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The Los Angeles Business Journal will conduct its first annual International Business Forum & CFO Awards as a free virtual event on October 27th from 2:00PM to 3:30 PM.

We hope you will join us for this special event where we will bring together and celebrate the global business community and those outstanding corporate stewards who are leading the way in international trade, investment, technology, and innovation.

The live virtual event will include an insightful panel conversation with market leaders sharing their expertise on the critical role that the international business community plays in our economy, followed by the awards presentation of this year's honorees.

We will also feature an elite panel of industry experts who will engage in a roundtable discussion about the ways companies can grow internationally, including insights on how, when and where to expand overseas, success stories, and how to navigate international expansion.

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Beyond Meat	Cadence Translate	California Fashion Association	CHG-Meridian USA Corp
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Seven Tax Questions U.S. Companies Might Ask Before Expanding Overseas

By RAMON CAMACHO

With global tax reform shifting toward greater tax transparency and governments in need of revenue, U.S. companies seeking to expand into new markets or establish new businesses internationally should carefully consider these international tax-related questions.

1. DO YOU HAVE A PERMANENT ESTABLISHMENT (PE)?

A company with a taxable presence (a PE) in another country faces foreign filing and tax paying obligations. Without a PE, tax treaties may limit the foreign country's ability to tax the company.

2. TO DEFER OR NOT TO DEFER?

The profits of a foreign corporation are generally not taxed in the United States until they are repatriated. However, the foreign earnings of S corporations, partnerships, or other flow-through entities are taxed currently to their U.S. owners. Generally speaking, deferring U.S. tax is desirable if low foreign taxes leave more earnings available to reinvest in foreign operations. However, after the Tax Cuts and Jobs Act (TCJA) passed in 2017, achieving deferral has become much more complex.

3. DOES AN IC-DISC MAKE SENSE?

The United States provides incentives to qualified producers or distributors who are directly involved in exporting or selling products to distributors or wholesalers outside of the U.S. Taxpayers may exclude tax commissions paid to an Interest-Charge Domestic International Sales Corporation (IC-DISC) for supporting overseas sales. When ultimately paid to individual IC-DISC shareholders, IC-DISC commissions are ultimately taxable at a 20% rate instead of the much higher corporate and/or individual rates that apply to ordinary business income. IC-DISCs involve little cost, but a new legal entity must be established, a timely election must be made, and the DISC must meet specific other requirements. The TCJA made significant changes to the U.S. tax system; however, an IC-DISC can still provide tax benefits to U.S. companies that export goods.

4. WHAT ABOUT TRANSFER PRICING?

U.S. and foreign tax authorities often assert that related party transactions improperly understate income. Companies new to international taxes often do not understand the complexities involved with developing a defensible transfer pricing policy. Failure to maintain documentation that proves intercompany transactions are conducted at arm's length could result in substantial penalties.

5. HAVE YOU REPORTED ALL FOREIGN BANK ACCOUNTS?

At any time throughout a calendar year, U.S. taxpayers with a financial interest in, or signature or other authority over, a foreign bank account with a balance of $10,000 or more must file a Report of Foreign Bank and Financial Accounts (FBAR) with the Treasury department. Most taxpayers who venture abroad must open a foreign account to support their local business activities, and many are unaware of their filing obligations.

The decision to expand your business operations in another country is unique to your company.

6. WHAT ABOUT YOUR EMPLOYEES?

U.S. companies often send their best people to open a new office in a foreign location. Aside from whether such activities create tax nexus for the company (they usually do), the employees themselves may face tax and filing obligations in the host country. Moreover, they will also face tax and filing obligations in the United States if they are U.S. citizens because, unlike virtually every other country in the world, the United States asserts tax jurisdiction over its citizens, regardless of where they live or work. Therefore, U.S. companies should consider and quantify the impact of a foreign assignment on their employees and determine whether tax equalization is appropriate.

7. BEWARE THE TOLL CHARGE ON OUTBOUND TRANSFERS.

Companies that shift business assets offshore may unknowingly trigger a U.S. tax on the transfer. Generally speaking, the tax law allows companies to reorganize their business assets without triggering tax implications. However, transfers of business assets to a non-U.S. business entity could trigger a U.S. tax unless the taxpayer follows special regulatory rules, including filing certain notices with the IRS.

CONCLUSION

The decision to expand your business operations in another country is unique to your company. The tax questions provided above could impact the entity structure you choose, and all of them should be considered when developing your global growth strategy including considering tax law changes domestically and internationally. Effective global structuring can reduce a company's global effective tax rate, increase operational efficiencies, and improve exit alternatives.

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HSBC Invests in SoCal Business Growth – at Home and Around the Globe

Home to a vast array of successful and growing businesses, Southern California has a lot to offer both start-ups and established companies. That's one of the reasons HSBC, an international bank with a 160-year history, has made Los Angeles a US hub. From smaller entrepreneur-owner companies to larger corporates to international subsidiaries – find out what HSBC is doing to support local businesses as they grow, here in SoCal and new markets around the world.

SUPPORTING TECH GROWTH WITH AN EYE ON SUSTAINABILITY

"We're seeing a lot of growth in the tech sector in LA," said Paul Weeks, HSBC Corporate Banking market head for the region.

Building long-lasting relationships with tech firms as they grow is a key objective for the bank, but they recognize that start-ups can take some time to become cash-flow positive. That's why HSBC launched its venture debt initiative in 2019.

"This new proposition allows us to lend to earlier stage, emerging technology businesses, which historically we have not done," Weeks explained.

At the outset, the bank focused this program on high-growth enterprise software firms. However, with their aggressive sustainability and ESG (Environmental, Social and Governance) goals – HSBC has started opening the door to cleantech companies making their homes in SoCal as well.

"Sustainability is something that HSBC is passionate about," said Weeks.

The bank's Business Plan for the Planet includes sustainability commitments to reach net zero in their operations and supply chain by 2030 and reduce financed emissions from their portfolio of customers to net zero by 2050. The bank will also dedicate up to $1 trillion of finance and investment by 2030 to help customers transition to low carbon.

"There's been so much innovation around sustainability as well broadly across ESG, and we're very excited about lending into the various subsets – from renewable energy to electric vehicles," Weeks said.

HSBC also offers market-leading products to further help companies along their sustainability journey, including green deposits, green bonds, and sustainability-linked loans.

CREATING INNOVATIVE PROGRAMS TO PROMOTE FEMALE ENTREPRENEURS

In addition to climate commitments, HSBC focuses on the social aspect of ESG. Internally, this includes several employee resource groups (ERGs) that bring together people with common interests, heritages and backgrounds to effect change. "Our ERGs are incredibly innovative," said Kelly Mohritz, HSBC US head of International Business Banking.

The Balance ERG, for instance, which concentrates on diversity and gender equality, created a program called Coaching Circles. Each coaching circle is made up of eight to 10 employees and led by a senior executive, allowing staff and leadership to interact with people from other areas of the bank they might not have otherwise.

"The program was so successful, we're adopting it externally as well with HSBC ROAR in partnership with Allbright," Mohritz said.

Allbright is a membership-based organization that gives women a space to connect and collaborate in a club environment. Allbright launched its first club in London in 2018, and HSBC US partnered with the group in 2019 when they opened their West Hollywood location. Their digital platform, born out of COVID, offers a variety of programs - including HSBC ROAR.

"HSBC ROAR will bring a group of five to six female founders together to focus on key business growth topics," Mohritz explained. "For each session, we'll have a seasoned coach join the conversation, a successful entrepreneur who is an expert on the specific topic to be discussed."

The goal, she said, is to help participants connect and build their businesses.

BUILDING RELATIONSHIPS ACROSS THE COUNTRY AND AROUND THE WORLD

While Weeks and Mohritz are both focused on helping their clients grow, they work with different types of companies. "Paul works with larger corporates who, for the most part, already have a significant international presence," Mohritz said. "I focus on smaller businesses with revenues of $50 million or less."

At the same time, Marissa Adams, HSBC ISB market head for the region works with companies headquartered outside the U.S. that have SoCal subsidiaries.

Regardless, HSBC's service model is the same for all their clients.

"Our accounts are managed by Relationship Managers who are located around the world," explained Adams.

That means a client based in SoCal will have a dedicated Global Relationship Manager locally as well as a contact in most countries where they have offices.

"This gives overseas offices a local contact who can provide guidance and insight," added Mohritz. "Plus, since Relationship Managers regularly connect – our clients have a team of people who truly understand their businesses inside and out."

Adams agrees that this is a differentiator. "Our international subsidiary banking managers work in tandem with Relationship Managers for the headquarters," she said. "This allows us to gain a deeper understanding of both the subsidiary's local needs as well as the broader global business for a unique perspective on how to support our clients U.S. growth."

HELPING LOCAL BUSINESSES EXPAND INTO NEW MARKETS

One of the things that sets HSBC apart is that they are a uniquely international bank. That benefits Weeks' corporate clients and the international subsidiaries Adams works with as well as the smaller businesses Mohritz's team serves.

"What we've found is that many of the companies we speak to in SoCal who don't perceive themselves as being international actually are," explains Mohritz. "For example, even though most of their business might be coming from the US - if a company is importing from China and selling into other markets like the UK, that's an international business who needs an international bank that will help them as their business continues to grow."

Weeks added that now is the perfect time for any company to think about expanding into new markets, no matter their size. There was also a pause with COVID, but the world is opening up and M&A transactions are increasing. "There is a lot of opportunity for investment there," he said. "Many countries are also providing incentives to encourage investment in their markets, so it really is very good time for companies to go global."

With 6,000 offices around the globe, HSBC supports corporates in over 60 countries and territories as well as smaller businesses in more than 30 markets. One of the largest banks in the world, HSBC has assets totaling more than $2.7 trillion and an industry-leading credit rating. A truly full service international bank, HSBC is also leading the way in the transition to net zero – and was voted Best Bank for Sustainable Finance by Euromoney Awards for Excellence in 2020.

To learn more, visit us.hsbc.com. Or contact the experts directly at Paul.m.weeks@us.hsbc.com, Kelly.l.mohritz@us.hsbc.com, or Marissa.k.adams@us.hsbc.com.

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International Tax Planning for the Media & Entertainment Industry

By FERNANDO R. LOPEZ JD, MBA

The digitization of the media and entertainment industry has transformed most aspects of its global supply chain, from the creation and acquisition of content to processing, editing, and global distribution. In addition to dramatically eroding the constraints of distance, time, and transaction costs, the digitized supply chain provides the opportunity for enhanced tax efficiencies. However, such tax efficiencies are not derived automatically. Proactive planning is required.

PLANNING FOR GLOBAL TAX EFFICIENCIES

Typically, individuals or business entities that create content maintain physical and tax residence in a single country. In many cases, this country of residence is not conducive to maximizing global tax efficiencies related to the content produced.

Let's take the example of a U.S. media and entertainment business (corporation or passthrough) that produces content for international distribution. Let's assume that it creates some content in the U.S. and other content is created via contract by individuals or entities in countries outside the U.S.

SCENARIO I - TAXATION WHERE CONTENT IS U.S. OWNED

• **U.S. Source Income**

Income generated by the U.S. corporation from the exploitation of content in the U.S. market is taxed at the corporate rate of 21%. Upon distribution, shareholders are taxed again at the rate of 23.8%. If the content is exploited via a U.S. pass-through entity (e.g., U.S. LLC or partnership), individual owners are taxed on such income at their normal graduated rates (max of 37%).

• **Foreign Source Income**

Income generated by a U.S. company from exploiting content outside the U.S. is referred to as "Foreign Derived Intangible Income" ("FDII") and currently benefits from a U.S. preferential export rate of 13.125%. Once distributed to individual shareholders, such income is taxed again at 23.8%.

In comparison, content exploited outside the U.S. via a U.S. passthrough entity results in individual owners being taxed at their normal graduated rates (max of 37%). While these U.S. rates may appear favorable for select businesses and individuals compared to their available options for having the content owned outside the U.S., in most cases careful planning for foreign ownership of content results in maximum global tax efficiency. Should Congress pass the proposed tax measures described below, the advantages of foreign ownership will be even more pronounced.

• **Proposed Increase in U.S. Tax Rates**

The latest Congressional proposals call for increasing U.S. corporate tax rates from 21% to 26.5% and the U.S. capital gains rate from 20 percent to 25%. In addition, Congress has set forth proposals that would increase the preferential FDII export rate from 13.125% to 20.7%. Finally, Congress is proposing to increase the tax on corporate dividends from 23.8% to 28.8%.

SCENARIO II - TAXATION WHERE CONTENT IS FOREIGN-OWNED

As an alternative to U.S. content ownership, let's assume the U.S. media or entertainment business (again a corporation or passthrough) sets up a foreign corporate subsidiary ("FORCO") in a low tax jurisdiction to contract with the U.S. and foreign content creators. The U.S. company can still be in charge of identifying content creators, marketing, and U.S. distribution, but the use of a foreign company ensures that content is funded and owned outside the U.S. and that the premium licensing and sales revenue is generated and primarily taxed outside the U.S. The relevant tax considerations of utilizing such a foreign arrangement are as follows:

• **FORCO Local Country Taxation**

As long as FORCO funds and directly engage foreign content producers, it should be considered the content owner with all the rights to exploitation. Assuming FORCO is in a low tax jurisdiction with a good tax treaty network, it should be able to generate global leasing and sales income in a very tax-efficient manner with minimal withholding tax. Moreover, FORCO should be able to benefit from a tax rate between 0 and 15% in its country of origin.

• **FORCO U.S. Taxation**

Due to changes in U.S. tax law after the Tax Cuts and Jobs Act of 2017 (TCJA), the operating income earned by FORCO will be included in the taxable income of U.S. shareholder(s) as a "deemed" (i.e., fictional) dividend, whether or not FORCO actually makes a cash distribution. However, the U.S. tax on this deemed dividend will be as low as 0% where the corporate tax paid in the foreign country is at least 13.2%. Alternatively, the U.S. tax will be a max of 10.5% if FORCO is exempt from corporate tax in its country of residence.

With appropriate planning, foreign earnings can be distributed to a US corporate shareholder without incurring any additional tax. In addition, since tax at the ultimate individual shareholder level can be deferred until shareholders actually receive a dividend, the strategy of creating and exploiting content from outside the U.S. offers the opportunity to realize enhanced tax efficiency.

CONCLUSION

The digitized supply chain of the media and entertainment industry offers substantial opportunities for tax-efficient tax planning. In addition to reducing the global effective tax rate, a well-planned international tax structure should permit ultimate shareholders to defer U.S. tax, thereby permitting more of the business's after-tax income to be reinvested into the supply chain and into the creation of new content.

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Business Owners Need Help from Experts to Focus on the Job at Hand

BUSINESS SPOTLIGHT

Many small, mid-sized or large business owners dream of running their own companies, doing the thing they love to do, whether it's providing a service or selling a product. They quickly find out too much of their time ends up being spent on legal documents, compliance, reporting, tax filing, financial planning, and human resources. In short, all the things they'd rather not be doing and probably know nothing about.

Enter 4D Marketing & Business Solutions Firm, a Memphis-based firm with nationwide and worldwide reach, including an office in Commerce, California. Since 2007, the firm has been a one stop shop for everything a business needs to thrive. Among the areas in which they provide guidance: marketing, business management, insurance protection, group health plans, legal services, wealth and cashflow management along with privacy protection. 4D Marketing provides trusted business resources for all other services not offered through their firm.

One of the firm's leaders is Roxie Nunnally, and she says she's proud to teach business owners and leaders how to succeed in several important areas:

4D Marketing & Business Solutions Firm has worked with small, midsize, and large businesses over the years. Nunnally says the firm's key values are Respect, Integrity, Compassion, and Excellence. Here are some of the ways they use those values to help businesses succeed and grow:

MARKETING & BRANDING

The digital age means branding and marketing has never been more available… but has also never been this complicated. 4D Marketing & Business Solutions Firm says it works hard to break down the options to help business manage marketing to deliver customers every day.

BUSINESS SERVICES

Many individuals have a business, but some business types may not be set up properly. 4D can help your business become compliant and take care of reporting and annual compliance.

Group Health Plans/Employee Benefits: Many businesses have to provide them in order to get the best employees, but there are many different options in the marketing. 4D says they bring a little creativity to find the right coverage at a cost that makes sense and keeps a business owner and his team covered.

WEALTH MANAGEMENT/INVESTMENT

Managing a business well should lead to profits, but that's not the end of the road. That money needs to be cared for, whether it goes back into the business or the financial wellbeing of ownership. 4D Marketing & Business Solutions Firm helps businesses down that complicated road.

WEBSITE DOMAINS, SECURITY & HOSTING

4D can provide SEOs, Website, Domain, Web Hosting, Emails, Security and more.

Information for this article was provided by 4D Marketing & Business Solutions Firm. To learn more, visit 4DMarketing.Biz or 4dmarketinghosting.com.

Since 2007, 4D Marketing & Business Solutions has been a one stop shop for everything a business needs to thrive. 4D Marketing provides trusted business resources for all other services not offered through their firm.