

Are you overlooking tax issues?

Keep abreast of foreign tax laws to remain competitive.



Dave Luzi

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Midsized companies often overlook tax issues when they look for opportunities in today's fast-growing foreign markets. But poor international tax planning can result in a company paying more than 50% tax on its profits says Dave Luzi, international tax managing director at RSM McGladrey.

Staying current on foreign tax laws, however, can be difficult, since tax codes are continuously changing. For example, China, previously known for its generous tax incentives, is now undergoing a major tax-policy shift to increase foreign investment in high-tech industries.

"Countries use their tax structures to promote the kind of business that they want to encourage," explains Luzi noting that the resulting tax changes can create both opportunities and problems.

He says companies heading into foreign markets should remember the following rules of thumb:

- **Location matters.** Tax planning implemented for business operations will vary from country to country, depending on economic policy. Brazil, for example, has high tax rates and tough monetary restrictions, while Poland and Hungary encourage foreign development by offering tax-saving opportunities.
- **Company structure is critical.** S corporations don't qualify for the same foreign tax credits typically available to C corporations. Limited liability companies - now popular in the U.S. - fare even worse and don't always qualify for tax treaty benefits.
- **Transfer pricing provides opportunities.** But it can be a bit of a "high-wire act," says Luzi. Inter-company transactions can be used to control where profits are taxed, he explains. Still, tax authorities in both the U.S. and abroad aggressively pursue what they believe to be their share of the profit on these transactions.