The U.S. is one of the largest and most dynamic economies in the world. With a population of over 300 million people, the U.S. is a prime destination for investment by foreign companies.

The American workforce ranks as one of the best educated, most productive, and most innovative in the world. As a place to do business, the U.S. offers a predictable and transparent legal system, outstanding infrastructure, and access to one of the world’s most lucrative consumer markets. The U.S. economy is also one of the most technologically advanced. Companies from around the world come to the U.S. to invest in research and development and to commercialise their goods and services. The U.S. also has a strong supply of venture capital. The U.S. government welcomes foreign direct investment, and many states and local jurisdictions actively compete to attract new business investment through a range of incentives and other support to help businesses set up.

Companies from around the world, in almost every industry sector, sell their products and services into the U.S. market either from a foreign base or their own directly owned U.S. operations. Many of these U.S. operations have flourished and continue to expand. New businesses from abroad continually enter the U.S. marketplace bringing with them exciting new products and services. Whether you are considering setting up a small U.S. business development office or a much larger U.S. operating unit, a lot of hard work lies ahead, but the rewards can be substantial.

The purpose of this guide is to provide the reader with an overview of some of the key aspects of doing business and setting up in the U.S. The guide provides an overview of the U.S. corporate and personal tax systems, some common forms of U.S. business entities and how they are created, financial and accounting matters, human resource and employment topics, trade matters and U.S. banking. This guide will provide a great starting point for any business thinking about doing business in the U.S. You should consult with professional U.S. accountants, lawyers, bankers and other service providers when doing business in the U.S.
The largest economy in the world is a consumer-driven market. With over 300 million people and growing, the United States offers an abundance of opportunities for businesses of all sizes to prosper. As such, the U.S. remains a key trading partner for international companies around the world, especially for those with interest in emerging markets such as China, India, Brazil, and Mexico.

The HSBC story begins in Hong Kong in 1865. Shortly thereafter, the Hong Kong Shanghai Banking Corporation opened an office in San Francisco, California, our first entry into the United States. Starting in 1980, HSBC refocused its energy on the United States acquiring banks with a shared common purpose: the facilitation of commerce through trade.

In the United States, our commercial presence extends to major metropolitan centres in 14 key states and the District of Columbia. We continue to build upon our commercial coverage in California, Washington, Oregon, Texas, and Florida, and to broaden our capabilities in trade, payments and cash management, and asset-based lending. We are uniquely positioned to help identify business opportunities across the globe.

This guide provides insights on how to successfully navigate the business environment of the United States – the world’s largest and most dynamic economy. It was created in collaboration with PricewaterhouseCoopers, a firm with whom we share a commitment to bring clients our experience combined with our global presence and local knowledge. We hope you find it useful.

HSBC has been helping businesses unlock potential for more than 140 years. We invite you to discover how our strong global banking network and enduring customer relationships are enabling forward-looking companies to take advantage of opportunities wherever they emerge.
Introduction

Doing business in the U.S.

The U.S. is a constitution-based federal republic. Its federal government is comprised of a legislative branch, executive branch and judicial branch. The legislative branch has an elected Senate and House of Representatives. The executive branch is led by an elected President and an appointed cabinet of leaders of federal agencies administering the laws enacted by the legislative branch. The federal judicial branch is organised into districts which are further organised into circuits with the power to review the decisions of the district court judges. Ultimate review of circuit court decisions is handled by the U.S. Supreme Court.

Geographically, the U.S. is divided into 50 states and one federal district. The state governments mirror the structure of the federal government in that they all have legislative, executive and judicial branches. Each of the states has county (parish), city and municipal governments. The federal district is the home of its capital city, Washington. It also has 14 dependent areas. These territories may also have lower governmental bodies.

**Economic Environment**

The U.S. is a free enterprise system, with a large quantity of natural resources and a highly educated work force. The U.S. evolved from a primarily agricultural economy in the 19th Century to a highly industrialised one for most of the 20th Century. However, in the recent past, the country’s orientation has become increasingly service-based.

The United States is a member of a number of international organisations including being a permanent member of the United Nations Security Council, a member of the North Atlantic Treaty Organization (NATO), a member of the North American Free Trade Agreement (NAFTA), a member of the Organization for Economic Cooperation and Development (OECD), the Asia-Pacific Economic Cooperation (APEC), the Organization of American States (OAS), and a member of the World Trade Organization (WTO).

The U.S. covers a total area of approximately 3.7 million square miles. Canada and Mexico border the U.S. from the north and the south. Canada and Mexico represent the first and third largest trading partners of the U.S. respectively, due to their geographic proximity.

The U.S. has one of the largest and richest consumer markets and offers foreign companies a market for virtually all products and services. The U.S. is composed of hundreds of different geographic and demographic consumer markets with distinct purchasing behaviours and tastes. Several states within the U.S. produce more goods and services as compared to some national economies across the globe.

**Incentives for foreign investors**

The U.S. welcomes foreign direct investment and recognises its positive impact on economic growth and job creation. U.S. affiliates of foreign companies employ over five million U.S. workers and indirectly support millions more. The total stock of foreign direct investment in the U.S. in 2010 was $2.3 trillion (U.S. Commerce Department). The U.K. is the largest foreign investor, followed by Japan, the Netherlands, Canada, Germany and France.

The federal government provides equal treatment to domestic and foreign investors. While not granting special tax packages or concessions to foreign investors, the federal government refrains from imposing any specific discriminatory tax burdens on them.

State and local governments have however become increasingly competitive in offering inducements to attract and retain desirable companies for economic growth. Credits and incentives help businesses reduce investment costs through tax and non-tax savings opportunities resulting from capital investments, job creation, research costs, training costs, and other qualified expenditures. These savings opportunities are often a vital part of a company’s strategic planning, especially in connection with expansion or relocation of new facilities.

Credits are statutorily enacted to encourage certain behaviour by business entities in exchange for certain benefits. Incentives are typically offered at the state and local level and the benefits (tax and non-tax) are designed to entice a relocation or expansion of a targeted business. Technology and manufacturing industries are two desirable industries that often receive incentives from states. Incentives are negotiated prior to a proposed business expansion or relocation and usually occur in the following forms: grants and/or bonds to assist in financing the business expansion, property tax reductions, and tax exemptions for purchases of property or services.
Key markets and trade

The U.S. is a major trading nation and U.S. businesses export and import products from around the world. According to the U.S. Census Bureau (Oct 2010), the following are the top ten countries with which the U.S. trades (both imports and exports): Canada, China, Mexico, Japan, Germany, U.K., South Korea, France, Taiwan and Brazil. These countries represent 68% of U.S. imports and 62% of U.S. exports.

Business Etiquette

U.S. business people are generally friendly and professional, and are keen entrepreneurs. It is not uncommon to do business with several suppliers and to do business with those who offer the best deal and the best service.

When introduced to a U.S. business person, regardless of gender, it is always appropriate to offer your right hand for a firm and brief handshake. It is important to exchange business cards, and the use of first names is common. Business attire is also important and may range from a formal business suit to ‘business casual’ depending on the situation. Face-to-face meetings are typical and you should always arrive on time. Smoking nowadays is also prohibited in most U.S. offices.

Formal meetings will typically begin with introductions and an agenda, and a summary or action plan at the conclusion. Follow up is also important and agreed deadlines should be met to show professionalism and reliability. Many companies also have policies that discourage their employees from giving or receiving gifts, and government employees are generally not allowed to accept gifts.

Business is generally conducted in American English both in written and oral communications. The use of email, voicemail, smart phones, and telephone and video conference calls is popular. The U.S. e-commerce market is one of the largest and most sophisticated in the world, and it is important to create an e-commerce presence via a website and other online channels. Americans also travel regularly across the U.S. by plane or car due to the geographical size of the market, as well as to overseas markets. Business people in the U.S. also regularly attend trade shows and conventions, conferences and seminars, belong to various trade and professional organisations, and regularly attend business networking events. Having a business meeting over breakfast, lunch or dinner is also very common, and it is not unusual to invite customers or business contacts to social or sporting events as a way of building personal relationships.
Conducting business in the U.S.

Forms of business

The main forms of business in the U.S. are a corporation, a limited liability company, a partnership, a branch, a joint venture or a sole proprietorship.

Some important factors to consider in selecting the form of business include: the commercial and/or regulatory requirements; limited liability; the tax considerations; the cost of establishing and maintaining that form of business; management and control aspects; capital and credit requirements; the difficulty or ease of organisation and operation; transferability of ownership; and continuity of existence.

Corporation

The domestic U.S. corporation (commonly evidenced by the suffix ‘Inc.’) is the most common form of business entity utilised by foreign investors. A corporation is organised or created under the laws of any state. A corporation is generally taxed as a separate legal person, which files its own tax return and pays taxes without regard to the tax status of the shareholders. U.S. domestic corporations are taxed on their worldwide income. A shareholder of a corporation is generally not personally liable for the acts or obligations of the corporation.

Limited Liability Company

A limited liability company (LLC) is an entity formed under the laws of one of the 50 states in the U.S. The LLC, like a corporation, has an existence separate from the persons who own, control and manage it, and its owners are called ‘members’, rather than stockholders. LLCs are a hybrid entity in that they generally provide limited liability for legal purposes, but may provide ‘flow through’ treatment for U.S. federal income tax purposes. Flow through treatment means that income of the LLC is taxed in the hands of its members and not in the hands of the LLC itself. An election can be made, however, to treat the LLC as a corporation for federal income tax purposes.

Partnerships

A partnership is generally formed by a contract, known as a ‘partnership agreement,’ between two or more persons. A partner may be an individual or any type of entity, U.S. or foreign. Although a partnership must file an informational tax return, it is generally not subject to income tax as a separate entity. There are several different types of partnerships.

A ‘general partnership’ is an association of two or more general partners who operate a business for profit. Profits, losses, and control are proportionately allocated to the partners, based on the terms of the partnership agreement. All general partners are normally active in the operation of the business, and their rights and obligations are contained in their partnership agreement. All general partners have unlimited personal liability for debts, taxes and other claims against the partnership.

A ‘limited partnership’ must have at least one general partner, who is responsible for overseeing the day-to-day operations of the partnership and who has personal liability for the debts and other obligations of the partnership. In addition, a limited partnership must have one or more limited partners. A limited partner may not actively participate in the operation of the business; their name may not appear in the name of the partnership; and they may not enter into contracts on behalf of the partnership. The liability of limited partners (unlike general partners) is generally limited to the amount of their capital contribution to the partnership, and if the partnership’s assets are insufficient to meet the claims of creditors, the limited partners are not generally personally liable.
Many U.S. states have also adopted laws that provide for the formation of limited liability partnerships (LLPs). This type of legal entity is usually intended for use by professions such as accounting and law firms. In general, a limited liability partnership is similar to a general partnership, except that a partner of such a partnership is not generally personally liable to third parties, although there are exceptions.

Branch

A branch is an extension of the foreign company that conducts business directly in the U.S., rather than through a separate subsidiary corporation. There is no specific legal registration required to establish a ‘branch’. However, tax and state/local business permits may be required. In general, a foreign company establishing a branch is permitted to conduct the same types of activities under the same conditions as a U.S. subsidiary company. However, a branch of a foreign company may subject that foreign company to direct legal claims and liability for the acts and business of the branch. For this reason, many foreign investors prefer to do business in the U.S. by forming a corporation to help insulate the foreign company from liability.

Joint Venture

A joint venture may be organised through a corporation, LLC or a partnership, and is typically set up for a specific purpose or project, often with limited duration. Each joint venture partner may contribute capital, products and expertise in varying proportions, depending on their resources and skills and the desired sharing of profit and risk. A joint venture may also allow the parties to spread the financial risks and to benefit from an enterprise that has greater strength than either of them could have provided alone.

Sole Proprietorship

The sole proprietorship is an informal business form established and owned by a single individual. The owner is personally liable for the debts and other obligations of the business. As such, if the business is of any significant size or has any special liability risks, it may be more desirable to establish a corporation or limited liability company instead.

State law governs the formation of business entities in the U.S.A business forms. A business will be organised under the law of a specific state, and a business is free to select the applicable state.

Corporation

The process of organising a new corporation in the U.S. is relatively straightforward and inexpensive, and can be typically completed within a few days. The U.S. does not have a national registrar of companies (unlike many other countries) and a corporation must therefore be formed in one of the 50 U.S. states or the District of Columbia. There is no requirement to incorporate in the state where the company is actually managed and controlled or where the physical business operations are conducted (although it may be necessary to obtain a certificate of authority to do business in such jurisdictions). A business is therefore free to select any one of the 50 states in which to incorporate. This decision is based on legal, commercial and other factors. The state of Delaware is historically one of the more popular states for this purpose. If the desired new company name is available, it will also typically have the letters "Inc." (as an abbreviation for ‘incorporated’) at the end of the name, although other suffixes (such as Corp. or Limited) may also be available. Incorporation is accomplished by preparing and filing a Certificate of Incorporation (or Articles of Incorporation) with the appropriate state governmental authority, usually the Office of the Secretary of State of the particular state. This document is generally prepared and filed by a U.S. corporate attorney. The attorney will also prepare the corporate “by-laws”. This is an internal corporate document that lays down the basic rules for the internal functioning of the corporation. The by-laws typically cover such topics as the establishment and functioning of the Board of Directors, the officers and their duties, procedures for regular and special meetings of the stockholders and of the Board of Directors, establishment of the fiscal year, procedures for transfers of stock and other matters of basic corporate governance. The incorporator will also usually appoint an initial Board of Directors of the corporation. The minimum number of directors needed may vary from state to state, but typically only a single director is required. The directors must generally be individuals, and there is usually no requirement that any director be a U.S. citizen or resident. In addition to its directors, a corporation can appoint a variety of officers, with President, Treasurer, and Secretary being the most common. Once the company is incorporated it will generally have to file an ‘annual report’ in its state of incorporation and any state in which it does business, and pay a fee to the specific state each year to maintain the company’s good standing.

Limited Liability Company

The formation of an LLC can again be reasonably quick and inexpensive and involves the preparation of two principal documents. Firstly, a Certificate of Formation, also sometimes called the Articles of Organization. Secondly, a Limited Liability Company Agreement, also commonly referred to as an Operating Agreement.

The Certificate of Formation contains the name of the company, which typically includes the initials ‘LLC’ at the end of the name, and certain other information as required by the limited liability company law of the state concerned. The certificate is filed with the state office of the relevant Secretary of State and the company’s existence commences on the date of filing. A similar annual report filing is required to maintain the company’s good standing. The Limited Liability Company Agreement (LLC Agreement) is entered into separately by the member(s) themselves. It is used instead of corporate by-laws and also contains matters typically covered by stockholders’ or partners’ agreements. An LLC can be managed by its members or by designated managers.

Setting up a business
Partnership

A partnership is generally formed by a contract, which is known as a ‘partnership agreement’, between two or more persons. This agreement is typically prepared by a U.S. attorney under the laws of one of the U.S. states, and care is required in structuring the partnership agreement from both a legal, federal and state tax perspective.

A typical partnership agreement will generally address many issues such as:
- the contributions to the partnership (e.g. how much and what kind of property each partner will contribute, how it would be valued, and when the partners may be called upon to make additional contributions to capital);
- the management of the partnership, and the manner of decision-making by the partners;
- how the profits and losses will be divided among the partners, and when and how may they be withdrawn;
- any compensation paid to certain partners, e.g. for their services to the partnership or for making capital available to the partnership; and
- how any changes of ownership would be handled.

Branch

There is no formal federal or state registration requirement for the creation of a U.S. ‘branch’. However, as for any business, local business permits and sector specific licenses may be required in order to operate the business activity.

Joint Venture

A joint venture is typically created upon the signing of a joint venture agreement between the relevant parties. Such an agreement is usually drafted by a U.S. attorney and will cover various matters such as the joint contributions of property or services, purpose and duration, methods of management, methods of sharing profits and losses, transferability of ownership interests or restrictions thereon, and means of termination and resolution of disputes. The structure of a joint venture will often take the form of a corporation, an LLC or partnership.

Sole Proprietorship

An individual can readily set up a sole proprietorship and no formal registration is generally needed. Again, as for any business, local business permits and sector specific licenses may be required in order to operate the business activity. The owner typically serves as the manager, and the business necessarily terminates upon the death of the owner.
Taxation in the U.S.

The U.S. has several jurisdictional layers from federal government to state to local municipalities, all of which have the authority to tax, legislate and regulate business activities. A business operating in the U.S. could therefore be subject to tax imposed by three, mutually exclusive, jurisdictions, i.e. federal, state, and local (e.g. county, city, and municipality) jurisdictions.

Federal corporate income tax

Registration

A new business is required to register with the federal tax authorities (the Internal Revenue Service or IRS) to apply for a federal employer identification number (called a FEIN or EIN). This nine-digit number is used to help identify the business and to facilitate federal and state/local tax filings.

Tax Returns

The U.S. tax system is based on the principle of self-assessment. A corporate taxpayer is generally required to file an annual tax return by the fifteenth day of the fourth month following the close of its tax year. A taxpayer can obtain an additional six-month extension of time to file its tax return. Failure to file a tax return on time may result in penalties and interest. The IRS generally has three years after an original return is filed to assess any deficiency of income taxes.

Payment of tax

A taxpayer’s tax liability is generally required to be prepaid throughout the year in four equal estimated payments and fully paid by the date the tax return is initially due. Tax installment payments are generally due by the fifteenth day of the fourth, sixth, and ninth months, and the tax must be fully paid by the fifteenth day of the twelfth month of the tax year. Generally, no extensions to pay are allowed. Failure to pay the tax by the due dates as indicated above can result in estimated tax and late payment penalties and interest charges.

Tax Rates

Federal income tax is levied at the following rates:

<table>
<thead>
<tr>
<th>2012 taxable income</th>
<th>Over $</th>
<th>But not over $</th>
<th>Pay + $</th>
<th>% on excess</th>
<th>of the amount over $</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>15</td>
<td>0</td>
</tr>
<tr>
<td>50,000</td>
<td>75,000</td>
<td>7,500</td>
<td>25</td>
<td>60,000</td>
<td></td>
</tr>
<tr>
<td>75,000</td>
<td>100,000</td>
<td>13,750</td>
<td>34</td>
<td>75,000</td>
<td></td>
</tr>
<tr>
<td>100,000</td>
<td>335,000</td>
<td>22,250</td>
<td>39</td>
<td>100,000</td>
<td></td>
</tr>
<tr>
<td>335,000</td>
<td>10,000,000</td>
<td>113,900</td>
<td>34</td>
<td>335,000</td>
<td></td>
</tr>
<tr>
<td>10,000,000</td>
<td>15,000,000</td>
<td>3,400,000</td>
<td>35</td>
<td>10,000,000</td>
<td></td>
</tr>
<tr>
<td>15,000,000</td>
<td>18,333,333</td>
<td>5,160,000</td>
<td>38</td>
<td>15,000,000</td>
<td></td>
</tr>
<tr>
<td>18,333,333</td>
<td></td>
<td></td>
<td>35</td>
<td>0</td>
<td></td>
</tr>
</tbody>
</table>

The purpose of the higher 39% rate is to eliminate the benefits of the 15% and the 25% rates. The purpose of the higher 38% rate is to eliminate the benefit of the 34% rate. Thus the current effective maximum federal corporate tax rate is 35%.

Branch tax

In addition to the U.S. income tax on the branch earnings, a foreign corporation may also be subject to a branch profits tax with regard to its U.S. branch earnings. The amount of tax imposed (up to a 30% rate) is calculated based on ‘dividend equivalent amounts’ to the foreign corporation, i.e., the amount of any reduction to branch equity in a given year, limited to the branch’s cumulative net earnings. The branch profits tax is a second-layer tax that is imposed directly on the foreign corporation and is payable in addition to the foreign corporation’s regular U.S. income tax liability. Generally, the branch profits tax is designed to equate the tax treatment of foreign-held U.S. branches with that of foreign-held U.S. subsidiaries, i.e. the 30% branch profits tax makes up for the 30% dividend withholding tax that may otherwise have been imposed had the branch operated in the U.S. as a subsidiary and made dividend distributions to its foreign shareholders. The 30% branch profits tax rate may also be reduced to a lower rate by a double-tax treaty. In addition, there is a 30% branch level interest tax that is imposed in respect of certain interest expense of the foreign corporation, which may also be reduced to a lower rate by a double-tax treaty.

Alternative minimum tax

An alternative minimum tax (AMTI) is generally imposed on corporations. The tax is 20 percent of alternative minimum taxable income (AMTI) in excess of a $40,000 exemption amount (subject to a phase out). AMTI is computed by adjusting the corporation’s regular taxable income by specified adjustments and “tax preference” items.

Determination of Income

In determining taxable income, the following is a list of common book/tax adjustments where U.S. income tax and financial accounting typically have differing treatment: research and development; domestic manufacturing costs; depreciation of fixed assets; amortisation of intangibles; meals and entertainment; foreign taxes; and fines/penalties. State and municipal taxes are also deductible expenses for federal income tax purposes.

Inventory valuation

Inventories are generally stated at the lower of cost or market value, and on a first-in, first-out (FIFO) basis. Last-in, first-out (LIFO) basis may be elected for U.S. income tax purposes on a cost basis only and generally requires book and tax conformity.

Depreciation

Tax depreciation deductions are allowances that may be taken for capital outlays for tangible property. Generally, capital costs must be recovered by using the modified accelerated cost recovery system (MACRS) method. Depending on the type of tangible property, the general cost recovery periods are 3, 5, 7, 10, 15, 20, 27½, and 39 years, with most tangible personal property generally falling in the 3, 5, or 7 year classes. Tax depreciation is not required to conform to book depreciation. Also, tax depreciation generally is subject to recapture on the sale or disposition of certain property, to the extent of gain, which is subject to tax as ordinary income.
Net operating losses
A net operating loss (NOL) is generated when business deductions exceed gross income in a particular tax year. Depending on current tax law, an NOL may be carried back to offset past taxes and possibly obtain a refund or carried forward to offset future tax liability. Generally, a loss may be carried back two years and, if not fully used, carried forward 20 years. Complex rules may limit the use of net operating losses after a reorganisation or other change in corporate ownership.

Capital gains
Gains or losses on the sale or exchange of capital assets held for more than 12 months are treated as long-term capital gains or losses. Gains or losses on the sale or exchange of capital assets held for 12 months or less are treated as short-term capital gains or losses. The excess of net long-term capital gain over net short-term capital loss is considered net capital gain. Capital losses are allowed only as an offset to capital gains. An excess of capital losses over capital gains in a taxable year may be carried back three years and carried forward five years to be used against (offset) capital gains. On current transactions, the long-term capital gains tax rate is the same as the tax rates applicable to ordinary income. Thus, the maximum rate is 35%.

However, differences may arise where the alternative minimum tax is imposed.

Foreign tax credits
Generally, a U.S. taxpayer can choose whether to take as a credit (subject to limitation) or as a deduction certain foreign taxes paid or accrued to a foreign country. A foreign tax credit (FTC) reduces the U.S. income tax liability dollar for dollar, while a deduction reduces the U.S. income tax liability at the marginal rate of the taxpayer. Generally, a foreign tax credit may be carried back one year and, if not fully used, can be carried forward ten years.

Transfer pricing
Transfer pricing regulations govern how related entities set internal prices for the transfers of goods, intangible assets, services, and loans in both domestic and international contexts. The regulations are intended to prevent tax avoidance among related entities and place a controlled party on par with an uncontrolled taxpayer by requiring an arm’s-length standard. The arm’s-length standard generally is met if the results of a controlled transaction are consistent with results that would have been realised if uncontrolled taxpayers had engaged in a similar transaction under similar circumstances. If a company is not in compliance with the arm’s-length standard, the Internal Revenue Service (IRS) may raise taxable income and tax payable in the U.S. After a transfer pricing adjustment, a company may face double tax, paying tax twice on the same income in two countries. Companies may request competent authority relief from double taxation through a tax treaty. To help avoid potential transfer pricing penalties, companies may obtain an advance pricing agreement with the IRS, unilaterally, or with the IRS and another tax authority, bilaterally, covering inter-company pricing. The IRS may impose penalties and interest where a tax audit adjustment is made. Taxpayers should also comply with the contemporaneous documentation requirements.

Debt-to-equity rules
Thin capitalisation rules may apply to disallow interest payments related to excess debt and re-characterise such payments as dividends. The interest expense deduction can be limited and suspended if more than 50% of the adjusted taxable income of a thinly-capitalised corporation (with similar rules for a corporate partner in a partnership) is sheltered by interest paid to a related party (or paid to a third-party but guaranteed by the related party) who is not subject to U.S. tax on the income.

Foreign income (Subpart F income) of U.S. taxpayers
Generally, a U.S. corporation is taxed on its worldwide income, including foreign branch income earned and foreign dividends when received. Double taxation is mitigated by means of foreign tax credits. In the case of foreign subsidiaries that are more than 50% owned by U.S. shareholders (commonly known as ‘controlled foreign corporations’ or CFCs), certain types of undistributed income will be taxed currently to the U.S. shareholders (Subpart F income). Generally, Subpart F income includes income that is easily transferred to a low-tax jurisdiction.

Payments to foreign affiliates
A U.S. corporation generally may claim a deduction for royalties, management service fees, and interest charges paid to foreign affiliates, to the extent that the amounts are actually paid and are not in excess of what it would pay an unrelated entity, i.e., are at arm’s length. In addition, U.S. withholding on these payments may be required.

U.S. income of foreign taxpayers
Generally, if a foreign entity engages in a U.S. trade or business, all income from sources within the U.S. that is connected with conducting such trade or business is classified as Effectively Connected Income (ECI).
There are also situations in which foreign source income could be ECI. ECI is generally subject to tax at the same rate as corporate profits. A 30% branch profits tax is levied in addition to the U.S. corporate level income tax, which may be reduced or eliminated entirely if a relevant treaty so provides. Deductions are generally allowed against ECI. Tax treaties between the United States and other countries may provide special rules for allocating taxing authority between the treaty partners. Tax treaties may provide that income earned by a foreign entity that would otherwise be considered ECI is only taxable in the United States to the extent that the profits are attributable to a permanent establishment of the foreign entity in the United States. A permanent establishment is generally defined as a fixed place of business.

Fixed, determinable, annual or periodical (FDAP) income

FDAP income includes all income except gains from the sale of real or personal property and income excluded from gross income, without regard to whether the owner of the income is a U.S. or foreign entity. Some examples of FDAP income include dividends, interest, royalties, and commissions. The gross amount of FDAP income or gains from U.S. sources that are not effectively connected with a U.S. trade or business are taxed at a rate of 30% (potentially subject to a reduced tax rate under an applicable double-tax treaty). Deductions against FDAP income are not allowed.

Foreign Investment & Real Property Tax Act (FIRPTA)

FIRPTA provides that the gain or loss of a foreign person from the disposition of a U.S. real property interest (including shares of certain domestic U.S. corporations) should be taken into account as if the taxpayer were engaged in a U.S. trade or business and such gain or loss were effectively connected with such business. In these situations, the party purchasing the U.S. real property interest from the foreign party is required to withhold 10% of the amount realized.

Partnership income

The income (or loss) of a partnership passes through to its partners so that the partnership itself is not subject to tax. Thus, each partner generally accounts for their distributive share of the partnership’s taxable income.

State corporate income tax

Each U.S. State, with certain limitations, has constitutional authority to impose its own tax system, including a corporate net income tax. As a result, a taxpayer may have to separately register, and file state tax returns, with each state in which it has a taxable presence, also called ‘nexus.’ The main types of state taxes include a net income tax, a franchise tax (based upon net worth or capital), gross receipts tax, sales and use tax, employment taxes and property taxes. Currently, 46 states and the District of Columbia impose a net income tax.

Nexus

Generally, a business must create ‘nexus’ in a state to become subject to the net income tax imposed by that state. Nexus may be defined as having a sufficient connection with or presence within the jurisdiction of a state such that the state is within its legal right to impose the tax upon the business. Generally this includes, but is not limited to, where a business maintains a physical presence in that state related to the conduct of business activities. Some states have also imposed an ‘economic’ or ‘bright-line’ nexus type standard where a taxpayer has a filing obligation once they cross a certain threshold of property, payroll or receipts in that state. The nexus concept is based upon U.S.Constitutional principles related to the regulation of interstate commerce.

Examples of physical presence that may trigger nexus include: renting an office or warehouse; having an employee working in a state; an independent contractor working on behalf of the taxpayer in a state, engaging in activities such as sales, repairs, maintenance and training; soliciting sales in a state; owning assets or inventory in a state, etc. The determination of what constitutes nexus in a given state is dependent upon the state’s specific tax imposition rules and the nature and extent of the activities conducted in the state. Thus, the determination as to whether nexus exists requires a detailed evaluation of the facts and circumstances of each potential taxpayer.

Solicitation Exemption

A taxpayer may be exempt from the imposition of a net income tax if the activity it conducts within the state is limited to the conduct of business activities. Some states have also imposed an ‘economic’ or ‘bright-line’ nexus type standard where a taxpayer has a filing obligation once they cross a certain threshold of property, payroll or receipts in that state. The solicitation exemption does not extend to other types of state and local taxes.

Apportionment

In general, if a company has nexus in more than one state, its overall taxable income must be apportioned among the states based on its apportionment factors. Most states use some variance of a three-factor apportionment formula based on the average of a property factor (owned and rented real and tangible property in the state divided by such amounts everywhere), receipts factor (receipts in the state divided by such amounts everywhere), and payroll factor (payroll in the state divided by payroll everywhere).

Calculation of taxable income

Since each state has its own taxing system, they do not always follow the federal tax provisions for determining taxable income. Typically the computation of state taxable income is based on federal taxable income, but is often adjusted for state specific differences from the federal tax provisions.

Franchise tax

Many states (approximately 28) also levy a franchise tax instead of, or in addition to, a net income tax. The franchise tax is generally levied on a company’s apportioned equity, e.g. issued share capital and retained earnings or assets or apportioned net worth, e.g. assets – liabilities. Franchise tax returns are generally filed on an annual basis and may require quarterly estimated tax payments. Franchise taxes, if imposed, are often reported on the same form as the net income tax.

Gross receipt and gross profits tax

A few U.S. states levy a tax on gross receipts (or modified gross receipts) or gross profits instead of, or in addition to, a net income tax and/or sales taxes. The gross receipts tax is generally based on a taxpayer’s total gross receipts earned within the state. In general, there are very limited deductions available that may reduce the tax base. The average gross receipts tax rate is approximately 1%. Gross profits taxes are imposed by a limited number of states. In general, the gross profits tax base is comprised of a taxpayer’s total revenue less certain enumerated costs and expenses, such as for inventory. The resulting tax base is generally apportioned among the states in a manner similar to that described above for a net income tax.
The U.S. taxes its citizens and resident aliens on their worldwide income. Non-resident aliens are taxed only on their U.S. source income. The following individuals are treated as U.S. tax resident:

- All U.S. citizens and lawful permanent residents for immigration purposes (i.e., “green card” holders).
- Those who meet a “substantial presence” test (i.e., those present in the U.S. for at least 31 days in the current year and a total of 183 equivalent days during the current year and prior two years. For the purposes of this 183-equivalent-day requirement, each day present in the U.S. during the current calendar year counts as a full day, each day in the first preceding year as one-third of a day and each day in the second preceding year as one-sixth of a day.

Tax Payments

Generally income tax (and social security taxes) is withheld from an employee’s salary via payroll withholdings. For individuals with income not subject to such withholding, additional estimated quarterly income tax payments must generally be made to ensure an appropriate level of tax payments by the year end. Penalties and interest may apply for any tax paid late.

Alternative Minimum Tax

The alternative minimum tax (AMT) is a U.S. federal tax that is calculated in a manner similar to the regular federal income tax, but with a number of special adjustments. If the AMT results in a higher level of U.S. tax than the regular income tax calculation, the AMT amount must be paid instead.

Social security taxes

For 2012, employers and employees will incur a federal social security tax (old-age, survivors and disability) at a rate of 6.2% for both on the first $100,100 of wages, and a federal Medicare (hospital insurance) tax at a rate of 1.45% for both on total wages. Expatriate employees relocated to the U.S. may be able to continue to pay their home country social security taxes instead of U.S. social security taxes if a Social Security Totalization agreement exists between the U.S. and their home country. Employers will social security taxes instead of U.S. social security taxes if a Social Security Totalization agreement exists between the U.S. and their home country. Employers will also pay a federal unemployment tax at a rate of 0.8% on the first $7,000 of each employee’s wages. State unemployment taxes may also be due.

Sales and Use Tax

The U.S. does not levy a Value Added Tax (VAT) or Goods & Services Tax (GST). Instead there is a sales tax. This is a transactional tax imposed by state and local jurisdictions on sellers/consumers related to the sale/purchase of tangible personal property (TTP) and certain services. There is no federally imposed sales tax. Sales tax is generally collected at the point of purchase of taxable goods and services by end users, and therefore, unlike VAT, U.S. sales taxes are generally not charged at each stage of the production/sale life cycle, hence there are no “input” credits, as there is with VAT. The premise that the tax is imposed only on the end user assumes that at each stage in the supply chain the required exemption documentation is provided to the seller, thus relieving the seller of the obligation to collect and remit the tax on the specific transaction.
States imposing a sales tax

Forty-five states, plus the District of Columbia impose a sales tax, and a complementary use tax, on retail sales of TPP and certain services. The five states that do not impose a sales tax are Alaska, Delaware, Montana, New Hampshire and Oregon.

Nexus

Nexus is the necessary connection that a retailer must have to a taxing jurisdiction in order for that jurisdiction to impose the obligation on the retailer to collect the sales tax. Generally, some physical presence between a retailer and the jurisdiction must exist. Examples of physical presence that may trigger nexus include the matters discussed above for state income tax.

A distinct difference between sales tax nexus and income tax nexus lies in the fact that the action of mere solicitation of sales in a jurisdiction may create a sales tax nexus, while such activities may not by themselves be sufficient to create nexus for state income tax purposes.

Exemptions

Certain transactions are exempt from sales tax. Exemptions generally fall into one of the following categories: the nature of the seller; the nature of the buyer (e.g., U.S. Government); the nature of the property/services (e.g., medical devices, food products); the intended use by the purchaser (e.g., sale for resale, used in manufacturing); and the nature of the transaction (e.g., electronic transmission of software). If a sale is exempt, and proper documentation exists, the seller may not be required to collect sales/use tax.

Services

Sales tax is generally imposed on the sale of TPP. Many states do also tax specifically defined services. Some states tax all services and some states do not tax any services. Taxpayers need to be careful when bundling transactions where a sale of TPP might be accompanied by services such as installation or training. Installation and training may not be subject to sales tax if separately stated on an invoice. However, if bundled together with the TPP for one price, the entire sale may be tainted and deemed taxable.

Tax rates

The sales tax rates charged by the states and local jurisdictions differ, but the average total sales tax rate (i.e., state plus local jurisdictions) is approximately 7 to 9%.

Use tax

A complementary tax to the sales tax is the “use tax.” This is assessed on otherwise taxable sales of goods and services where the vendor did not collect sales tax. The use tax is self-remitted by the purchaser at either the same or different rate as the sales tax that would have been owed, if any. The use tax is a complementary tax imposed on the ultimate consumer which is not subject to sales tax, but is stored, used, or consumed in the state of the purchaser.

Registration and tax returns

When a business creates nexus within a state and is required to collect and remit sales/use tax, it should register with the appropriate state and/or local taxing authority. Most states offer online resources and forms that can be completed and submitted either electronically or via mail. Sales and use tax returns are often on the same form and are generally due either monthly, quarterly or annually, depending on the amount of sales and purchases subject to tax. Sales tax returns can often be filed electronically.

Other tax matters

Payroll taxes

Employment taxes are withheld from an employee’s gross pay at both the federal and state levels (assuming the state imposes an individual income tax), and sometimes at the city/local level also. Employers are also required to pay Social Security tax and Medicare as well as withholding these taxes from an employee’s wages. Federal and state unemployment taxes are also imposed on employers for the purpose of paying unemployment compensation to former employees. The proceeds are generally used by the state’s unemployment insurance fund. Regular payroll tax returns must be submitted throughout the year and also at the year end.

Double-tax treaties

The U.S. has entered into various tax treaties with numerous countries in order to avoid double taxation of the same income and to prevent tax evasion. Under these treaties, residents (not necessarily citizens) of foreign countries are taxed at a reduced rate, or are exempt from U.S. taxes on certain items of income they receive from sources within the U.S. These reduced rates and exemptions vary among countries and specific items of income. Under these same treaties, residents or citizens of the U.S. are taxed at a reduced rate, or are exempt from foreign taxes, on certain items of income they receive from sources within foreign countries. U.S. tax treaties generally also include a “limitation on benefits” article, the purpose of which is to limit the benefits of the treaty to qualified residents of the treaty countries.

Withholding taxes

A U.S. corporation may be required to deduct withholding taxes from certain payments made to foreign entities or non-resident alien individuals. This may also result in certain U.S. compliance and filing requirements. Similarly, a foreign entity or non-resident alien individual receiving payments from the U.S. may also need to comply with certain U.S. tax filing requirements.

Property tax

State and local property taxes are an ad valorem tax that an owner of real estate and/or tangible personal property pays on the value of the taxable property located in the state.

Excise taxes

The federal and state governments impose excise taxes on a variety of goods. For example, a federal and state excise tax is imposed on gasoline and diesel fuel used for transportation. The excise taxes are levied item by item and lack any uniformity in rates.

Other taxes

Many other types of state and local taxes exist and may apply depending on the specific jurisdiction and specific circumstances.
Audit and accountancy

Audit requirement

Unlike many other jurisdictions, no statutory audit requirements generally exist in the U.S., except for foreign or domestic entities registered with the U.S. Securities and Exchange Commission (SEC). A U.S. bank, however, will often require an audit as part of their lending terms. An audit is generally performed by an independent Certified Public Accountant (CPA).

Audits of public companies are conducted in accordance with standards of the Public Company Accounting Oversight Board (PCAOB). Audits of other organisations are conducted in accordance with Generally Accepted Auditing Standards (GAAS) that are issued and supported by the American Institute of Certified Public Accountants (AICPA). The audit’s essential element is the opinion of the auditor that the information within the financial statements presents fairly, in all material respects, the financial position, results of operations and cash flows in accordance with U.S. generally accepted accounting principles (GAAP).

In addition to filing annual audited financial statements with the SEC all public companies are also required to submit a quarterly assertion and an annual report on the effectiveness of their internal controls to the SEC under the provisions of the Sarbanes-Oxley Act. The annual report must contain an attestation by the external auditor on the accuracy of management’s report. The Act focuses on a wide range of governance issues with an emphasis on preventing fraud and deception by public companies.

Financial Statements

There is no general requirement for private U.S. companies to prepare formal financial statements outside of specific requests from owners, lenders etc. SEC registrants, however, must follow the appropriate accounting standard guidelines and, if necessary, regulatory requirements of various government agencies. Balance sheets should reflect the status of the company’s assets, liabilities and retained earnings at a specific date and time. Income statements reflect the results of business operations for a specific period of time. U.S. financial reporting standards also generally require a ‘Statement of Cash Flows’ which demonstrates the receipt and uses of cash throughout the reporting period. The format and items to include are most often presented according to GAAP rules. U.S. financial reporting also requires certain disclosures over the company’s significant accounting policies.

The recognised standard for the preparation of financial reports is governed by U.S. GAAP. The Financial Accounting Standards Board (FASB) and Governmental Accounting Standards Board (GASB) are recognised and supported by the SEC and the accounting profession as the authorities for the rules and guidelines for accounting principles. The AICPA issues guidance to assist companies to maintain fair and accurate reporting of the results of business transactions. Over its history, the AICPA has issued guides on accounting matters, including Practice Bulletins and Statements of Position. The AICPA is a member of the International Federation of Accountants (IFAC) and works to sustain compatibility among the various U.S. and international standards and principles.

Disclosing of Financial Accounts

Private businesses generally are not required to publicly disclose the results of their financial operations. There is no requirement for a private company to file any financial statements on a public register, nor to submit them to the tax authorities with their annual tax returns. Public companies are, however, required to present their annual and quarterly financial statements (in the form of 10K and 10Q filings respectively) to shareholders and to the public in order to comply with the SEC’s rules and regulations, which include the requirement of quarterly interim reviews and an annual audit. The annual 10K includes significant disclosures including management discussion and analysis over the company’s financial and operating results.

Bookkeeping requirements

Many companies establish their business within specific states and, as a result, must comply with state regulations for establishing a business, along with the reporting rules and requirements for maintaining proper accounting records. The Foreign Corrupt Practices Act is also a significant source of anti-fraud, anti-bribery and anti-corruption rules for maintaining books and records that properly reflect all business transactions. Depending on the type and size of business organisation, the company may choose the accrual or cash method of accounting.

Generally, guidelines for maintaining accounting records for businesses in the U.S. include: keeping them in accordance with the laws of each applicable jurisdiction; ensuring that they fairly and accurately reflect the transactions or events to which they relate, the company’s assets, liabilities, revenues and expenses; that all transactions are supported by accurate documentation; and that the company has an appropriate system of internal accounting controls.

Adoption of IFRS

The adoption of International Financial Reporting Standards (IFRS) in the U.S. is being contemplated by the SEC and is a topic of much debate. In July 2012 the SEC issued a report expressing concerns over the outright adoption of IFRS. However, U.S. GAAP is increasingly converging with IFRS as new standards are released jointly by FASB and the International Accounting Standards Board (IASB). The SEC has suggested that one possible method of IFRS adoption is to incorporate IFRS into U.S. GAAP over time.
Human Resources and Employment Law

The American workforce ranks as one of the most highly educated, productive, and innovative in the world, and a key consideration in determining a U.S. business location is the availability of the labour skills, as well as the applicable local wage rates. The total U.S. workforce is approximately 154 million people, derived from a total U.S. population of over 300 million people.

Overview

The workplace is regulated by both federal and state statutes and regulations, and these are generally equally applicable to both U.S. and foreign employers. The U.S. Department of Labour regulates conditions in the workplace at the federal level, and each state has its own local labour department handling state-specific issues. Labour unions also play a role in representing the best interests of its workforce and establishing favourable workplace regulations, although they only represent a small percentage of private sector workers in the U.S.

Employment formalities

U.S. employees have relatively limited rights in the context of terminations when compared to many other nations. The primary reason for this is the ‘at-will’ employment rule.

This provides that a U.S. employer is generally free to fire an employee for any reason (except proscribed reasons), without notice, and at any time.

Companies should consult with a U.S. attorney in considering whether to issue offer letters, formal employment agreements, non-disclosure/non-compete/confidentiality agreements, and employee handbooks to their prospective new employees.

Employment eligibility

Employers must complete an Employment Eligibility Verification Form (Form I-9) and examine acceptable forms of documentation supplied by the employee in order to confirm the employee’s citizenship or eligibility to work in the U.S.

Expatriate employees

Employees that are assigned from their home country to the U.S. to set up a new U.S. operation or otherwise work in the U.S. may need a U.S. employment visa and should consult with a U.S. immigration attorney. There will also be expatriate tax implications in both the home and host country for both the employee and employer.
Worker classification

It is important to ensure the correct classification of individuals as employees or independent contractors. The federal tax authorities have guidelines to assist employers in making this determination. Incorrect classification can have unintended tax and regulatory consequences. Employers are also classified based on their eligibility to overtime pay as either ‘exempt’ (entitled to overtime pay) or ‘non-exempt’ (entitled to overtime pay) and federal and state regulations should be consulted for proper classification.

Equal employment opportunity

There are federal and state laws prohibiting employer discrimination based on race, colour, national origin, sex, religion, age and disability.

Health and safety standards

Federal and state regulations require employers to provide a work environment free from hazards and to comply with specific safety and health standards for specific industries.

Posting of required notices

Employers are required by state and federal regulations to prominently display certain posters in the workplace that inform employees of their rights and employer responsibilities under labour laws. These posters are available from federal and state labour agencies and from U.S. payroll companies.

Minimum wage

The U.S. federal government enforces a minimum wage of currently $7.25 per hour, and many state and local jurisdictions have rates that generally exceed the federal requirement. Various exceptions also apply, for example to full-time students, youth under age 20, tipped employees and so on. There are also federal and state regulations governing overtime.

Fringe benefits

Fringe benefits typically include a healthcare plan, dental plan, a retirement plan, paid vacation and paid holidays. Other common benefits include disability, life insurance plans and other benefits.

Health insurance

The U.S. healthcare system relies heavily on private health insurance, which is the primary source of coverage for most Americans. Approximately 60% of Americans obtain health insurance through their employer. It is therefore common to provide an employer-sponsored group health insurance plan as part of an employee’s benefits package. The employer typically makes a substantial contribution towards the cost of coverage, approximately 75-85% of the insurance premium. The employee pays the balance of the premium, usually on a pre-tax basis.

Pension plans

The federal government provides incentives for employers to provide retirement benefits to workers. The employer is allowed a tax deduction for any contributions made to a pension fund, and the employee’s tax liability will be deferred until the benefit is paid. Employers generally have two types of available plans. The most common plan is the defined contribution plan, commonly known in the U.S. as a ‘401(k) plan’, to which an employer’s contributions (if any) are allocated amongst the separate accounts of participating employees, who may also contribute to their respective accounts. Investment gains or losses and the history of contributions will affect the value of a participant’s account at retirement but would not affect an employer’s contributions since the employer is not obligated to ensure any specified level of benefit in the plan. The second is the defined benefit plan, to which an employer contributes to cover the amount of retirement income owed to retired employees (which will vary based on years of service, average salary, and other factors). Any investment gains or losses will not affect the amount of benefits paid to participants but will affect the amount an employer needs to contribute in order to cover its obligation.

Holidays

Employers generally offer paid time off to their full-time employees for all or most of the ten federal holidays, which includes: New Year’s Day, Birthday of Martin Luther King Jr., Washington’s Birthday, Memorial Day, Independence Day, Labor Day, Columbus Day, Veterans Day, Thanksgiving Day, and Christmas Day. It is customary for employers to allow most/all of these holidays irrespective of any legal requirements. It is also common for many companies to close the day after Thanksgiving and the day before Christmas. Many employers also allow an additional two or three days of ‘floating’ holidays to accommodate employee diversity.

Vacation

Vacation policies usually have an accrual rate based on the length of service. These rates vary widely by industry and by class of employee and can provide for up to 10, 15, 20 or even more vacation days per annum. Again, many employers offer some form of vacation irrespective of any legal requirements.

Sick Leave

Many companies allow employees to accrue ‘sick leave’ which allows employees paid time off from work during periods of temporary illness. Rates of sick leave can vary, but it is fairly common practice to afford employees 6 days of sick leave per year.

Family and medical leave

Eligible employees of covered employers are entitled to take unpaid, job-protected leave for specified family and medical reasons to help the individuals balance their work and family responsibilities.

Americans with disabilities

Regulations also exist to prohibit covered employers from discriminating against qualified individuals with disabilities.

Workers’ compensation insurance

This is a form of insurance that provides compensation medical care for employees who are injured in the course of their employment. In most states, businesses over a certain minimum size are required to carry this insurance coverage through a commercial carrier, on a self-insured basis, or through a state Workers’ Compensation Insurance programme.

Disability insurance

Some states require employers to provide partial-wage replacement insurance coverage to their eligible employees for non-work-related sickness or injury. Employers are required to purchase disability insurance if they have employees located in certain states including New York, New Jersey, California, Rhode Island and Hawaii.

Operating payroll and employment taxes

Federal and state regulations require employers to withhold and remit income and social security taxes to the appropriate government agencies and to also file regular payroll tax returns. It is common in the U.S. to outsource the payroll processing to an external payroll service provider. Federal and/or state penalties may be assessed for failure to properly withhold tax and report wages paid to an employee.
Trade

The U.S. Customs and Border Protection (CBP) and a number of other government agencies regulate goods imported into the U.S. The U.S. customs territory includes the 50 states, the District of Columbia and Puerto Rico. There are over 325 ports of entry located throughout the U.S. including seaports, airports and land border crossings.

Tariff classification

U.S. tariffs are not generally high by world standards. All goods that enter the U.S. are categorised according to the Harmonized Tariff Schedule of the U.S. (HTSUS). CBP is responsible for interpretation and enforcement of the HTSUS. Classification will determine how much duty will be collected, admissibility into the U.S., anti-dumping duties, quotas, and special trade programme rules. Classification determination can be a complicated process and may require a significant amount of information related to the imported goods. The importer is responsible for properly classifying merchandise before entry and CBP may have a different interpretation of a product’s classification versus the exporting country’s opinion. Information on U.S tariffs may be obtained from the U.S. International Trade Commission as well as from CBP’s website.

Duty rates

All goods imported into the U.S. are either subject to duty or are duty free, depending on their classification. When goods are dutiable, ad valorem, specific or compound rates may be assessed. Ad valorem rates are the type most often applied and are a percentage of the value of the goods, e.g. 5%. The rate of duty CBP assesses on a particular commodity imported is not binding for future shipments of the same or similar merchandise. Where there is uncertainty, CBP has a binding ruling programme whereby importers can request a written ruling as to the proper classification, and applicable rates of duty. CBP will not issue binding rulings in response to oral requests.

Valuation

U.S. regulations exist for valuing imported goods, which are based on the WTO Valuation Agreement. Proper customs valuation is important for two primary reasons. Firstly, most duty rates are based on a percentage of the value of the product. Secondly, because valuation trade statistics are used by the U.S. government during trade negotiations. Consideration should also be given to the transfer price between related entities such as a foreign parent and U.S. subsidiary. CBP seeks to ensure that a ‘true/reasonable’ arm’s length price exists between related parties.

Documentary requirements

When a shipment reaches the U.S., the party responsible for clearing the goods (known as the ‘importer of record’) must file an entry package. CBP enforces the completeness and accuracy of import documentation. Documentation requirements can be extensive and may include the commercial invoice, certificate of origin, bill of lading, packaging list and special certificates. CBP and the import community have created the Customs Automated Commercial System (ACS) to help speed the customs clearance process. The system electronically receives and processes entry documentation and provides cargo disposition information.

Customs brokers

The services of a competent customs broker are recommended to assist with the importation formalities. Customs brokers are licensed by the U.S. Department of the Treasury and their primary service is to represent the importer in filing and processing the customs entry with CBP. They may also provide guidance with tariff classification, quota compliance, and anticipation of difficulties in the entry of products. Non-compliance with the many formalities involved in the entry process may result in delays/seizure of goods, extra costs, litigation and even prohibition. Import regulations can and do also change without notice.

Rules of origin

Importers are also required to make accurate declarations as to the country of origin of merchandise. Rules exist for determining origin and therefore whether a product qualifies for reduced rates. All foreign goods must be marked with their country of origin. This ‘marking’ must be on the product in such a manner that the ‘ultimate consumer’ of the product will clearly understand the product’s country of origin. This generally means that both the goods itself as well as its packaging should be clearly and conspicuously marked.

Product certification, labelling and packaging

The Federal Trade Commission, the Food and Drug Administration (FDA), and the Department of Agriculture all have guidelines on product certification, labelling and packaging that should be met. Note also that the U.S. uses the imperial weights and measures system, i.e. inch, foot, mile, ounce, and pound.

NAFTA

NAFTA was signed in 1992 (entered into force in 1994) by the U.S., Canada and Mexico and eliminates tariffs on most goods originating in these member countries.

Corporate Customs Compliance

Regardless of the volume of imports a company enters into the U.S., CBP expects the importer to establish and maintain process controls to ensure that all import transaction processes (including classification, valuation, marking, internal controls, entry review, recordkeeping, trade agreement eligibility, etc) are managed in a consistent and ‘reasonable’ manner. As such, it is important that the importing entities document (and follow) their import processes, procedures and controls.
Banking in the U.S.

The U.S. has a well-developed and sophisticated banking system, with hundreds of banks and other financial institutions spread across the U.S. Commercial banks, investment banks, savings banks, savings and loan associations and credit unions are examples of the different types of financial institutions that comprise the U.S. banking market. In addition, specialised institutions, including leasing companies, finance companies and factoring companies, offer asset-based financing. Many overseas banks also have established U.S. banking operations.

Types of Accounts

A checking account is the most common type of bank account in the U.S. It is a deposit account held at a bank or other financial institution, for the purpose of quick, secure and frequent access to funds on demand, through a variety of different channels. These accounts are typically used to manage the day-to-day affairs of a business. Checks are still commonly used in the U.S. and offer a convenient and secure method of making routine payments to creditors. Automated Clearing House (ACH) electronic payments are also very common. Signatories on a checking account (and savings account) can generally access funds and make transactions via debit cards, through Automated Teller Machines (ATMs), online banking, telephone banking, written checks and wire transfers. Different banks will also charge various up front and periodic service charges.

A savings account is an account maintained by a financial institution that may pay interest with respect to the funds on deposit and can be used to set aside a portion of excess liquid assets.

Funds in a U.S. bank account are generally insured by the Federal Deposit Insurance Corporation (FDIC) up to certain limits.

Setting up a Bank Account

A new U.S. bank account can often be opened relatively easily and quickly. However, U.S. federal laws do require that banks execute their ‘Know Your Customer’ (KYC) formalities which requires a bank to gather certain information and documentation regarding the business entity and each account signatory. For a corporation, this may include general background information on the business and source of funds, a copy of the Certificate of Incorporation, the federal Employer Identification Number (EIN), and a certificate of authority to do business in a state.

Each individual signatory also needs to be identified and may be asked to provide two forms of picture identification, proof of address, their U.S. social security number (if applicable) and other information.

A checking account is usually opened immediately upon the organisation of a new U.S. business entity in order to deposit the initial stock subscription amounts paid by the initial stockholder(s) and to receive and disburse other funds and pay U.S. employees. Most banks can also provide an online banking feature which allows a user to make secure transactions through the internet. Online banking can be especially useful for inbound businesses that may prefer to manage the U.S. bank account from abroad.

Borrowing in the U.S.

Commercial banks are a major supplier of funds to businesses. Short-term financing is usually arranged as a line of credit. Medium-term financing, generally a term of five to seven years, may also be used by foreign investors to fund their U.S. operations. As a condition of the loan, a bank usually requires execution of a note and a formal loan agreement which will specify the borrower’s responsibilities through special covenants. Personal guarantees and audited financial statements are also commonly required. The ability of a business to borrow from a financial institution is partly based on the credit history of the company, i.e. their record of borrowing money and making payments on time. The foreign credit history of a business may not be accepted by U.S. lenders. A borrower will also be typically required to provide the U.S. lender with collateral.

Other matters

Exchange controls do not exist in the U.S. but informational returns may sometimes be required on the transfer of substantial amounts of cash.

Any U.S. person who has a financial interest in or signature authority over any financial account in a foreign country, where the aggregate value of these accounts exceeds $10,000 at any time during the calendar year, is required to file a Report of Foreign Banks and Financial Accounts, by 30 June of the following year. A U.S. person is defined to include a U.S. citizen or resident of the U.S., a domestic partnership, and a domestic corporation. Failure to meet this filing requirement could result in civil and/or criminal penalties.
HSBC in the U.S.

Management
Irene Dorner is President and Chief Executive Officer of HSBC Bank USA, N.A., and is based in New York City.

Location
The main office of HSBC Bank USA, N.A. is located in McLean, VA, with a principal office in New York City.

HSBC Bank USA, National Association, with total assets of $194 billion as of 30 June 2012 (US GAAP), serves 3.1 million customers through its personal financial services, commercial banking, private banking, asset management, and global banking and markets segments. It operates more than 300 bank branches throughout the United States. There are over 200 in New York state as well as branches in Connecticut, Washington, D.C., Florida, New Jersey, Pennsylvania, Maryland, Virginia, California, Delaware, Oregon and Washington State. HSBC Bank USA, N.A. is the principal subsidiary of HSBC USA Inc., an indirect, wholly-owned subsidiary of HSBC North America Holdings Inc. HSBC Bank USA, N.A. is a member of the FDIC.
Historic Milestones

1865 The Hong Kong and Shanghai Banking Corporation is founded in Hong Kong.

1955 It was not until the 1950s that the bank considered operating its own subsidiary in the United States. The business potential of California was especially strong and, in 1955, a wholly-owned subsidiary, The Hong Kong and Shanghai Banking Corporation of California, was incorporated locally.

1959 The Hong Kong and Shanghai Banking Corporation acquires The Mercantile Bank of India, which had operated a New York office since 1919.

1970s By the 1970s, it had become clear that the California subsidiary had only limited room for growth and the bank decided that a stake in a large existing American financial institution – Marine Midland Banks, Inc – offered more scope for expansion. The business of the Californian subsidiary was then wound down.

1980 The Hong Kong and Shanghai Bank acquires 51% of Marine Midland N.A. a New York bank with a history dating back to 1850. The purchase cost US$314 million and the acquisition nearly doubled the Group’s assets from HK$128 billion to HK$243 billion. (In 1987 The Hong Kong and Shanghai Bank acquired the remaining shares of Marine Midland, N.A.).

1991 The Hong Kong and Shanghai Bank becomes the founding member of the HSBC Group and HSBC Holdings plc is formed.

1998 HSBC Holdings adopts a unified brand, using HSBC and its hexagon symbol nearly everywhere it operates, with the aim of enhancing recognition of the Group and its values by customers, shareholders and staff throughout the world.

1999 HSBC Holdings plc purchases Republic New York Corporation for US$9.85 billion. Republic National Bank is a large New York based Bank with operations in the United States, Switzerland and Luxembourg and a history dating back to 1966. At the time of the acquisition, the united operations created the third largest depository institution in New York State and tenth largest bank in the United States based on assets.

1999 Shares of HSBC Holdings, plc are listed on the New York Stock Exchange.


2003 HSBC’s acquisition of Household International, Inc., in March 2003 added national coverage in the United States for consumer lending, mortgage financing, credit cards and credit insurance. The transaction provided a basis for establishing HSBC’s Card and Retail Services as the seventh largest provider of MasterCard and Visa credit cards in the United States.

Awards for Excellence U.S.

<table>
<thead>
<tr>
<th>Year</th>
<th>Award</th>
<th>Body/Publication</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>Best Bank for emerging market currencies trading - spot/forward</td>
<td>Euromoney</td>
</tr>
<tr>
<td>2011</td>
<td>#1 Precious Metals Overall Dealer</td>
<td>Energy Risk</td>
</tr>
<tr>
<td>2010</td>
<td>Best Global Wealth Manager</td>
<td>Euromoney</td>
</tr>
<tr>
<td>2010</td>
<td>Most Innovative Investment Bank for Corporates</td>
<td>The Banker</td>
</tr>
<tr>
<td>2010</td>
<td>Best Bank for FX for Corporates</td>
<td>FX Week</td>
</tr>
<tr>
<td>2010</td>
<td>Best Global Trade Bank</td>
<td>Global Trade Review</td>
</tr>
</tbody>
</table>

Corporate Sustainability

For HSBC, Corporate Sustainability is about bringing social and environmental issues together with financial performance to maintain and grow a successful business for the benefit of our stakeholders.

- We apply clear policies and processes to manage potential social and environmental risk in our lending and other financial activities in sensitive sectors.
- We help our clients to seize the opportunities presented by the shift to a low-carbon economy.
- We try to reduce our own environmental footprint and share good practice on this with our clients and other stakeholders.

In 2006, HSBC North America was awarded LEED Gold Certification by the U.S. Green Building Council for an eco-branch in Upstate New York that features rainwater harvesting, onsite solar energy-generation and geo-thermal heating and cooling. The branch serves as a model to evaluate standards for future building projects. In 2008, the headquarters building of HSBC Finance Corp. in Mettawa, Ill., was awarded LEED Gold Certification.

We use special software to automatically shut down a large majority of the tens of thousands of HSBC North America personal computers each night. Since 2007, the programme has saved HSBC millions of dollars in electricity costs and has contributed greatly to helping HSBC significantly reduce its carbon footprint. The programme is now in use across HSBC Group.
• We focus our community investment on education and the environment.

Our education programmes help lift people out of poverty, build financial literacy and promote environmental awareness. In 2010, HSBC lent $283 million for community development, invested $42 million in community development, and contributed $15.5 million to philanthropic initiatives, and U.S. employees volunteered nearly 50,000 hours to non-profit organisations.

• HSBC is the primary corporate partner with The Doe Fund in its innovative Resource Recovery programme to increase the availability of bio-fuel and provide transitional employment and housing for previously homeless and incarcerated men. Doe Fund ‘trainees’ collect thousands of gallons of used cooking oil each week from more than 1,200 restaurants across New York City for conversion to bio-fuel.

The programme supports Doe Fund trainees in their efforts to become independent and productive members of society, and also helps reduce air pollution, encourages the use of renewable energy, and provides area restaurants with a cost-effective and environmentally-friendly alternative for the disposal of used cooking oil.

• HSBC’s financial education programme YourMoneyCounts® offers clear, unbiased financial information online at the YourMoneyCounts.com website, and through consumer education booklets, financial education workshops, and educator resources. In 2010, more than 864,000 consumers visited the site, and many others accessed HSBC financial education materials through a partnership with the Center for Neighborhood Enterprise, which works with community-based non-profit organisations nationwide to offer financial literacy workshops to low and moderate income consumers. Materials are available in English and Spanish and are free of charge.
## Country overview

<table>
<thead>
<tr>
<th>Capital city</th>
<th>Washington D.C.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Area and population</td>
<td>Area of 9,800,000 sq km and population of 310 million (approximately)</td>
</tr>
<tr>
<td>Language</td>
<td>English</td>
</tr>
<tr>
<td>Currency</td>
<td>US Dollar (USD)</td>
</tr>
<tr>
<td>International dialling code</td>
<td>+1</td>
</tr>
<tr>
<td>National Holidays</td>
<td>Scheduled Public Holidays for 2013</td>
</tr>
<tr>
<td>New Year’s Day</td>
<td>1 January</td>
</tr>
<tr>
<td>Birthday of Martin Luther King, Jr.</td>
<td>21 January</td>
</tr>
<tr>
<td>Washington’s Birthday</td>
<td>18 February</td>
</tr>
<tr>
<td>Memorial Day</td>
<td>27 May</td>
</tr>
<tr>
<td>Independence Day</td>
<td>4 July</td>
</tr>
<tr>
<td>Labor Day</td>
<td>2 September</td>
</tr>
<tr>
<td>Columbus Day</td>
<td>14 October</td>
</tr>
<tr>
<td>Veterans’ Day</td>
<td>11 November</td>
</tr>
<tr>
<td>Thanksgiving Day</td>
<td>28 November</td>
</tr>
<tr>
<td>Christmas Day</td>
<td>25 December</td>
</tr>
<tr>
<td>Business and banking hours</td>
<td>8/9am to 5/6pm, Monday through Friday</td>
</tr>
<tr>
<td>Stock exchanges</td>
<td>The New York Stock Exchange (NYSE) and NASDAQ</td>
</tr>
<tr>
<td>Political structure</td>
<td>Federal republic with a democratic tradition, based on the U.S. Constitution</td>
</tr>
<tr>
<td>Gross Domestic Product</td>
<td>$15,461.8 billion (Q1 2011 – US Commerce Department)</td>
</tr>
<tr>
<td>Amount of foreign direct investment</td>
<td>$2.3 trillion (approximate stock in 2009 – US Commerce Department)</td>
</tr>
</tbody>
</table>
Contacts

Michael Economou
PricewaterhouseCoopers

Tel: +1 312 298 3356
Email: michael.economou@us.pwc.com

Website: www.us.hsbc.com
Phone: +1-800-975-HSBC

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