INTEGRA (INTERNATIONAL) LIMITED

Doing Business Guide

United States of America

Updated by:
Altheia Leduc, CPA
Gold Gerstein Group LLC
Certified Public Accountants
and Consultants
Moorestown & Voorhees, NJ USA
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1. Facts and Figures and Introduction to the United States of America

The United States is the third largest populated country in the world, with approximately 325,127,634 residents as of July, 2015. The European Union has a population of nearly 508,200,000 as of January, 2015; however it is not considered a country. The United States has the world's largest economy measured by nominal Gross Domestic Product (GDP). The 2014 estimate of nominal GDP, provided by the World Bank and International Monetary Fund, has the U.S. ranked the largest and China second in nominal GDP. The United States legal currency is the U.S. Dollar ($). The country is generally comprised equally of men and women, with 66% of the population between the ages of 15 and 64 years old. Every state in the United States is comprised of counties, municipalities, townships, and school districts.

Income tax in the United States has existed for over 100 years. Below are a few of the significant tax developments implemented during the past three years (2013 – 2015).

1. Patient Protection & Affordable Care Act
2. Net Investment Income Tax
3. Additional Medicare Tax on Compensation
4. Foreign Assets Reporting
5. Tangible Property Regulations
6. Protecting Americans from Tax Hikes Act of 2015 (PATH Act)

More detailed analysis of these issues follows later in the guide.

Patient Protection & Affordable Care Act, commonly called the Affordable Care Act (ACA) or "Obamacare" was signed into law in 2010 with most of the provisions being effective in 2014. This law was enacted to increase the availability and affordability of health insurance.

Net Investment Income Tax is a 3.8% surtax on investment income for individuals, estates and trusts. This surtax became effective January 1, 2013. Net investment income (generally) includes interest, dividends, capital gains, rental and royalty income and income from passive business investments. In some cases, rental income from affiliated entities is not subject to the tax.

Additional Medicare Tax became effective in 2013. An additional tax of 0.9% is imposed on wages, compensation and self-employment income above certain thresholds.

The Foreign Account Tax Compliance Act (FATCA) focuses on the reporting of certain foreign financial and investment accounts and foreign entity interests held by U.S. citizens and resident aliens.

Report on Foreign Bank and Financial Accounts (FBAR) replaced the previous guidance that was originally enacted in 2010. On September 30, 2013, Form FINCEN Report 114 replaced Form TD F 90-22, which was used to report foreign income.

Tangible Property Regulations became effective for years beginning after January 1, 2014. The regulations provide guidance on capitalization versus expensing when acquiring, replacing or maintaining real estate and business or rental tangible property.

Protecting Americans from Tax Hikes Act of 2015 (Path Act). The PATH Act addresses favorable "extenders" that were supposed to expire at December 31, 2014. PATH makes some of these provisions permanent and extends others.

2. Company Law

The legal and tax entities that may be formed in the United States are relatively simple to define; however, there are many complexities as to their formation requirements, legal liability, and taxation. In the following sections, a very abbreviated and general explanation will be provided.

Pass-through Entities

A pass-through entity is so defined due to its method of taxation. This type of entity is not taxed, but rather taxable income or loss is passed through to the owner(s), member(s), or shareholder(s) of the entity. There are different types of business structures that may be formed as pass-through entities. They include general and limited partnerships, S corporations, and limited liability companies.

2.1 Partnerships

A partnership may be structured either as a general partnership (GP) or a limited partnership (LP). The main difference between the two types of partnerships is the legal liability that each partner assumes. The formation of a partnership involves the joining of at least two parties which may be any permissible combination of individuals, corporations, trusts, or other partnerships. The formation of a GP requires each partner to be personally liable for the entity's debts and obligations of the partnership. The formation of a LLP, on the other hand, has at least one general partner who is personally liable for the debts and obligations of the partnership. The other partners are called "limited partners" and do not have any personal liability beyond the capital contributions they made to the partnership.

Furthermore, a GP allows any one of the partners to obligate the firm to commitments without consent from the other partners, unless restrained by the terms of the partnership agreement. The partners are, therefore, each personally, jointly and severally liable to different degrees.

General partners must pay self-employment tax (Social Security and Medicare tax) on their net earnings from self-employment assigned to them from the partnership. Net earnings from self-employment include an individual's share, distributed or not, of income or loss from any trade or business carried on by a partnership.

Limited partners are subject to self-employment tax only on guaranteed payments, such as professional fees for services rendered. Additionally, if you are a member of a partnership that carries on a trade or business, you are considered self-employed and subject to self-employment tax.

2.2 S Corporations

A small business corporation (an S corporation) must meet certain criteria, as outlined in the Internal Revenue Code Section 1361. Generally, that criteria requires that it must be a domestic corporation, it may not have more than 100 shareholders, and the shareholders must be citizens or residents of the United States. The S corporation may only have one class of stock, and its shareholders may only be individuals, estates, qualified trusts, and certain tax-exempt entities. Family members may elect to be treated as one shareholder, effective for tax years beginning after December 31, 2004. The types of trusts allowed are grantor trusts (where the grantor is the shareholder), voting trusts (where the beneficiary is the shareholder), and testamentary trusts that receive S corporation stock. Generally, the testamentary trust may be treated as an eligible shareholder for two years after the deemed owner's death.

The shareholders are protected from personal liability with respect to claims against the debts and obligations of the S corporation above the amount each shareholder paid for his or her stock ownership or has contributed to capital. Additionally, the S corporation's continuation is unaffected by the death or transfer of shares by any of the shareholders, unless the eligibility requirements are no longer met upon the death of a shareholder or the transfer of his or her interest. A decision to revoke an S election may, however, be made with a majority vote by the shareholders.

When making payments to a corporate officer or shareholder, these payments should be treated as wages to the extent the amounts are reasonable compensation for services to the corporation by the employee. Payments may also be made to stockholders from income previously taxed but not distributed in the year earned. Various factors impact on these distributions and are subject to the relevant facts and circumstances.

2.3 Limited Liability Company

A limited liability company (LLC) is an entity that provides the liability protection of a corporation while functioning and being taxed as a partnership. A participant in an LLC is identified as a "member." Each member is protected from personal liability in excess of the capital contributions each has made to the LLC. There is no limit on the number of members, nor are there restrictions on the types of entities that may be members in an LLC. Additionally, an LLC may make disproportionate allocations and distributions, distribute appreciated property without the recognition of gain, and exchange appreciated property for membership interests without the recognition of gain. Generally, members pay self-employment tax on their share of partnership earnings. An LLC can continue to exist upon the death of a member, if the member owned less than a 50% interest, or had advance planning for business continuation. However, unlike a GP or an LP, only one member is needed to form an LLC. Single member LLCs are taxed by the federal government as sole proprietorships. Also, LLC's may elect to be treated as a C corporation or an S corporation.

2.4 Limited Liability Partnerships

Limited liability partnerships (LLP's) are a relatively new form of business organization. LLP's have elements of partnerships and corporations. LLP's are similar to LLC's since each member is protected from personal liability in excess of the capital contributions each has made to the LLP. They also avoid double taxation, while being able to manage the business directly. There are two major differences that separate LLP's from the other forms of business. One is that the business is restricted to only certain types of professional practices, such as accountants, attorneys, physicians, and other occupations treated as professions. The other is the shield of personal liability is for all things other than personal acts of malpractice, negligence, or wrongful act. If there is a wrongful act, the partner involved will be liable personally, while all the partners not involved with the act will be free of personal liability. This formation was designed to protect innocent partners from personal liability.

2.5 C Corporations

A C corporation is the most complex type of entity. Corporations must maintain extensive records and are subject to close regulation. A corporation and its shareholders are double-taxed, first on the corporate profit, and second on the dividends paid to its shareholders. For this reason, many closely held corporations do not pay dividends. Dividends are taxed by shareholders as capital gains.

Various federal and state filings are required to form a corporation. The corporation does provide protection from personal liability to its shareholders in excess of the amount paid to acquire stock. There are no limits as to the number of shareholders a corporation may have after the initial shareholder. Generally, corporate hierarchy is such that shareholders elect directors, and directors appoint management. An individual may hold all three positions. A corporation only terminates if voted upon by the directors and/or shareholders and a majority, as defined by state law, agrees to terminate, sell, or liquidate the company.

A corporation is subject to a federal graduated tax ranging from 15% to 38%, but averaging no more than 35% for taxable net income over $18,333,333.

There are many rules surrounding corporate tax law. There are tax credits and special deductions for certain types of corporations, which will be discussed later.

Furthermore, corporations can either be publicly traded, closely held, or foreign-owned. Publicly traded corporations are subject to the most stringent regulations and are traded on the New York Stock Exchange a (NYSE), the NASDAQ or the over-the-counter (OTC) markets. The Securities and Exchange Commission (SEC) is the primary regulatory body governing publicly traded corporations and is responsible for protecting investors and maintaining the integrity of the securities markets.

Personal service corporations are taxed at 35% by the Internal Revenue Service. Qualified personal service corporations provide services in the fields of accounting, actuarial, architecture, engineering, healthcare, law, or the performing arts.

2.6 Sole Proprietorships and Other Organizations

A sole proprietorship is an unincorporated, single-owner business that is the simplest entity to form and maintain. It permits the owner to have sole control and responsibility. It has minimal regulations and less paperwork than any other type of entity. This type of entity, however, does not have a separate legal existence apart from its owner and, as a result, the owner has unlimited personal liability for all debts and obligations of the business. There is also a limited ability to raise capital, and often the business will terminate upon the death of the owner. This type of entity does not require the filing of a separate tax return. The business activity is reported directly on the owner's personal federal and state income tax return (Schedule C). Since the owner is not an employee, the business is not subject to the complexity of federal and state payroll taxes, unless it has employees apart from the owner. Unlike any of the other entities, the owner retains all the business profits. At year-end, the owner is subject to self-employment tax of 15.3% on the net profits of the business up to $118,500 (2015) and 2.9% over that amount. The owner is responsible during the year to remit federal and state estimated tax payments on the income of the business.

Non-profit Organizations

A non-profit organization is formed under Internal Revenue Code Section 501, and is generally exempt from income taxes. Examples of non-profit organizations are schools and universities, philanthropic, and mutually beneficial organizations. Generally, non-profit organizations are taxed on income from a business enterprise that is not substantially related to their tax-exempt purpose. This taxable income is identified as Unrelated Business Taxable Income (UBTI). Non-profit organizations that receive certain levels of support from governmental bodies are subject to additional regulations and record keeping requirements.

Private Foundations

A private foundation is an Internal Revenue Code Section 501(c)(3) non-profit organization which is defined as any 501(c)(3) non-profit organization other than those contributing 50% or more to charitable donees, receiving more than one-third of their annual support from its members and the public and not more than one-third from investment income and Unrelated Business Income (UBI), supporting organizations to Section 501(c)(3) entities, and private safety testing organizations. A private foundation is not exempt from tax unless its governing document specifically prohibits it from engaging in prohibited activities (as defined) or the accumulation of income.

Estates and Trusts

A trust is an entity typically created by a will or intervivos instrument. Trustees take title to the property to protect or conserve it for the beneficiaries of the trust. There are ordinary rules concerning the preservation of principal and distribution of income to which these trusts are subject. The rules are enforced by state chancery and probate courts. There are other trusts that may be formed which are subject to specific rules and regulations pertaining to taxation, capital preservation, and income distribution. These special trusts include grantor trusts and charitable trusts.

An estate is created upon the death of an individual, and an executor (executrix) is responsible for properly handling and distributing all of the assets of the deceased according to his or her will, paying all outstanding debts and filing all required federal and state documents.

A fiduciary is an individual who occupies a position of special confidence toward another by holding property of that person who has the beneficial title or interest or is one who receives and controls income of another. Trustees and executors are considered fiduciaries.

Estates and trusts are typically regarded as conduits with respect to income that is required to be distributed currently or is distributed at a specific time to a beneficiary. Although the income must be reported, a deduction is also permitted for the income when it is distributed or becomes currently distributable. Generally, though not always, beneficiaries are taxed on the part of income currently distributed or distributable and the trust or estate on the portion that has accumulated.

2.7 Business Start-up and Registration Procedures

Start-up and registration procedures for doing business in the United States include the online filing of a federal Form SS-4, Application for Employer Identification Number. This form is a minimum filing for a business entity, except a sole proprietorship. No application fee is required. A sole proprietorship need only file an SS-4 if the owner chooses to trade under a different name, has employees, or obtains a separate employer identification number for confidentiality of his or her social security number. Shareholders and corporations choosing to be taxed as S corporations are required to file an additional Form 2553, Election by a Small Business corporation. To assure taxation as desired, it is generally advisable to file federal Form 8832, Entity Classification Election, particularly for partnerships and LLCs.

Businesses and non-profit entities are generally formed, organized, and governed pursuant to the laws of one of the fifty states, District of Columbia (Washington, DC), or other protectorates of the United States.

The registration of a new entity, whether a corporation, S corporation, partnership, limited liability company, limited partnership, or sole proprietorship, requires that a legal document must be filed with the state under which laws the business will operate. Foreign or out-of-state entities typically need to submit an Application for a Certificate of Authority in order to conduct business in a state under which laws it did not incorporate.

3. Accounting and Auditing

Both government regulatory agencies and industry groups develop governing standards for accounting and auditing. Additionally, there are state and national committees and organizations that support accounting and auditing professionals and that lobby for certain laws and standards to meet changing needs.

3.1 Accounting

Accounting services that may be provided include attestation services, compilations, preparation services, payroll services, tax compliance services, and general bookkeeping. Attestation services require the accountant to maintain independence from the company for which the services are being performed and generally mean that the accountants are expressing an opinion or some level of assurance as to the fairness of the application of U.S. Generally Accepted Accounting Principles (GAAP). Attestation service levels include "reviews" and "audits." A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. It is substantially less in scope than an audit which is the expression of an opinion regarding the financial statements taken as a whole. The purpose of a review is to express limited assurance that the accountant is not aware of any material modifications that should be made to a company's financial statements in order for them to be in conformity with U.S. Generally Accepted Accounting Principles.

A compilation differs from a review and audit in that the accountant need not be independent and does not express an opinion or any other form of assurance on company information. The objective of a compilation is to assist management in presenting information in the form of financial statements.

A preparation service engagement (effective for periods ending on or after December 15, 2015) under SSARS 21 differs from a compilation, review or audit in that the accountant engaged does not provide an accountants report, no assurance is provided or disclaimed (which is stated on each page of the financial statements), and the financial statements are not intended for third-party use.

Payroll, tax, and bookkeeping services are obtained as needed and are relatively self-explanatory. There are, however, standards that must be met in performing any level of accounting service.

3.2 Auditing

An audit is the highest level of financial statement services and must be conducted in accordance with Generally Accepted Auditing Standards (GAAS). It includes evaluating the accounting policies used and significant accounting estimates made by management as well as performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements in order to express an opinion on the financial statements of a company. Professional judgment, along with guidelines established by FASB and the AICPA, determines the number of transactions to be examined and the areas to be tested. An audit is planned and performed to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements. Again, professional judgment and AICPA established guidelines assist in determining materiality. Finally, an audit must include obtaining an understanding of the entity and its environment, including internal controls sufficient to assess the risk of material misstatements in the financial statements and to design the nature, timing, and extent of audit procedures to be performed. However, it is not designed to provide assurance on the adequacy of internal controls or to identify deficiencies in the design or operation of the internal controls.

Certain circumstances require that an audit be performed and some audits may be specialized if, for example, government funding is received, if public contributions exceed certain limits, or if fraud is suspected.

Sarbanes-Oxley Act of 2002

Publicly traded companies, unlike closely-held companies, are required to have audits of their annual financial statements, to submit additional filings to the SEC on a regular basis and to abide by the provisions of the Sarbanes-Oxley Act of 2002 (SOX). One of the most significant provisions of SOX was the establishment of the Public Company Accounting Oversight Board (PCAOB) or (Board). The PCAOB was established by Congress to oversee the audits of public companies in order to protect investors and the public interest by promoting informative, accurate, and independent audit reports. The PCAOB requires that audits of U.S. public companies are subject to external and independent oversight.

The five members of the PCAOB Board are prominent individuals of integrity and reputation. Two of the members must be or have been certified public accountants, and the remaining three must not be and cannot have been certified public accountants. The Board's members will serve on a full-time basis and may not be employed by any other person or engaged in any business activity during their term.

The Board has the following responsibilities (not all-inclusive):

(1) register public accounting firms;

(2) establish "auditing, quality control, ethics, independence, and other standards relating to public company audits;"

(3) inspecting registered accounting firms regularly;

(4) conduct inspections, investigations and disciplinary proceedings of registered public accounting firms;

(5) perform various duties sanctioned by the Board;

(6) enforce compliance with the Act, the rules of the Board, professional standards, and the securities laws relating to the preparation and issuance of audit reports and the obligations and liabilities of accountants with respect thereto;

(7) set the budget and manage the operations of the Board and the staff of the Board.

The PCAOB has adopted an audit standard to implement the internal control review required by section 404(b). This standard requires the auditor to evaluate whether the internal control structure and procedures include records that accurately and fairly reflect the transactions of the issuer, provide reasonable assurance that the transactions are recorded in a manner that will permit the preparation of financial statements in accordance with GAAP, and a description of any material weaknesses in the internal controls.

Securities and Exchange Commission

The U.S. Securities and Exchange Commission (SEC) is the main regulatory agency protecting investors in the U.S. securities markets and maintaining the integrity of these markets. The SEC also oversees other participants in the securities market being primarily concerned with promoting the disclosure of information, enforcing the securities laws and protecting investors who interact with these other participants, whether business organizations or individuals.

The SEC requires each annual report of an issuer to contain an "internal control report", which shall:

(1) state the responsibility of management for establishing and maintaining an adequate internal control structure and procedures for financial reporting; and

(2) contain an assessment, as of the end of the issuer's fiscal year, of the effectiveness of the internal control structure and procedures of the issuer for financial reporting.

Each registered public accounting firm that prepares or issues the audit report shall attest to, and report on, the assessment made by the management of the issuer. An attestation made under this subsection shall be in accordance with standards for attestation engagements issued or adopted by the PCAOB. An attestation engagement shall not be the subject of a separate engagement.

The SEC requires each issuer to disclose whether or not (and, if not, the reason) it has adopted a code of ethics for its senior financial officers and the contents of that code. The SEC shall issue rules to require issuers to disclose whether at least one member of its audit committee is a "financial expert." Issuers must disclose information to the public on material changes in the financial condition or operations of the issuer on a rapid and current basis (in plain English).

3.3 Consulting

Consulting services have evolved from advice on accounting related matters to a wide range of services involving diverse technical disciplines, industry knowledge, and consulting skills. In a consulting service, the findings, conclusions and recommendations are presented. The nature and scope of the work is determined solely by agreement between the accountant and the client. The work is generally prepared only for the use and benefit of the client.

The Statement on Standards for Consulting Services (SSCS) provides standards of practice (guidance) for a broad range of professional services. In addition to the SSCS, all services performed must adhere to the following general standards of the profession which are contained in Rule 201 and Rule 202 of the AICPA Code of Professional Conduct:

A. Professional Competence

B. Due Professional Care

C. Planning and Supervision

D. Sufficient Relevant Data

E. Client Interest

F. Understanding with Client

G. Communication with Client

Although consulting services must use the guidance of the Statements on Standards for Consulting Services, professional judgment must be used in instances where there are client constraints on the services to be provided. The performance of consulting services for attest clients does not automatically impair independence; however, professionals are required to review and comply with regulations issued by the AICPA and other regulatory agencies.

Accounting firms also offer consulting services which include business valuation, merger and acquisition planning, litigation support services, information systems consulting, financing, corporate and individual income tax planning, estate tax planning, and many other management advisory services. The Sarbanes-Oxley Act, enacted in 2002, places limitations on the consulting services, including some of those listed above, that may be offered by auditors to clients that are publicly-traded companies.

The Statement on Standards for Valuation Services I (SSVSI) establishes standards for AICPA members who are engaged to estimate the value of a business, business ownership, security or intangible asset. The term engaged to estimate value refers to an engagement that involves estimating the values of a subject interest. Valuation analysts should be aware of any governmental regulations and other professional standards applicable to the engagement. The use of professional judgment is an essential component of estimating value.

4. Tax Law

Taxing Authorities

The federal taxing authority is generally the Internal Revenue Service (IRS). The IRS deals with all matters pertaining to federally assessed business, personal income tax and federally-assessed employer and employee payroll tax matters.

Each state's revenue department deals with matters pertaining to income taxes, while their labor departments administer and deal with unemployment tax matters. Additionally, sales and use tax laws exist in each state and are administered by the respective state revenue department. Real estate and personal property tax laws are administered by the counties, municipalities, townships and school districts within each state.

RECENT TAX UPDATES AND CHANGES

NET INVESTMENT INCOME TAX

Beginning in 2013, taxpayers with qualifying income are liable for the 3.8% net investment income tax. The tax will be imposed on unearned income for single filers with modified adjusted gross income (AGI) over $200,000; joint filers above $250,000 and married filing single over $125,000. The tax will be imposed on the smaller of the filer's net investment income (generally interest, dividends, annuities, rents, passive income from a business activity and capital gains) or the excess of modified AGI over the threshold stated above.

ADDITIONAL MEDICARE TAX ON COMPENSATION

The Additional Medicare Tax increases the employee share of Medicare tax by an additional 0.9% (to 2.35%) on wages in excess of certain thresholds. The first $200,000 of compensation will be taxed at 1.45%. The excess earnings over $200,000 will be taxed at 2.35%. The employer is required to withhold the additional tax on wages in excess of $200,000 and is liable if they fail to withhold the tax. For the self-employed, the additional tax applies to SE income that exceeds the $200,000. An individual is liable for the additional Medicare Tax if the individual's wages or self-employment income (together with their spouse) exceeds $250,000 for married filing jointly, $125,000 if married filing separately or $200,000 if single.

FOREIGN ASSETS REPORTING

The Foreign Account Tax Compliance Act (FATCA) is an important U.S. effort to combat tax evasion by U.S. persons holding investments in offshore accounts.

Under FATCA, certain U.S. taxpayers holding financial assets outside the United States must report those assets to the IRS. In addition, FATCA will require foreign financial institutions to report directly to the IRS certain information about financial accounts held by U.S. taxpayers, or by foreign entities in which U.S. taxpayers hold a substantial ownership interest.

FATCA requires certain U.S. taxpayers holding an interest in specified foreign financial assets (i.e. accounts maintained at foreign institutions, stocks or securities not U.S. based, interest in certain foreign entities, financial instruments or contracts with non-U.S. persons) with an aggregate fair market value (FMV) exceeding $50,000 on the last day of the year or $75,000 at any time during the year to report certain information about those assets on Form 8938 that must be attached to the taxpayer's annual tax return. Failure to report foreign financial assets on Form 8938 will result in a penalty of $10,000 (and a penalty up to $50,000 for continued failure after IRS notification). Further, underpayments of tax attributable to non-disclosed financial assets will be subject to an additional substantial understatement penalty of 40%.

FATCA will also require foreign financial institutions ("FFIs") to report directly to the IRS certain information about financial accounts held by U.S. taxpayers, or by foreign entities in which U.S. taxpayers hold a substantial ownership interest.

Under this agreement a "participating" FFI will be obligated to:

(1) undertake certain identification and due diligence procedures with respect to its account holders;

(2) report annually to the IRS on its account holders who are U.S. persons or foreign entities with substantial U.S. ownership; and

(3) withhold and pay over to the IRS 30% of any payments of U.S. source income, as well as gross proceeds from the sale of securities that generate U.S. source income, made to (a) non-participating FFIs, (b) individual account holders failing to provide sufficient information to determine whether or not they are a U.S. person, or (c) foreign entity account holders failing to provide sufficient information about the identity of its substantial U.S. owners.

PATIENT PROTECTION AND AFFORDABLE CARE ACT

The Patient Protection & Affordable Care Act (commonly referred to as the Affordable Care Act or Obamacare) became effective January 1, 2014. The Affordable Care Act requires individuals, unless exempt, to carry minimum essential health insurance coverage for each month or they will be responsible for making a shared responsibility payment. Payment of any individual shared responsibility payment will be due with the filing on your individual income tax return.

Individuals who do not have coverage through an employer sponsored plan, Medicaid, Medicare or other qualified plan, may obtain health insurance coverage through the Health Insurance Exchange. If you purchase your insurance coverage from the insurance exchange you may be eligible for a Premium Tax Credit. A premium tax credit can lower or offset the cost of insurance coverage.

TANGIBLE PROPERTY REGULATONS

(Please consult with a tax professional before applying any of the repair and capitalization regulations)

The regulations provide final guidance on capitalization versus expensing when acquiring, replacing and repairing real and personal property. The most significant regulations (not all-inclusive) are (1) De Minimis Safe Harbor Election (2) Routine Maintenance Safe Harbor (3) Small Taxpayer Safe Harbor Election (4) Refined criteria for defining betterments, adaptations and restorations.

1. <u>De Minimis Safe Harbor Election</u> – Allows a business to make an annual election to expense versus capitalizing on eligible purchases. The safe harbor amount is $500 or less (per invoice or per item). If the business prepares an applicable financial statement (i.e. audited financial statement), the safe harbor amount is increased to $5,000.
2. <u>Routine Maintenance Safe Harbor</u> – The costs of performing certain routine maintenance on property in order to keep it in ordinary working condition can be treated as a "repair cost" versus capitalizing if it meets certain conditions.
3. <u>Small Taxpayer Safe Harbor Election</u> – Allows a taxpayer to make an annual election <u>not</u> to capitalize improvements to eligible buildings.

Eligible buildings are owned or leased and must have an unadjusted basis of $1M or less. The taxpayer must have average gross receipts for the three preceding years of $10M or less. The annual cost for repairs, maintenance and improvements must not exceed (1) the lesser of $10K or (2) 2% of the unadjusted basis of the eligible building.

4. Defining costs for Betterments, Adaptations or Restorations (BAR) – Amounts paid for betterments, adaptations and restorations to a unit of property generally must be capitalized. Betterments are costs that increase the value of a unit of property (i.e. physical enlargements, expansion or extension OR an increase in capacity, productivity or efficiency). Adaptations are costs to bring the unit of property to a new or different use. Restoration costs return the unit of property to its original condition after the property has deteriorated to a state of disrepair and is no longer functional for its intended use.

Protecting Americans from Tax Hikes Act of 2015 (PATH Act)

This act, which became law on December 18, 2015, extends and makes permanent general tax provisions for individuals and businesses.

The key provisions made permanent (not all inclusive) for individuals are as follows:

1. State and Local Sales Tax Deduction – Allows individuals to claim as an itemized deduction state and local general sales tax in lieu of deducting state and local income taxes.

2. <u>Child Tax Credit</u> – This credit is available up to $1,000 for qualifying dependents under age 17. A portion is also eligible as a refundable credit.

3. <u>Teachers' Classroom Expenses Deduction</u> – Allows as above the line deduction of $250 to be adjusted for inflation annually.

4. <u>American Opportunity Tax Credit</u> – Provides taxpayers with an annual credit of $2,500 per eligible student for qualified education expenses paid for a student during their first four years of higher education.

5. <u>Charitable Distributions from IRA's</u> – Allows individuals 70-1/2 and older to make tax-free distributions up to $100,000 from their individual retirement accounts to a qualified charitable organization.

The key provisions made permanent for businesses are as follows:

1. Internal Revenue Code Section 179 expensing limit is set at $500,000 with a $2,000,000 asset purchase limit before the phase out of the deduction begins. This will be indexed for inflation after 2015.

2. <u>Reduced Recognition Period for S-Corporation Built-in Gains Tax</u> – The Act makes permanent the five-year recognition period for built-in gain following conversion from C-corporation to S-corporation.

3. Qualified Leasehold Improvements – A 15-year straight line cost recovery is allowed for qualified leasehold improvements, qualified restaurant building and improvements, and qualified retail improvements.

The key provisions extended (not all inclusive) are as follows:

A. Extended until December 31, 2019 for businesses:

1. Bonus depreciation, which provides a 50% depreciation deduction in the first year qualified property is placed in service (2015-2017). The percentage phases down to 40% in 2018 and 30% in 2019 before expiring.

2. Work Opportunity Tax Credit allows a tax credit to 40% of qualified first-year wages of employees who are members of a targeted group.

B. Extended until December 31, 2016 for individuals:

1. Mortgage Debt Exclusion excludes from income cancellation of mortgage debt on principal residence of up to $2,000,000.

2. Mortgage Insurance Premium Deduction is allowed as an itemized deduction and treated as deductible interest. The deduction is subject to AGI phase out.

3. Qualified Tuition and Related Expenses allows an above-the-line deduction for qualified tuition and fees for post-secondary education.

Preparer Tax Identification Number

The IRS Return Preparer Initiative requires all paid tax return preparers to obtain and use a PTIN. This includes those preparers who substantially prepare a return, even though they are not the signer of the return. The effort also require that certain paid preparers pass a competency test, take continuing education courses and adhere to standard ethical rules. Tax return preparers who fail to meet these requirements could have their PTIN revoked or not renewed. Without a valid PTIN, they would be unable to legally prepare tax returns for compensation. Information on the test, as well as a tutorial, and a candidate information bulletin are available at www.irs.gov/taxpros/tests.

Attorneys, certified public accountants (CPAs), and enrolled agents are currently exempt from the testing and continuing education requirements in connection with the PTIN.

The IRS electronic PTIN sign-up system is accessible through its website at www.irs.gov/taxpros (http://www.irs.gov/taxpros). The new sign-up system requires return preparers to create an account, complete the PTIN application, pay a $64.25 fee and get a PTIN. Preparers will be asked about their tax compliance and should resolve any outstanding issues with the IRS prior to submitting an application.

Each preparer must have his or her personal PTIN. Sharing a PTIN within an office or firm is not allowed. Preparers can submit a paper application, the Form W-12 (http://www.irs.gov/pub/irs-pdf/fw12.pdf), but it will take four to six weeks to process. The electronic PTIN sign-up system takes 15 minutes to complete and process.

Preparers who do not have social security numbers because of religious objections can complete the PTIN application and submit paper Form 8945 (http://www.irs.gov/pub/irs-pdf/f8945.pdf) , PTIN Supplemental Application for U.S. Citizens Without a Social Security Number Due to Conscientious Religious Objection. They must also include documentation on identity, U.S. citizenship and status in a recognized religious group.

IRS Voluntary Classification
Settlement Program

The program allows eligible taxpayers that agree to voluntarily treat their misclassified workers as employees going forward to get significant relief from liability for unpaid federal employment tax, penalties and interest. The Voluntary Classification

Settlement Program (VSCP) is part of the IRS's initiative to get more businesses and individual taxpayers into tax compliance and help close the tax gap.

The program applies to taxpayers who are currently treating their workers (or a class or group of workers) as independent contractors or other non-employees and want to prospectively treat the workers as employees.

Taxpayers may apply for the VCSP using Form 8952, Application for Voluntary Classification Settlement Program. The application should be filed at least 60 days before the date the taxpayer wants to begin treating its workers as employees. Payment should not be submitted with the application.

A taxpayer who participates in the VCSP will agree to prospectively treat the class of workers as employees for future tax periods. In addition, the taxpayer will not be liable for any interest and penalties on the payment under the VCSP, and will not be audited for employment tax purposes for prior years with respect to the worker classification of the workers. Participating employers will, for the first three years under the program, be subject to a special six-year statute of limitations, rather than the usual three years.

International Financial Reporting Standards (IFRS)

International Financial Reporting Standards (IFRS) are governed by the International Accounting Standards Board (IASB). The goal of IFRS is to provide a global framework for how public companies prepare and disclose their financial statements. IFRS provides general guidance for the preparation of financial statements, rather than setting rules for industry-specific reporting. IRFS proponents believe having international standards is especially important for large companies that have subsidiaries in different countries. They believe adoption of a single set of world-wide standards would allow businesses to present financial statements on the same basis as its foreign competitors, making comparisons easier. Although global uniformity seems like the answer, some believe that U.S. GAAP is superior and that a certain level of quality will be lost by using IFRS versus U.S. GAAP. IFRS (principal-based) provides fewer detailed rules than U.S. GAAP (rule-based) and has limited industry-specific guidelines.

Over 120 nations and reporting jurisdictions permit or require IFRS for domestic listed companies and over 90 countries have fully conformed to IFRS. However, IFRS has not been adopted in the United States. The prospect of IFRS being fully adopted in the United States in the near future is growing less likely, but progress is being made. Earlier in 2015 a converged accounting standard on revenue recognition was adopted by both the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB). The new revenue recognition standards (ASU 2014-09) are expected to be effective for periods ending after December 15, 2017 for public companies and the following year for private companies.

4.1 Taxes on Income

4.1.1 Individuals and Sole Proprietorships

Income taxes are imposed annually by the federal government, by most state governments, and by some local governments. The rates differ from entity to entity and from state to state. Employers are required to withhold federal, state, and local taxes from their employees' wages. Under certain circumstances, estimated federal and state income taxes may also need to be paid quarterly throughout the year by individuals. Taxable income is not always equal to the reported net income on the books of the business or the gross income of an individual. Reporting differences between accounting and tax based income measurement often exists. Additionally, the income which is taxable for federal purposes may differ from that which is taxable for state and local tax purposes. The U.S. tax laws are very complex. As a result, the following barely skims the surface of the federal income tax laws.

Sole proprietorships are typically operated by one individual. The activity of the business is reported on Form Schedule C. A sole proprietor is considered a self-employed person and subject to self-employment tax (SE tax). The net income is subject to individual tax blended rates ranging from 10% to 39.6%. The SE tax rate is 15.3% of net self-employment earnings.

There are numerous items that are deducted from an individual's gross income. These include home mortgage interest, home real estate taxes, and charitable contributions and are known as "itemized deductions." Additionally, there are dependency exemptions for children and other qualifying persons which help lower an individual's taxable income. However, at graduated taxable income levels, itemized deductions and dependency exemptions are phased out resulting in effective tax rates approaching 42% plus the aforementioned surtax on investment income. Consequently, the personal situation of the individual taxpayer should be a consideration prior to determining the best type of business entity to be formed.

4.1.2 Corporations and Partnerships

Corporations are taxed for federal purposes at a blended rate ranging from 15% to 38%, depending upon the level of taxable income. As taxable income rises above certain thresholds, the benefit of the lower rates is phased out. Taxable income in excess of $18,333,333 is taxed at 35%. Professional service corporations, providing services by doctors, engineers, accountants, lawyers, etc., are taxed at a flat rate of 35%, without benefit of the lower, initial tax brackets.

The pass-through entities, as defined earlier, are generally not taxed. Rather the income is passed through to the owners, members or shareholders, and the net taxable income is, thereby, taxed at the individual's tax rate.

4.1.3 Private Foundations

Private foundations are similar to non-profit charitable organizations. The net investment income is subject to a federal excise tax of 2%, and Unrelated Business Income (UBI) is subject, for federal tax purposes, to the corporate tax rates. Private foundations may, however, be formed such that they are taxed as a trust. In which case their UBI and investment income would not be subject to the taxes explained above. A private foundation is not exempt from income taxes as are non-profit organizations unless its governing document specifically prohibits it from engaging in prohibited activities (as defined) or the accumulation of income. If tax-exempt status is not applicable, or is subsequently revoked by the IRS, a private foundation is subject to the federal and state corporation income tax rates.

4.1.4 Estates and Trusts

Estates and trusts are subject to blended federal and state tax rates that are the same as those for individuals except they start at 15% rather than 10%. The higher rates become effective at much lower income levels than for individuals. Certain charitable trusts are exempt from the normal trust tax rate schedule, but are subject to the income and excise taxes imposed on private foundations.

4.1.5 International Tax Law

Foreign individuals arriving in the United States must apply for either a Social Security Number (SSN) by filing federal Form SS-5, "Social Security Administration Application for a Social Security Number," or a Taxpayer Identification Number (TIN) by filing federal Form W-7, "Application for IRS Individual Taxpayer Identification Number." A TIN is applied for if an individual is not eligible for an SSN.

Non-resident Aliens

Non-resident aliens are taxed on most U.S. source income. Income that is connected with a US trade or business is taxed at the graduated tax rates in the same manner as U.S. citizens. Income including alimony that is not related to a US trade or business is taxed at a flat rate of 30% or the lower treaty rate, if applicable. . Foreign source income of non-resident aliens is not subject to United States tax. A federal Form 1040-NR, "U.S. Non-resident Alien Income Tax Return," is required to be filed provided a foreign individual is engaged at any time in a trade or business in the U.S., has only exempt income, or has income subject to tax under the Internal Revenue Code (IRC). The minimum income threshold required to file a federal income tax return by a U.S.

citizen does not apply to foreign individuals. A non-resident alien need not file a return if his or her tax liability was fully satisfied through withholding by a withholding agent, and if the foreign individual was not engaged in a U.S. trade or business during the tax year. A withholding agent may be a U.S. resident or a foreign individual who is required to deduct, withhold, and pay any tax of a non-resident alien individual, or a foreign business entity. The annual filing required is federal Form 1042, "Annual Withholding Tax Return for U.S. Source Income for Foreign Persons."

Foreign companies that open a U.S. office should follow the business start-up and registration procedures explained earlier in this guide. An IRS Taxpayer Identification Number (TIN) may be needed rather than an Employer Identification Number (EIN). Foreign individuals working in or having ownership in the U.S. office of the foreign company must adhere to the rules described above for non-resident aliens. Income earned by the U.S. office of a foreign company is considered to be income connected with or from a U.S. source and is, therefore, taxable in the U.S. The taxation of the business is similar to that of any U.S. business discussed earlier in this guide, with some minor exceptions. For example, foreign corporations file an annual federal Form 1120-F rather than a Form 1120 for domestic corporations.

U.S. Citizens and Resident Aliens

U.S. citizens or U.S. resident aliens living abroad are subject to the same U.S. income tax laws that apply to citizens and resident aliens living in the U.S. Their U.S. gross income includes income from all sources including foreign sources. Federal Form 2555, "Foreign Earned Income" is used by those who have a foreign home and satisfy either the bona fide residence test or the physical presence test, as defined by the IRC. Taxpayers meeting either requirement can elect to exclude a limited amount of their foreign earned income up to $100,800 (2015). The excluded income cannot exceed the foreign earned income for the year. The federal Form 2555 may also be used to claim the housing exclusion or deduction.

FinCEN Report 114 is the current form and replaces Form TD F 90-22. The current Report of Foreign Bank and Financial Accounts (FBAR) guidance requires any United States person (U.S. citizen, U.S. resident) or a domestic business entity that has a financial interest in, signing authority or authority to conduct business on behalf of an owner over any foreign financial account (i.e. bank account, investment account, mutual funds, retirement accounts, brokerage accounts, insurance policy or annuity policy with a cash value, and debit and prepaid card accounts) to report account activity to the Department of Treasury by electronically filing a Financial Crimes Enforcement Network (FinCEN) 114, if the aggregate account value of all foreign financial accounts is equal to or exceeds $10,000 at any time during the year. The FBAR is a calendar year report and is due by June 30 each year for the prior year accounts owned. There is no extension of time available for filing an FBAR. The FBAR is not filed with your federal tax return. It must be filed electronically through FinCEN's BSA E-Filing System. The penalties for a non-willful violation may not exceed $10,000 per violation. Civil penalties for a willful violation may not exceed the greater of $100,000 or 50% of the amount in the account at the time of the violation. Federal Form 1116, "Foreign Tax Credit," is used by U.S. citizens or resident aliens to claim a credit on their U.S. individual income tax return for foreign taxes paid or accrued to a foreign country or U.S. possession. The credit may also be claimed by estates and trusts. In certain circumstances, the credit may be claimed without filing the form.

U.S. citizens who are bona fide residents of American Samoa, Puerto Rico, or the Virgin Islands may exclude some or all gross income. U.S. citizens residing in those locations should consult more detailed information regarding their tax situation.

Taxation of Controlled Foreign Corporations

A Controlled Foreign Corporation (CFC) is any foreign corporation in which more than 50% of total combined voting power or total value is directly, indirectly, or constructively owned by U.S. shareholders. U.S. shareholders are subject to tax on earnings distributed from the CFC. Also, to the extent that a CFC has “Subpart F income,” as defined in the IRC, a U.S. shareholder is subject to tax on his or her proportionate share of that income, whether or not distributed. Form 5471, “Information Return of U.S. Persons with Respect to Certain Foreign Corporations,” is an informational return that must be filed annually by U.S. persons who have an ownership interest of 10% or more in a foreign corporation. Owning 10% of either the total value of corporate stock or the total combined voting power of all classes of stock with voting power deems the U.S. person a U.S. shareholder by definition. A U.S. person may be a citizen, resident, domestic partnership, corporation, or an estate or trust.

Form 5472, "Information Return of a 25% Foreign-Owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business", is an informational return to provide required information under §6038A and §6038C when a reportable transaction occurs during the tax year of a reporting corporation with a foreign or domestic related party. A reportable transaction is a monetary transaction or any part of the transaction was non-monetary or less than full consideration was paid or received.

Foreign Personal Holding Companies (FPHC) require U.S. shareholders to include as taxable income their pro rata share of undistributed FPHC income. A foreign corporation is typically classified as a FPHC if at least 60% of its gross income (not gross receipts) consists of specified types of income, such as interest, dividends, and annuities, and if more than 50% of the voting interest or total value of its outstanding stock is owned directly or indirectly by five or less U.S. citizens or residents. Personal holding companies must attach Schedule PH, "U.S. Personal Holding Company (PHC) Tax" to their corporate return.

Passive Foreign Investment Companies (PFIC) are classified as such if a foreign corporation has at least 75% of its income as passive income or at least 50% of the assets it held during the year produced passive income. The 50% test is based on the adjusted basis of the corporation's assets if the corporation is not publicly traded and is a Controlled Foreign Corporation (CFC). A PFIC can be either a qualified electing fund (QEF) or a non-qualified fund. U.S. shareholders of a non-qualified PFIC fund are taxed on realized PFIC income and are charged interest on deferred and unrealized income. Whereas, U.S. shareholders of a qualified electing fund are treated like pass-through entities and taxed on their respective shares of the fund's earnings but may elect to defer payment of tax on undistributed earnings of the QEF, subject to an interest charge. For tax years beginning with 1998, special rules apply for a PFIC that is also a CFC.

All federal tax calculations are made in the taxpayer's functional currency, the U.S. dollar. However, some exceptions apply such as for a foreign corporation or for a foreign subsidiary of a U.S. corporation, whereby a company may be required to adopt the functional currency of the environment in which it is operating. The taxable income or loss of a foreign branch and the other items of a foreign corporation must be translated into the U.S. dollar. The IRS, however, has authority to specify the use of average exchange rates rather than the daily exchange rates.

Taxation of foreign source income is among the most complex issues in the Internal Revenue Code. It is recommended that an analysis be made of a company's particular situation before selection is made as to of the type of business/legal entity, location of headquarters, and other strategic decisions.

4.2 Tax Credits and Incentives

Tax Credits

Federal and state tax laws allow for numerous types of income tax credits which reduce taxes incurred and paid for the year. Some credits may be refundable, while most are non-refundable. Federal credits for individuals include the earned income tax credit, credits for elderly and disabled persons, credits for child and dependent care expenses, credits for post-secondary education expenses, a child tax credit, an adoption credit, a foreign tax credit for taxes paid to other countries, retirement plan contribution credit and energy tax credits. Federal business credits typically apply to corporations, though some can be passed through S corporations and partnerships to the individual, and include a general business credit, a credit for contributions paid to certain community development corporations, a credit for increasing research and development expenses, disabled access credit, and the work opportunity tax credit.

Business Incentives

Business incentives primarily include those at both a federal and state level that encourage energy production and conservation and the development of businesses in neighborhoods that are less affluent or crime-ridden areas.

In the past, U.S. companies were provided an incentive to sell goods in foreign markets through the extraterritorial income (ETI) regime (see discussion in Foreign Individuals and Companies section). Certain businesses are allowed a deduction for the manufacture, production, growth or extract (MPGE) of tangible personal property, construction of real property and performance of engineering or architectural services in connection with real property conducted within the United States. This is commonly being referred to as the Section 199 Domestic Production Deduction.

The deduction is permitted for businesses such as contractors, manufacturers, home builders, developers, engineers, and architects that construct, assemble or process something from two or more separate components. The amount of the deduction is a percentage, currently 9%, of qualified production activities income (QPAI). The deduction may not exceed a taxpayer's taxable income or, in the case of individuals, the taxpayer's adjusted gross income.

The Section 199 deduction is also limited to 50% of W-2 wages paid to employees for the year that are allocable to the activities eligible for the deduction. QPAI is equal to domestic production gross receipts (DPGR) less cost of goods sold and other direct expenses allocated to those receipts and a share of expenses that are not directly allocable to DPGR.

On a federal level, these incentives are in the form of credits. The states, however, are the true beneficiaries from such incentives and typically are the governmental bodies that issue such incentives. Again, most of the state incentives resemble the federal incentives in the form of tax credits. However, please consult with your accountant to determine if your state complies with federal credits.

4.3 Other Taxes

<u>Sales and Use Taxes</u>

Unlike Europe, the United States does not administer a federal level Value Added Tax (VAT) or sales tax. Sales and use taxes are state-administered taxes.

Beginning October 1, 2005, a group of states adopted provisions established by the Streamlined Sales Tax Project (SSTP) to collect sales taxes on internet sales. The states in full compliance with the SSTP provisions include Arkansas, Georgia, Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Nebraska, Nevada, New Jersey, North Carolina, North Dakota, Ohio, Oklahoma, Rhode Island, South Dakota, Utah, Vermont, Washington, Wyoming, Wisconsin and West Virginia. States in partial compliance are considered associate members of SSTP. As of the date of preparation of this Doing Business Guide, Tennessee was the only state considered an associate member.

Payroll Taxes

Payroll taxes are assessed on any employer that retains employees to perform work on behalf of their company. Subcontractors are not considered employees and guidelines exist for employers to determine whether they have employees and are thereby subject to remit payroll taxes. In addition to remitting employer payroll taxes, employers are required by federal and state laws to withhold from and remit their employees' federal and state withheld taxes, and state unemployment taxes. These employee withholdings and employer taxes are reported and remitted together on monthly, quarterly, or annual filings as required by federal and state laws.

Federal payroll taxes include federal unemployment tax (FUTA) at 0.6% on each employee's first $7,000 of wages annually (but some states are subject to an additional surcharge due to outstanding federal loans), Medicare tax at 1.45% with no annual income limits, and Social Security tax at 6.2% on the first $118,500 of annual wages (for 2015). The taxable wage base for Social Security generally changes annually. The Social Security tax and Medicare tax are referred to as FICA taxes and are reported on federal Form 941 quarterly. Employee withholdings, which are also reported on federal Form 941, include federal income tax as dictated by "Circular E," and the employees' portion of the FICA taxes which is equivalent to the rates assessed on employers. FUTA tax is solely an employer's tax, and is reported annually on federal Form 940.

Remittance of the federal and state payroll and withholding taxes vary from employer to employer, depending on their total payroll. Generally, state unemployment tax is remitted quarterly; state income tax is usually remitted monthly; federal unemployment tax is usually remitted quarterly; and federal income tax and FICA are typically remitted either weekly or monthly.

Real Estate Taxes

Real estate taxes are imposed by local jurisdictions and the rates vary according to the jurisdictions in which one resides.

The real estate tax rate is generally the aggregate of levies by the local taxing district. The value of real estate being taxed would be the real property as assessed according to its full and fair value which is defined as the price it would sell for at a fair and bona fide sale by private contract on the date of assessment.

Estate, Gift, and Inheritance Taxes

Estates of decedents dying during 2015 are exempt from federal estate taxes on the first $5.43 million of asset value. Gift tax returns, if applicable, should be referenced to ensure that all or part of the unified estate and gift tax credit has not been previously used.

5. Labor and Common Employment Law

Federal labor laws that are enforced by the U.S. Department of Labor are numerous as they include nearly 200 statutes. The Federal Labor Standards Act prescribes standards for wages and overtime pay. The Occupational Safety and Health Act (OSHA) regulates safety and health conditions in most private industries. The Employee Retirement Income Security Act (ERISA) regulates employers who offer pension or welfare benefit plans for their employees. The Labor-Management Reporting and Disclosure Act deals with the relationship between a union and its members. The list goes on and includes, among others, laws protecting the environment, veterans, recipients of financial aid, natural birth and adoptee mothers, laws governing acts within the workplace, and industry-specific laws.

Labor Departments

The U.S. Department of Labor prepares America's workforce for new and better jobs ensuring the adequacy of their workplaces. This agency administers and enforces many federal statutes, including protecting workers' wages, health, and safety; employment and pension rights; promoting equal employment opportunities; unemployment insurance and workers compensation programs; and publishing labor and economic statistics.

All states have a state labor department which generally performs various state function which are the administration of benefits to unemployed individuals; workers compensation to individuals with job-related injuries; providing for vocational rehabilitation to those with disabilities; enforcing the labor laws and safety standards, and promotion of economic development and improved business climates within the state. Each state labor department functions under the state's secretary and laws being administered will vary from state to state. Most companies also purchase other privately-owned insurance policies for protection from liability.

The normal work week in the U.S. is 40 hours for full time employees. However, status as a part-time employee may cut that in half. Many businesses have implemented casual Fridays, and one finds more accommodations being made for flexible hours and employees working from home. Vacation and days off provided to employees are decided upon on a company-by-company basis with certain federal requirements.

Employers must exercise care when classifying workers. The determination of whether a worker is an employee or an independent contractor can be a significant decision. Independent contractors are considered self-employed individuals and are not subject to employment tax withholding. Nor are they normally included in an employer's fringe benefits plan or retirement plan. Federal and state auditors have been very aggressive in this area. Misclassification of an "employee" as an "independent contractor" can be a costly mistake for an employer. (See the section on IRS Voluntary Classification Settlement Program.)

6. Trade Laws

Trade Commissions

There are numerous national and international trade commissions whose rulings and regulations impact on U.S. businesses (See the National and International sections below). One of the more widely recognized national agencies is the Federal Trade Commission (FTC). The FTC and the U.S. Justice Department enforce various antitrust, trade, and consumer protection laws. They advance the policies underlying congressional mandates through non-enforcement activities. It maintains a regional presence with offices in seven geographical areas across the country.

The United States International Trade Commission (USITC) is an independent non-partisan quasi-judicial federal agency. It has broad investigative powers on matters of trade. Trade data is also gathered and analyzed by the USITC and provided to the executive and legislative branches of government as part of the information on which U.S. trade policy is based. The USITC is the primary regulatory agency of international trade; however, there are numerous trade commissions that focus on imports and exports of particular foreign countries.

National

The United States trade law as it pertains to addressing foreign unfair practices affecting U.S. export of goods or services is principally governed by Section 301 of the Trade Act of 1974, as amended. It provides a domestic procedure whereby interested persons may petition the office of the United States Trade Representative (USTR) to investigate a foreign government policy or practice and take action. The USTR may also commence an investigation on its own initiative. For example, this section of the Trade Act may be used to obtain increased foreign market access for U.S. goods and services to provide more equitable conditions for U.S. investment abroad and to obtain more effective protection for U.S. intellectual property.

Section 337 of the Tariff Act of 1930 makes it unlawful to engage in unfair acts or unfair methods of competition when importing or selling imported goods. Most investigations under Section 337 regard alleged infringement of intellectual property rights, usually U.S. patents. Patents protect inventions and improvements to existing inventions. Other intellectual property includes, for example, trademarks and copyrights. Trademarks are brand names and/or designs which are applied to products or used in connection with services. Copyrights cover literary, artistic, and musical works.

In 1974, the U.S. Congress established the Private Section Advisory Committee System to ensure that U.S. trade policy and trade negotiation objectives adequately reflect U.S. commercial and economic interests. This committee now falls under the realm of the USTR's Office of Intergovernmental Affairs and Public Liaison, an office created during the Clinton administration to expand and enhance the USTR's partnership with and outreach to state and local governments, the business community, labor, environmental and special interest groups. Such programs included U.S. participation in the GATT Uruguay Round, the Asia Pacific Economic Forum, the Summit of the Americas, and the Public Education Campaign.

At the beginning of 1996, a new unit of the USTR was created to monitor all U.S. trade agreements, implement U.S. trade laws, determine compliance by foreign governments, and pursue actions to enforce U.S. rights under these agreements and laws. This permanent unit, the Monitoring and Enforcement Unit, became necessary due to the Clinton administration having concluded more than 180 national and international trade agreements.

International

Since the late 1980's, the U.S. has entered into market-opening agreements with Europe, Japan and China. However, there are numerous multilateral or international agreements that exist with almost every country in the world. There exists a World Trade Organization which is the only international organization dealing with the global rules of trade between nations. Its main function is to ensure that trade flows as smoothly, predictably, and freely as possible. The organization, as it accomplishes its goals, results in assurance for consumers and producers that they will enjoy secure supplies and greater choice of goods and services and for producers and exporters assurance that foreign markets will remain open to them. This organization also results in a more prosperous, peaceful, and accountable economic world. The organization's top level decision-making body is the Ministerial Conference which meets at least once every two years. The organization is headquartered in Geneva, Switzerland, and has 161 countries in its membership as of April 2015, and was first established on January 1, 1995.

7. Websites and Phone Numbers

Federal Government

Internal Revenue Service Center (IRS)	1-800-829-1040	www.irs.gov
Securities & Exchange Commission (SEC)	1-800-SEC-0300	www.sec.gov
U.S. Department of Commerce (DOC)	1-202-482-2000	www.commerce.gov
U.S. Department of Labor (DOL)	1-866-487-2365	www.dol.gov
U.S. Patent & Trademark Office	1-800-786-9199	www.uspto.gov
Federal Trade Commission (FTC)	1-877-FTC-HELP	www.ftc.gov

Industry Associations

American Institute of Certified Public Accountants (AICPA)	1-888-777-7077	www.aicpa.org
Financial Accounting Standards Board	1-203-847-0700	www.fasb.org
International Accounting Standards Board	+44 (0)20 7246 6410	www.ifrs.com