the EOR generally has to use the services of, and take advice from, the EOR for additional charges.

The EOR model does not allow you to acquire fixed assets within the country and it is important to consider the contract carefully to ensure you are protected from employment law non-compliance, IP ownership is clear and fee scales are communicated.



What is Permanent Establishment risk?

Permanent Establishment (PE) risk can be a major tax hurdle for businesses venturing into new markets when not adopting the conventional route of creating an entity.

PE risk arises when a company's activities in a foreign country, like having local employees i.e. a sales team on the ground via non-resident payroll or EOR, trigger corporate tax obligations there.

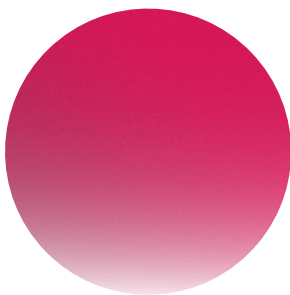
Local governments are placing greater scrutiny as to the activities being performed by workers employed or engaged by an overseas company to see whether those activities would be deemed to create a local corporation tax presence for the company.

The authorities can look into a number of factors, including:

- Whether a physical office is taken locally
- Whether a place of management exists
- Remuneration basis of the individual (e.g. salary vs bonus vs commission vs equity) and seniority of the job roles

Where it is likely that the PE rules will be triggered by your presence, establishing a local entity is often the best solution. This creates a formal presence, allowing for 'in-country' corporate tax filings and payments to be made, and crucially safeguards your well established parent company from potential complications off overseas tax regulations and any future tax litigation risks.

Not all companies doing business in a country will require a local entity and there are other strategies available that can help manage risk and still allow you to achieve your goals (via the EOR route or by operating an overseas payroll).



The key is understanding the local PE rules, know what triggers might apply and to choose an expansion method that allows you to grow and scale *smoothly*.

How can I build a global workforce?

It is no secret that across the globe, there is a large pool of skilled, accomplished, and specialised individuals – and their talents are not confined to the borders of any particular location.

Managing human resources (HR) on a global scale presents numerous challenges, from navigating diverse legal frameworks and cultural nuances to ensuring consistent compliance with varying employment laws. The complexities involved in overseeing a workforce spread across different countries can strain internal HR departments, demanding extensive resources, expertise, and budget.

A significant part of your expansion strategy is deciding how you are going to hire international employees in new foreign markets. The team you appoint to drive growth in your new location may be critical to your future international success.

Sending employees overseas

Sending your current workforce to foreign countries on assignments so they can learn first-hand from employees, partners, and customers is a natural choice for many companies. You will need to think about whether it is a one-time project, or whether there will be regular expatriates visiting the new office. In all instances, you will need to consider:

- Possible immigration issues
- Whether an assignment policy is going to be necessary
- Local employment law and HR including incentive and pension plans
- Expatriate tax and insurance
- Payroll compliance

Your people are the *heartbeat* of your organisation and the key to your success.



How do I set up a corporate bank account in a new market?

Setting up a bank account in a new location can be bureaucratic and should be factored into your plans as early as possible. In many cases, the most challenging aspect of the Global Expansion process is opening a bank account, and this remains consistent regardless of the simplicity of your banking requirements.

Banks are expected to understand and identify their clients in detail and this can lead to delays in opening an account as forms, identification and other information is swapped with the bank. In most cases you will be able to open an account, but it could take around three months to be operational.

Early consideration as to how you'll handle payments to local employees, suppliers, customers, and tax authorities is also important. Government regulations and banking KYC (Know Your Customer) rules are increasingly stringent in many areas. Some banks may mandate a local resident director, a locally registered office, and proof of a local address.

Additionally, banks may request detailed information such as business plans and require face-to-face meetings with named account holders.

What are the local tax, incentives and regulation considerations during international expansion?

Entering a new market comes with critical decisions for businesses. From navigating the right corporate structure, to complying with employment law, tax regulation and market specific rules around VAT and customs. A strategic approach is essential for a successful launch.

Many countries offer incentives for foreign investment, including tax efficient stock plans, R&D schemes, reliefs and government grants. By carefully navigating the entry process, you can unlock these benefits and position your business for success in the new market.



Planning for the unexpected will ensure you are *prepared* for – rather than reacting to – specific circumstances.

Do it yourself vs outsourcing – what are the pros and cons?

Deciding whether to handle the myriad of challenges of international expansion internally or seek help from external providers is a key consideration.

When opting to tackle expansion internally, businesses face the daunting task of navigating unfamiliar markets, including legal, regulatory, finance and cultural landscapes. This can lead to significant time and resource investments in research, establishing local entities, complying with local laws, and managing operations across borders, time zones and languages.



By outsourcing the heavy lifting of your international expansion to specialist firms, you *gain access* to global expertise, local knowledge, banking networks, and streamlined processes to navigate these challenges more efficiently.

While it may entail additional costs, outsourcing can give your business the best chance of success in a new market, working with global experts to help accelerate international growth.

Ultimately, the decision between in-house expansion and outsourcing depends on factors such as company resources, budget, risk appetite and strategic priorities.

We have helped businesses navigate the complexity of international all over the world for over 30 years. While the business goals, circumstances, and industry type vary significantly from client to client, the critical questions any organisation should consider before they begin the process of expanding remain the same.



It's important that rapidly scaling companies looking to achieve the next level of growth receive specialist support, knowledge and expertise to guide them throughout their expansion journey.

We've been there. We've helped thousands of ambitious founders, c-suite executives and management teams to navigate multiple factors when expanding internationally.



Our clients' world never stands still. Neither do we.

We've built a team of **1,400+** with a global presence across **17 jurisdictions**, **30+ offices** and an affiliate network of **100+ trusted partners worldwide**. From the Americas to UK and Europe, Crown Dependencies and Asia, we're designed to move with you.

Let's make ambition happen.



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go to **zedra.com** or contact us on:

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