

Legal entity or GEO?

A side-by-side comparison of the costs and risks of creating a legal entity.



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“You can make a lot of money in a destination country, but if you didn’t plan it right, tax-wise it can really hurt.”

Michael Patterson, Partner at Spencer Fane,
international business compliance expert¹

58% of small to midsize businesses have an international presence.²

For many organizations, global expansion has become an imperative for success more than a choice. But, when it comes to deciding the right execution strategy for expansion, the choice is less straightforward, as there are many costs and risks to carefully consider.

Before you decide how to proceed, make sure you conduct a thorough analysis of the many tax laws, employer obligations, cultural nuances and other quirks that might apply in your target countries. One of the biggest mistakes an organization can make when planning an expansion into overseas markets is relying on concepts and norms that only apply in the U.S.

As you dig into the details, you may find that setting up a local entity will be significantly more complex, risky and costly than you expected—especially with regard to your global tax strategy. To quickly gain an international presence, Global Employment Outsourcing (GEO), also known as an employer of record, could be a smarter and more cost-effective alternative to establishing your own entity.

To help you decide the right path forward for your organization, use the following side-by-side comparison, which contains the costs and risks associated with entity setup vs. Global Employment Outsourcing.

Setup costs



Entity

\$25k-\$35k

initial cost for setup with attorney and tax advisory fees

Some countries require a physical office space to conduct business and real estate lease agreements can be a significant commitment.

Many countries require you to appoint a local resident director and pay attendant fees.



In London, a standard lease often runs five years with a five-year option to extend.

GEO

\$1k

average setup fee per employee

No local office space is required to hire or employ workers in-country.

One invoice per country.

No local resident is required for setup.

Timeline



Entity

6-9 months

average time to set up an entity

After setup, additional time is needed to hire and onboard new employees.



In Brazil, 43 documents and over 13 official procedures are needed to open a new company.³

GEO

2-4 weeks

to hire and onboard a new employee

Complete one onboarding form and have a call with a coordinator to discuss your organization's employment needs.



Labor investment

Entity

Team effort

for setup and maintenance

Labor costs are high, as you will need support from:

- Legal to protect and advise against liabilities
- HR to create employment contracts and onboard employees
- Payroll to pay in-country employees
- Finance to calculate and remit corporate taxes

GEO

One contact

is all you need

GEO becomes your solution for legal, HR, payroll and finance by:

- Compliantly onboarding employees
- Assuming responsibility for statutory employment requirements
- Remitting salary and taxes owed
- Providing continuous support for in-country employees' HR and payroll needs



International banking

Entity

Local bank account

required to pay employees

Capital requirements vary drastically by country.

Complying with “know your client” requirements can be time-consuming and finalizing an account is often done in-person.



In Belgium, \$67K in minimum capital is needed to deposit prior to incorporation.⁴

GEO

No local bank account

required to pay employees

No capital requirements, and local currency is automatically converted for easy billing.



Tax liability

Entity

Corporate tax liability

liability for a local permanent establishment



In France, an LLC is subject to corporate income tax (33.3%), withholding tax on profits and business tax, as well as VAT (value-added tax).

GEO

No tax presence

keeps a clean slate for your global tax strategy

Social costs, VAT and salary per employee are your only responsibilities.



Ongoing compliance

Entity

Risk mistakes

as local regulations
change frequently

You are obligated to comply with regulations in all the countries you operate, not just your home country.

- Currency controls
- Tax liabilities
- Data protection laws

And many other local regulations that are subject to change at any time, making mistakes a costly risk.



In 2018, French tax authorities implemented a new income tax withholding system.

GEO

Stay informed

to get ahead of changing regulations

In-country experts manage your employees' compliance and keep you current with new and ever-changing regulations.

Exit strategy



Entity

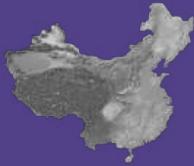
Costly

statutory filing fees
can last months

Dissolution procedures are often complex and time-consuming.



In the U.K., dissolving a subsidiary can take five to six months.



In China, liquidating a wholly foreign-owned enterprise can take eight to

GEO

Simple

and quick withdrawal process

No tax presence makes exiting a country as easy as ending employment service, and there is no extra cost.

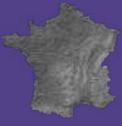
Entity

Risk lawsuit

One misstep can put you in labor court



In Mexico, you have to pay out your employee at the time of termination and a monthly fee for every month of employment.



In France, it can cost you the equivalent of 12 to 18 months of severance to terminate an employee.



In Brazil, during the period of notice, employees can take two hours of leave a day to search for a new job.

GEO

Expert guidance

to keep you out of labor court

In-country partners keep you informed of all procedures required for a lawful termination.

Labor laws



Entity

HR burden

to manage global employment

Researching and drafting compliant employment contracts can take weeks or months.

Compared with average paid time-off in the U.S., PTO costs are double in the 20 most-developed countries.



In Mexico, employees are entitled to a Christmas bonus which must be paid by

GEO

HR support

to manage global employment

Employment contracts comply with all local regulations, like required paid time off and complex statutory bonus entitlements.

Keep costs low with competitive rates on local statutory benefits.



Cultural factors

Entity

Unknown

risks come up frequently

You may encounter long seasonal or holiday-related delays in some countries.

Translators and in-country advisers will likely be needed to navigate local customs and cultural nuances.



In Brazil, administrative offices close during the summer months, between Christmas and Carnival.

GEO

Known

risks are handled before they happen

Your timeline to hire is always two to four weeks, no matter where in the world or when you plan to expand.

Your dedicated English-speaking contact will translate each country's nuances into a familiar context.

All employment contracts are written in the local language and employees are paid with local currency.

Maximizing the value of your global expansion efforts means reaching your growth goals faster while keeping costs at a minimum.

But when you are forced to enter regions and territories where you have no experience operating, miscalculating timelines and underestimating potential costs are common mistakes. A general rule of thumb is that no matter where you are looking to gain an international presence, everything will take more time and be more expensive than you think.

Many organizations choose to avoid or postpone investment in entity setup until they have justified the timeline, expense and corporate tax structure it entails. They use GEO as an interim solution to hire employees and “test the waters” in new markets, so that when business grows and the cost of an entity can be justified, employees can be seamlessly transferred to the new entity when ready.

Other organizations, wary of the tax presence and large financial investment required to set up an entity, rely on GEO exclusively for fulfilling their global employment needs.



About Safeguard Global

Safeguard Global enables global expansion without the risk. As a pioneer in global workforce enablement and Employer of Record (EOR) services, Safeguard Global helps organizations quickly and compliantly recruit, hire, pay, and manage teams in nearly 190 countries, without establishing legal entities. The company's technology platform is backed by over 400 experts working in 65+ countries who deliver human support when it matters most. With a breadth of global workforce solutions that also includes HR, benefits, accounting, legal, visa and immigration, and tax services, Safeguard Global guides customers with the expertise and support they need to scale faster and hire smartly around the globe — wherever they are in their expansion cycle. At Safeguard Global, borders become bridges.

To learn more about the advantages of Employer of Record services, contact us at hello@safeguardglobal.com or 737-704-2200.

SafeguardGlobal.com



¹ Global Chamber, 2019 Globinor “So your business is ready to expand internationally. Now what?”

² USForex, 2016 survey

³ International Finance Corporation

⁴ Lewis Silkin, Ius Laboris UK Global HR Lawyers