The Foundational Steps to Establishing a Mobility Tax Program

Understand the tax rules relating to each of the main mobile employee scenarios

1 Business travelers and short-term assignments

Tax complexities for the employee and company can occur in the Host country from day one, depending on the Host country's tax rules and availability of an income tax treaty.

Do not assume the so-called **"183-Day Rule"** will protect an international employee from being taxed in his or her Host country. Although many income tax treaties stipulate that employees present in a country for fewer than 183 days are not subject to income tax, there are other factors to be considered.

Host country social taxes **can apply** even if there is no Host income tax liability.

2 Long-term assignments

A mobility tax plan may be necessary if the employee is assigned to a Host country long enough to become subject to taxation. A mobility tax specialist with knowledge of the Host country should be consulted to handle income tax filing obligations for the employee and assist with any reporting and withholding requirements for the company, including review of both income and social tax obligations.

3 Permanent transfers

A mobility tax plan is needed to ensure that the employee complies with all of the Home and Host country's filing requirements. Additionally, the employer may still have Home and/or Host reporting and withholding obligations.

Make sure you have appropriate documentation and policies

The initial employee sent to a Host country sets the precedent, and future employees assigned there will expect to be treated in the same manner. Employees talk to each other, even when they have been told not to discuss their compensation.

Mobile employees should be given an assignment letter that details the compensation structure to be provided, even if the employer has yet to establish a formal global mobility or tax reimbursement policy. Assignment letters may also be needed for immigration purposes.

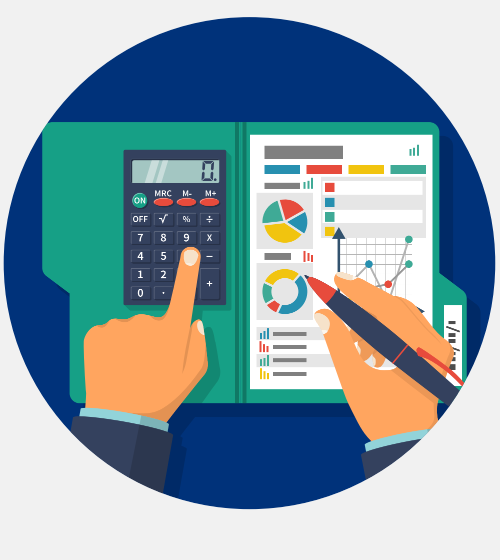
Investigate tax policies that are appropriate for the needs of both your employee and the company. Although a tax equalization approach (i.e., keeping the employee in a tax-neutral position) may be appropriate for an assignment, it may not work for transfers or employees in nontraditional scenarios (e.g., commuters). A firm specializing in mobility tax can provide guidance on the cost and practical considerations for selecting the most appropriate policies for your mobility scenarios.

Incorporate tax planning during the structuring of the assignment.

A mobility tax specialist can assist in identifying ways to minimize the tax bills for your mobile employees.

Review the laws in the Host country to determine if there is a preferred way to structure the compensation and benefits for your employees. For example, some countries do not tax the reimbursement of housing expenses if the assignment is under a certain time limitation or depending on how the housing is paid/reimbursed.

Plan for costs. The costs for an international assignment can be substantial, with potential annual costs of 3-5 times the base salary for executives on tax-equalized packages. It is important to identify this cost in advance of agreeing to project terms. Complete assignment cost projections to budget and assist in structuring the assignment in an efficient manner for policy and tax purposes.



Don't forget to consider Social Security tax planning. Different rules can apply depending on factors such as the duration of the assignment and the Home/Host country combination. Proper planning can lead to cost savings up to 10-15 percent of the total cost of the assignment.

Talk to a mobility specialist today. → REQUEST A FREE CONSULTATION

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