

The 13th Annual Americas School of Mines Expatriate Tax Issues*

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Agenda

Market trends

What has changed in the area of global mobility

Understanding areas of risk

Tax considerations

Country tax flash

Summary

Market trends

Market trends

Policy trends

E & C survey highlights

Impact of the current economic environment

Market trends

- Alignment of business and mobility strategy
- Link to talent management
- Repatriation and retention strategy
- Cost containment
- Focus on support / acclimation services
- Critical success factors / ROI
- Administration
 - Program governance
 - Process framework focused on risk minimization and compliance
 - Simplification
 - Service delivery models / Staffing ratios

Market trends

Policy trends

- Changing assignee demographic / profile / movement patterns
- Evolving types of mobility assignments and packages
 - More flexible policies are needed to address the varying needs of stakeholders
 - Global, flexible policy framework to replace “policy tiers”
 - Core and optional provisions
 - Increases in “non-traditional” assignments
 - Commuters, Rotators
 - Premiums and completion bonuses
- Tax Approach
 - Non-equalized packages for no tax locations
 - Eastern expat tax approach
 - Caps on personal income / equity income
 - Trailing liabilities

Market trends

E & C survey highlights

- Industry priorities and challenges
 - Managing risk and compliance
 - Talent management
 - Effective cost structure
 - Global policy vision and execution in a decentralized business model
 - Retention strategy
- Acclimation services

Impact of the economic environment

- Continued program growth
 - Focus on types of packages, levels and locations
- Focus on program cost
 - Total program cost and average assignee spend
 - Exception trends
 - Budget and accrual approach
- Accelerate assignment talent inventory
 - Extension, repatriation, localize
- Review ROI measures
- Review delivery of allowances
- Review frequency of COL updates

What has changed in area of Global Mobility

Current state of mobility

Changing types of mobility

What has changed in the area of global mobility

Current state of mobility

- Changing assignee demographics
- Greater complexity in regulatory environment
- Increased focus on risk minimization
- Increased focus on cost management
- Greater interest in providing more global opportunities
- Need for more consistency in assignment approaches
- Need for more flexibility in assignment package design
- Program development and management

What has changed in the area of global mobility

Changing types of mobility

- Long term (1 year – 5 years)
- Short term (3 – 12 months)
- Extended business travel
- Localization
- Permanent transfer
- Non-national local hires
- Seconded to third parties
- Other areas?

Understanding areas of risk

Understanding areas of risk
Changing types of mobility

Understanding areas of risk

Understanding areas of risk

Identify “WHO” is the first step...

- From an organizational view, it is imperative to account for all impacted employees, including their country / countries of citizenship
- An international assignee may be defined as anyone who is working in a country other than their country of citizenship or country of legal permanent residence
- Includes short-term assignees, long-term assignees, local hires as well as business travelers
- Many of these individuals may not be covered by the International Assignment Policy
- What is your organization doing to identify “who”?

Understanding areas of risk

Understanding areas of risk (continued)

- Assignment documentation
- Immigration
- Social security
- Benefits/Pensions
- Tax compliance -employer
- Tax compliance -employee
- Permanent Establishment
- Payroll
- Income reporting
- Trailing liabilities
- Cost management
- Data management/Security
- Other

Tax considerations

Local tax

US tax issues

Tax equalization objectives

Tax equalization overview

Tax considerations – local tax

- Identification of assignee
 - employee, contractor, etc
- Length of assignment
- Tax treaties
 - the 183 day rule is not the only consideration
- Tax exemptions
 - unique for each country
 - don't assume that non-taxable in the US means non taxable globally
- Income/tax reporting
- Taxation of assignment allowances/reimbursements
- Funding tax liabilities
- Social security taxes
- Legal entity

Tax considerations – US tax issues

- Travel away from home – reimbursement for “travel away from home” expenses may not be income to the individual (it could be taxed by the foreign jurisdiction)
- Taxation of foreign assignment allowances/reimbursements
- Foreign Earned Income Exclusion - “§ 911 Exclusion”
- State tax residence
- Foreign tax credits
- Social security taxes
- PE exposure

Tax equalization objectives

- To ensure good organizational citizenship regarding assignees' tax compliance in every location in which the organization operates and to eliminate the risk of non-compliance with local law, tax regulations and exchange controls
- To ensure assignee mobility in order to meet the organization's international resource needs. This means, from a tax perspective, the assignee should have no incentive or disincentive to accept an assignment, to transfer from one assignment to another or to be repatriated
- To minimize costs using effective tax planning techniques that are legally acceptable and practical to implement

Tax equalization overview

- Assignees may be transferred to and among international locations while incurring an individual tax burden similar to that which they would have paid had they not received allowances and special tax considerations resulting from the international assignment
- The organization pays the actual home and host country taxes, subject to certain limitations. In exchange, the assignee is required to contribute a hypothetical tax amount
- The amount of the hypothetical tax withholding should be as close to their final stay at home tax as possible (cash flow management)
- Hypothetical tax is a reduction of earnings and not a “build up” of a tax credit
- Hypothetical tax should be charged to the P&L and recognized for tax purposes in the same manner as regular salary payments

Country tax flash

United States

United Kingdom

France

China

Ireland

Ivory Coast

Morocco

Madagascar

Zambia & Mozambique

Dem. Rep. of Congo

US tax issues

Tax equalization objectives

Tax equalization overview

United States

In the United States, there have been many significant state tax changes that may impact the administration of tax equalized employees. In addition, there is a high probability of higher federal income tax rates in the near future. Finally, recent revisions to the foreign bank account information reporting has created greater complexity to the process.

United Kingdom

In the United Kingdom, new tax rules were implemented in 2008 concerning residency, share plans and remittances which could significantly impact program costs for UK inbound individuals. In addition, the UK Budget contains significant tax increases (50% top rate) to be effective from April 2010.

France

During 2008, several changes were made to French tax laws in order to attract more talented individuals. Among the new provisions, the "inbound's" tax regime has been developed and will include passive income, a new exemption of affiliation to the French state pension scheme and an exemption of French wealth tax on the inbounds' assets situated outside of France.

China

In 2009, legislative changes were made in China to the taxation of equity based compensation. As such, there is an increasing trend that the local Chinese tax bureaus are tightening up the enforcement of the tax registration requirements on share option plans.

Recently, there has been considerable focus on secondment arrangements and potential PE issues.

Ireland

In Ireland, the immigration system is adapting to the declining jobs' market. Rising unemployment is influencing the evolution of immigration policy, with a recent announcement of further restrictions on eligibility for employment permits.

Country tax flash

Ivory Coast

Reduced Corporate Tax Rate

Previous Rate: 27%

New Rate: 25%

Country tax flash

Madagascar

Reduced Corporate Tax Rate

Previous Rate: 30%

New Rate: 25%

Abolished Various Taxes

Country tax flash

Morocco

Reduced Corporate Tax Rate

Previous Rate: 35%

New Rate: 30%

Country tax flash

Zambia & Mozambique

Eased filing and paying of Taxes

Introduced Electronic Systems

Revised Tax Code

Strengthened Compliance and Collection

Country tax flash

Dem. Rep. of Congo

Difficult System for Filing and Paying Taxes

Numerous Payments and Forms

Wide Spread Tax Evasion Issues

Information Sharing and Data Exchanges

Summary

Summary

- Increasing complexity of global mobility
- Regulatory environment
- Understanding areas of risk
- Tax reimbursement considerations

Increasing complexity of global mobility