Selling your services overseas

We see many creative businesses selling more and more overseas, so here are some useful pointers if you are looking to take on a new client or operate in a new country.

Payment Risk
Know who you are dealing with and make sure you check them out thoroughly. It is routine to do a few background checks on a new customer in your own country to make sure they are not a credit risk i.e. you will get paid and preferably on time.

It is more expensive and can become drawn out if not futile when pursuing a debt through the legal system in a foreign jurisdiction. Safeguards if you have concerns can be a letter of credit from your potential client or credit insurance, or even funds held in escrow (effectively an independent third party).

Foreign Exchange Risk
The risk is that movements in the exchange rate in between agreeing the contract, invoicing and being paid can have a significant impact on the funds you receive if you are invoicing in a foreign currency. In recent years this has become a significant factor, even within Europe. The rate can of course move in your favour, but can you afford to take that risk?

The easiest solution is to agree the amount to be paid in Sterling (GBP), but this is not always possible. Most businesses therefore use their bank's foreign exchange products, such as:

— Forward contracts – fix an exchange rate for a given date, but make sure you understand the risks / alternative strategies if the amount or date changes
— Currency Options – this will allow you the potential for any upside benefit if rates move in your favour but can protect you against adverse rate movements. Like any insurance product this carries a premium but you are protecting your profit at a known cost.
— Foreign Currency Accounts. IF you are regularly trading in a foreign currency you can open a bank account in that currency to give you some flexibility as to when to convert; particularly useful if you also have to make payments in that currency, too.
— Contract Terms – consider inserting a clause such that if the exchange rate moves by more than *x*%, the amount due can flex to take this into account.

VAT Risk
When you sell **goods** to other *businesses* in the EU or in other countries you can normally charge the zero-rate of VAT on the sale. This means you can recover VAT on any related input costs. However, you need to show that your customer was VAT registered and the goods physically left the UK. Getting the paperwork right is essential.

The rules for international ***services*** are more complicated as they depend on the place of supply of the service, which varies according to the type of service supplied and who it is supplied to (business or non-business customer).

— UK businesses selling to non-business customers overseas (EC or elsewhere) must charge UK VAT.
— Where the customer is a business in another EC country, *in most cases* the customer accounts for the VAT in their own country, so the UK supplier does not charge VAT and the 'reverse charge' procedure applies.
— If a business customer belongs outside EC – no VAT is chargeable.

Following rule changes in January 2010, when selling to an overseas business, you should obtain commercial evidence showing the customer belongs outside the UK and does not receive your supply for a wholly private purpose. Best evidence is a VAT registration number but if they can't provide that, an alternative is acceptable including certificates from fiscal authorities, business letterheads or other commercial documents indicating the nature of the customer's activities.

Commercial risk
One useful rule of thumb I heard was, "Double the expected time to deliver and halve the expected profit" If it doesn't work on that basis, tread carefully!

DBA Expert Jack O'Hern
Wright Vigar
www.wrightvigar.co.uk
jack.o'hern@wrightvigar.co.uk