IPM
INTERNATIONAL PERSONNEL MANAGEMENT

# Assignment Essentials
# Focus on Calculating Tax

## Calculating Tax to Ensure Compliance

*"Nothing is certain in life but death and taxes."*

**International assignments can be highly complicated, but at the same time, in a fast changing global market place, it is important to react quickly.**

However as Benjamin Franklin said, nothing is certain but "death and taxes".

In the area of international assignments, tax MUST be taken account of for the following reasons:-

- For the employer if tax implications are not understood, the assignment may cost a lot more to deliver than originally budgeted. There is often a great concentration on visible and easily understood costs such as housing, when in fact taxes are likely to have a greater impact.
- The employee needs to know what the impact on their net income will be, and therefore the subject of how tax will be dealt with needs to be carefully documented. If the Employer does not fully understand the tax implications of what it is offering, the package may not deliver what both parties believed it was going to.
- There is considerable "reputational risk" to the employer, if it does not make management of its compliance a key area in its expatriate policy. Tax authorities realise that companies often have compliance issues in this area, and are targeting it as a growing source of revenue.

### The issues surrounding tax for International Assignees

Some issues are:-

- Many misinterpretations have developed around taxation of international assignees. Whilst tax regulations differ and some tax reliefs might be available, primarily most countries will wish to levy tax on individuals earning income for duties in their country. Therefore, it is the source of the duties that is important, not where the individual might be paid for them, or who might be the employer.
- Similarly, there will be regulations on how tax residence is broken in the home country, i.e. which conditions need to be fulfilled before the home country revenue authority agrees that it no longer wishes to tax that income. In some countries this will be based on days out of the country, on others more a collection of factors which suggest that an individual's "economic base" has moved elsewhere. It is entirely possible for an individual to be taxable under the "source" rules of both home and host countries on the same income. (In such circumstances relief will probably be available under double tax treaties against the full "double taxation" but it may not mitigate it completely, thus having an impact either on the employees net income, or increased gross up costs for the employer to protect the employee. An example of why tax always needs to be considered would be moving a UK national and a German national for two years to Saudi Arabia (which levies no income taxes). Both have decided to maintain a house in their home countries. For the UK national, he would break residence on the basis of the intended duration of the assignment, and the retained property is not a factor in determining retained tax residence. However for the German national, "available accommodation" means his German tax residence is not broken, and the German tax authorities will seek to tax his tax free salary. Therefore, the issues of tax need to be considered even where the circumstances make it look to be a non-event!
- Many countries will levy social security as well as tax. Whilst social security contributions do give rise to benefits, for international assignees because of their transitory nature these may be negligible, or even not available. It can often, therefore, be viewed effectively as a surtax. In countries where state rather than private retirement funding is the market practice, these contributions can be large, particularly for the employer (30-45% of remuneration), yet some

companies leave this out of their budgeting. Whilst not as prevalent as “double tax agreements”, some social security agreements to avoid potential contributions to schemes in both the home and host countries do exist, and these should be utilised wherever possible to reduce potentially unnecessary costs.

- Companies need to recognise the importance of benefits in kind on taxation. On an international assignment, benefits such as housing and education will normally be funded by the employer. The tax authorities, however, will often regard these as benefits and seek to charge tax thereon. As it would be unfair to expect an assignee to bear the tax on this benefit (which they would not have received at home), the company pays this tax charge which is then a taxable benefit in itself. Therefore, the MD who agrees, for example a £100 increase in the rent per week, is actually agreeing to a gross cost of £166, after tax is taken into account (assuming in this case a 40% tax rate). Little wonder that costs can spiral out of control, as it is highly likely that the MD may not have agreed had the full delivery cost been anticipated.

- Companies with international assignees have to take into account tax in their remuneration philosophy. Most follow the route that “an assignee should not be worse off financially as the result of an assignment, but not intentionally better off” – the so called tax equalisation approach. By using the methodology called the “build up” or “balance sheet” approach, the company calculates the tax and social security the individual would have paid at home on their home salary to derive a net income. This is then adjusted for cost of living, and hardship/location factors. The company then pays all the taxes in the host country. Even in a relatively low rate tax regime, these would often be more than the employee would pay at home, because of tax on additional benefits such as housing etc. This concept is simple “in principle”, but complex in practice and requires experience to implement properly and consistently.


### So why outsource?

Confused? Frightened? Depressed by the above? Being pressed to resolve issues regarding tax for which you do not have the experience or time?.........

...... then IPM can help you through the complexities!

IPM takes a holistic approach to the process by discussing with you where the assignee is going to and from, for what duration, what role will they be performing, and where will the costs be charged? From this information IPM will be able to:-

- Advise on home and host country tax positions e.g. will the assignee break residence or not, and on what will they be taxed in the host country?

- Advise on social security – will they be able to avoid social security in the host country?

- Provide a full costing which takes into account the estimated tax costs of delivering your chosen assignment benefits. Where there are tax effective ways of delivering benefits, these will be indentified.

- Calculation of assignment remuneration in line with your international assignment remuneration methodology, or to advise on such if you currently do not have one, but taking into account the particular tax and social security circumstances of each assignment, including use of legitimate tax concessions where available. Clear explanations will be given both to you and your assignees as to how things have been calculated.

- Liaison with your home and host country payrolls and tax advisers to ensure that what is agreed on paper is actually delivered in practice.

- Monitor the assignment, such that if circumstances change, such as the duration of the assignment, which might have implications on tax and social security, these can quickly be discussed and appropriate action taken.