

What does doing business in the us mean?

[Business](#)



The most important element the US government looks at more than anything else is anyone getting any benefit by doing business in the US will have to pay the appropriate tax. There are also other reasons why the whole process needs executing with the full knowledge and permission of the authorities. In most cases any company that wants to get engaged in business activity that deals with industry and technology, unless such company is big and threatens local interest it will not encounter any problem.

Therefore, it might be more helpful to look at what kind of activity is deemed to be taxable or requires licensing or requires to have a name registered and incorporated or requires special permit. There are businesses located outside of the US that are selling products in the US especially when these countries do not have income tax treaty with the US. In such a situation, it is possible to strike a deal between two businesses where one of them will send goods to the US and the one in the US receives the goods.

Assuming that the signing of the deal took place outside of the US, the company that is selling the goods to the US customer does not have to pay income tax. There is also no method making it file an income tax return since it is a foreign entity whose goods only crossed the US border without the entity engaging in any business activity or trade in the US. If it has to pay any kind of tax, it will be in the country of origin.

The second arrangement is if the same company instead of sending the goods directly to the buyer if it sent it to an agency that has a warehouse and that agent will deal directly with the buyer and supply it regularly as the need arises. The authorities infer this as engaging in business and trade in

the US since it is ongoing and both the exporters as well as the business agent will have to pay income tax with what they generate respectively.

The other possibility is if the exporting company has its own subsidiary in the US that will distribute its product for the US customers, this obviously would mean conducting business in the US and the subsidiary would have to file income tax return annually. The other set-up is when a foreign entity wants to start a business in the US where the entity will open a business place such as importing or manufacturing of industrial goods and selling the goods into the US marketplace with a sizeable customer base. This kind of business will have to go through all the necessary requirements.

The first requirement starts from approaching a US Consulate in the origin of country to obtain a visa to come to the US. After surpassing that stage and the foreign entity is in the US depending on the state conducting the business will take place, it will start to pay income tax based on income generated on a yearly basis similar to domestic companies. There are a few states such as Florida, Delaware, Wyoming and Nevada where the state is not charging any income tax and any business located in these regions will pay only the required tax by the federal government and municipalities if it is applicable (2).

It is also helpful to know what kind of taxing rate is applied. Income up to \$50, 000 is charged 15%, up to \$75, 000 25%, up to \$10 million 34%, and above \$10 million 35%. If a company has a subsidiary in the US representing a parent it pays 30% flat rate in a form a branch profit tax of what it generates similar to what is charged if a subsidiary distributes dividends to the parent company.

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What it generally means to be engaged in business in the US is if the activity is profit-oriented and it could be done directly or indirectly or through agents, and the determinant factors are how often the business is conducted and what kind of profit is generated. If a company wants to export industrial goods of any kind from outside and there is no involvement other than the delivery of goods, such an entity is not required to pay tax. Such entity could also send experts to advise about the particular products and since those experts receive their pay from the foreign source, there is no tax involved.

But if they are here to solicit business without even opening a branch, any sales revenue generated will be subject to tax. There is another income known as Effectively Connected Income from a US Source and such income is subjected to income tax after all expenses incurred to generate the income are deducted and the tax is a flat rate of 30%. The other kind of income known as Fixed or Determinable Annual or Periodic Income that includes incomes such interest, dividends, rents and royalties is taxed at the rate of 30%.

Overall, the taxing is based on what exactly took place where if a foreign company that only sells industrial goods to the US customers and the deal is made outside of the US, which would mean the seller does not have its own facility as well staff in the US; such transaction is not taxable. Any other engagement that involves anything more than delivering the goods to the buyer is considered a business activity and would be subject to the income tax or to the flat rate tax.

Therefore, when a foreigner wants to open a business in the US if there is going to be some kind of physical presence through an agent that will do <https://assignbuster.com/what-does-doing-business-in-the-us-mean/>

business on behalf of the foreign entity on a regular basis and close deals the business has to pay income tax. Alternatively, if there is a subsidiary that houses staff, or the foreign entity has obtained visa to come to the US and is conducting business in person, any income generated through such activities will be subject to tax.

It seems that the foreign entity can hire a consulting or a marketing firm to promote its business in the US. When there are prospects and if they go to the country of origin of the business to make arrangement and afterward received goods, even if the foreign entity was not physically here and does not have its own facility, it is possible that the IRS could approach such an entity simply because it could find its records from the local company (3).