

***GLOBAL MOBILITY AND TAX.
IT'S A COMPLEX (BUT OH SO IMPORTANT!) PARTNERSHIP.***

Minnesota Employee Relocation Council

February 13, 2018

Here with you today

Melanie Robertson

Global Talent and Mobility Manager at RSM US LLP

801 Nicollet Mall, West Tower, Ste 1100, Minneapolis, MN 55402-2526

D: 612.455.9737 C: 651.323.0220 I

E: Melanie.Robertson@rsmus.com | W: www.rsmus.com

Patty Kowalska

Senior Manager of International Tax at RSM US LLP

20 N Martingale Road, Suite 500, Schaumburg, IL, 60173

D: +1 847.413.4707 F: +1 847.517.7067 I

E: patrycja.kowalska@rsmus.com | W: www.rsmus.com

About RSM

- RSM US LLP, formerly McGladery, is the U.S. member of RSM International, the 6th largest global network of independent, audit, tax and consulting firms with more 800 offices, more than 43,000 people in over 120 countries.

Agenda

- *Evolution of Global Mobility to trusted business advisor*
- *Assignment lifecycle*
- *Scenario and Examples*
- *Tax reform- how this affects you*

Global Mobility Today

Global Mobility has transitioned from a transactional to a strategic function that supports the company's globalization and talent needs. Global Mobility programs have become critical to supporting new business growth, improving financial performance, bolstering employee engagement, succession planning, retaining and developing top talent

Rapid Growth

- *In 2011 RSM had 3 expats.*
- *Today 7 years later, we have 70 inbound and outbound assignees.*
- *Our 2020 projected growth is to triple that number*

Assignment Lifecycle

1. Assignment Planning and Candidate Selection
2. Assignment Initiation
3. Pre-Departure Services
4. Assignment Start
5. Ongoing Assignment Administration
6. Year End Compensation and Tax Preparation/Consulting
7. Repatriation Post-Assignment Services



- 7**
- Follow up with host country on assignee return timeline
 - Determine return location and job position
 - Prepare and distribute return Authorization
 - Conduct end-of-assignment orientation
 - Instruct payroll for assignment end
 - Conduct home/host country tax briefings
 - Remove expat/assignment status from PeopleSoft
 - Prepare departure compensation packets and tax returns as required
 - Track foreign tax credit carryovers
 - Track trailing liabilities
 - Address ongoing questions and concerns with assignee and RSM
- 6**
- Review and address assignee survey feedback
 - Interact with RSM vendors as needed

- Review and analyze worldwide compensation
- Advise on year-end payroll adjustments and reconcile US W-2s
- Prepare compensation packets
- Determine authorization list
- Distribute and collect tax organizers
- Coordinate and monitor global compliance services and filings
- Prepare and deliver tax returns and/or tax equalizations
- Communicate tax equalization settlement to assignee and RSM
- Respond to global tax notices/ assessments
- Track US tax reimbursement payments

- 5**
- Coordinate home/host payroll updates
 - Advise and manage exception process
 - Collect monthly compensation data and report to countries as required
 - Provide access to dashboards for real-time reports
 - Provide quarterly program cost and US outbound recharge reports
 - Conduct weekly meetings with RSM Global Mobility
 - Conduct monthly tax meetings with RSM Global Mobility
 - Conduct quarterly meetings with RSM Global Mobility and Procurement
 - Collaborate on program enhancements
 - Communicate legislative updates and market trends

- 1**
- Advise on business case
 - Determine appropriate assignment policy
 - Prepare assignment cost estimate(s)
 - Candidate selection process
 - Consult on tax planning opportunities

- 2**
- Advise on assignment initiation (Authorization) process
 - Manage and administer Authorization process
 - Distribute Authorization to notify RSM and vendors of assignment and to initiate services

- 3**
- Provide access to technology platform
 - Prepare assignment letter if required
 - Provide information as required for immigration purposes
 - Conduct assignment orientation
 - Conduct home/host-country tax briefing
 - Identify tax issues and planning opportunities
 - Apply for social security waiver
 - Prepare compensation pay structure
 - Calculate hypothetical tax withholding
 - Calculate one-time payments
 - Interact with RSM and vendors as needed

- 4**
- Instruct PeopleSoft setup and transfer
 - Provide home and host with payroll instructions (pay plan, local setup, withholding forms)
 - Prepare and deliver assignment cost estimate and tax accrual
 - Address ongoing questions and concerns with assignee and RSM
 - Review and address assignee survey feedback
 - Interact with RSM and vendors as needed

Assignment Life Cycle

- Pre-assignment planning
- Pre-departure
- At-post
- Repatriation
- Post-repatriation

Pre-assignment planning

- Prepare assignment cost estimate
- Identify country specific immigration planning
- Country specific income and social tax planning
 - Housing / Cola
 - Certificate of coverage
 - Payroll delivery
- Assignment policy / Tax equalization
- Coordinate with corporate tax, finance and HR
- Address Permanent establishment risk
 - Service PE in some treaties (for example: India)

Scenario

Line of Business leader reaches out to Global Mobility and authorizes a move for Annette Jensen, a senior director, to relocate from Irvine, CA to the UK for 26 months to complete a project. Annette is given a long term international assignment policy which includes a housing allowance that will be paid along with her other assignment related allowances via her home country payroll. LOB also asks for a cost projection to be completed for accrual purposes.

What is wrong with this scenario?

Almost everything.

Pre-departure

- Conduct assignment orientation meetings
- Conduct home and host location tax orientation meetings
- File for certificate of coverage
- Obtain required visa and work permits
- Spousal support / Cultural Training
- Discuss payroll implementation
 - Withholdings home/host/hypo
 - Net cash needed in each country
 - Tax reporting obligations in home and host (W-4/673)

At-post

- Timely responses to questions
- Weekly proactive contact/conference calls
- Status tracking and reporting
- Ongoing compensation and payroll reporting advice
- Global tax compliance
- Tax equalization and communication
- Monitor and renew immigration forms and certificate of coverage

Repatriation

- Advance communication/notification of repatriation
- Orientation for repatriation
- Home and Host tax briefings for repatriation
- Final tax returns / compliance before departure
 - Final return in Singapore needs to be filed before departure

Post-repatriation

- Compensation accumulation and payroll reporting
- Home and Host tax compliance for any trailing assignment related liabilities
- Final tax equalizations and gross-ups
- Equity compensation tracking and tax compliance
 - Stock option granted in 2015, vested in 2017 and exercised in 2018
 - Taxpayer was in Japan in 2015 and 2016
 - In 2018 tax filing in Japan required to report income attributable to exercised stock allocated to Japanese work days between 2015-2016

Example #1

- Assignment to the UK for 26 months
- Base salary USD 60,000
- Housing cash allowance USD 52,000 (2,000 per month)
- UK tax on 60,000 x 20% = USD 12,000
- Tax on housing 28,000 x 40% = USD 20,800
- **Total tax USD 32,800**

Example #2

- Assignment to the UK for 24 months
- Base salary USD 60,000
- Housing reimbursement USD 48,000
- UK tax $60,000 \times 20\% = \text{USD } 12,000$
- Tax on housing = 0
- **Total tax USD 12,000**
- **USD 20,800 difference**

KEY TAX REFORM CHANGES AFFECTING GLOBAL MOBILITY PROGRAMS

Payroll compliance – new federal income tax rates, withholding, supplemental wages, and backup withholding

- Maximum individual tax rate dropped to 37 percent
- Personal exemptions eliminated
- Standard deduction increased
 - 24,000 MFJ
 - 18,000 Single taxpayers with child / 12,000 all other taxpayers
- Supplemental withholding:
 - Over \$1 million 37 percent (down from 39.6 percent previously).
 - Less than \$1 million 22 percent (down from 25 percent)
- Backup withholding tied to fourth tax bracket of 24 percent.

Payroll compliance Action items

- Implement the new tables no later than Feb.15, 2018.
- Employers with global mobility programs should revisit
 - cost projections to determine the cost impact to their mobility program.
 - hypothetical tax calculations to ensure the same cash flow treatment of the new rates to employees.

Equity compensation action items

- Educate employees regarding the option to defer income for 5 years.
- Election must be made within 30 days and applies only for federal income tax purposes.
- Business expense deduction for employer only when income is included
- Check with your tax provider on global payroll and tax compliance. Complexity due to timing differences between countries on when equity is taxable.
- Review tax equalization policies and make adjustments to mitigate timing differences.
- Add clause to assignment letter that requires advance notice of intent to exercise so that cost projection can be completed and company may have the right to not allow
- Analyze the costs to tax equalize the individual long after their assignment has ended.

Moving expense deduction eliminated

- Reimbursements for moving expenses are included in income
- Amounts are subject to federal, FICA and FUTA tax.
- State reporting and withholding obligations may vary
- Employees cannot deduct moving expenses on income tax return.
- The only exception to the suspension of the moving expense deductibility is for members of the US Armed Forces on active duty moving pursuant to military orders and permanent change of station

Moving Expenses Action items

- Set up payroll systems and expense management/reimbursement tools to accommodate this change.
- Consider changing the delivery of relocation assistance now that these amounts are fully taxable.
- Consider furnished accommodations versus shipment as may be excluded on the tax return under Sec. 911 (foreign earned income and housing exclusion)
- Review cost accruals for international assignments as moving expense can often be a large component of an equalized compensation package.
- Moving expenses are generally a tax cost that the employer would bear under an equalization policy (and previously such costs were not taxable), which may now require a significant US tax gross up.
- host country considerations (i.e. receipted reimbursement vs. cash allowance), administration and tax impact globally regarding moving expenses.

Summary of provisions

| Area | Summary |
|---|---|
| Brackets and rates | Seven tax brackets—10, 12, 22, 24, 32, 35, and 37 percent. The top individual rate of 37 percent will apply at incomes of \$500,000/\$600,000 . |
| Brackets and rates for estates and trusts | Condenses the number of tax brackets from seven to four, including 10, 24, 35 and 37 percent brackets |
| Alternative minimum tax | Retained with higher exemptions (\$70,300/ \$109,400); phase-out of exemption increased to \$500,000/\$1,000,000 |

Summary of provisions (cont.)

| Area | Summary |
|---------------------|---|
| Personal exemptions | Repeals |
| Standard deduction | Doubles to \$12,000/\$24,000; retains additional deduction for blind and elderly |
| Mortgage interest | Limits to interest on \$750,000 of indebtedness on newly purchased principal and second residences incurred after Dec. 15, 2017; not allowed for home equity loans. |

Summary of provisions (cont.)

| Area | Summary |
|--------------------------------|---|
| State and local tax deductions | Deduction of up to \$10,000 for state and local property, income or sales taxes allowed |
| Charitable contributions | Preserves deduction and increases the AGI limitation for cash contributions to public charities and certain private foundations from 50 percent to 60 percent |
| 529 plans | Up to \$10,000 of 529 plans can be used per student for public, private and religious elementary and secondary schools |

Summary of provisions (cont.)

| Area | Summary |
|--------------------------|--|
| Other deductions | Deductions for casualty and theft losses limited to those incurred in a disaster area Alimony paid for divorce after Dec. 31, 2018, not deductible/includible after 2018 · |
| Miscellaneous deductions | Eliminates miscellaneous deductions over 2 percent of AGI |

Summary of provisions (cont.)

| Area | Summary |
|--|---|
| Medical expenses | Medical expenses exceeding 7.5 percent of AGI deductible for 2017 and 2018; eliminates AMT preference for medical expense deductions for 2017 and 2018. |
| Overall limitation on itemized deductions (Pease limitation) | Suspends 3 percent of AGI limit on deductions |
| IRAs | Conversion of traditional IRA to a Roth IRA cannot be recharacterized; can still convert traditional IRA into a Roth IRA. |

Summary of provisions (cont.)

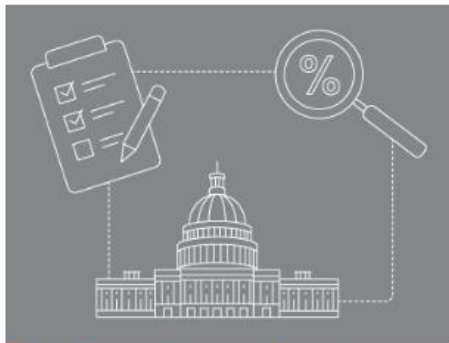
| Area | Summary |
|--------------------------|--|
| Estate, gift and GST tax | <p>Exemptions are doubled to approximately \$11 million, effective January 2018. The estate, gift and GST tax rates remain the same as prior law.</p> <p>Estate and GST tax not repealed</p> <p>Provisions sunset after 2025</p> |

Tax reform resource center

Visit our [tax reform resource center](#) for more information on how legislation can affect your business and tax planning.

WHAT'S IMPORTANT TO KNOW NOW?

PASS-THROUGHS



Final pass-through rules mostly favors middle market and real estate

INTERNATIONAL



House and Senate conferees agree to overhaul foreign tax rules

TAX-EXEMPTS



Changes ahead for exempt organizations as vote nears on tax reform

INDIVIDUALS



House-Senate agreement sets the stage for major tax law changes



QUESTIONS AND ANSWERS

RSM US LLP

One South Wacker Drive, Suite 800
Chicago, IL 60606
312.634.3400

+00 (1) 800 274 3978
www.rsmus.com

This document contains general information, may be based on authorities that are subject to change, and is not a substitute for professional advice or services. This document does not constitute audit, tax, consulting, business, financial, investment, legal or other professional advice, and you should consult a qualified professional advisor before taking any action based on the information herein. RSM US LLP, its affiliates and related entities are not responsible for any loss resulting from or relating to reliance on this document by any person.

RSM US LLP is a limited liability partnership and the U.S. member firm of RSM International, a global network of independent audit, tax and consulting firms. The member firms of RSM International collaborate to provide services to global clients, but are separate and distinct legal entities that cannot obligate each other. Each member firm is responsible only for its own acts and omissions, and not those of any other party. Visit rsmus.com/aboutus for more information regarding RSM US LLP and RSM International.

RSM® and the RSM logo are registered trademarks of RSM International Association. The power of being understood® is a registered trademark of RSM US LLP.

© 2018 RSM US LLP. All Rights Reserved.