



**Be adventurous.**

Making your tax world easier to travel.

GTN Newsletter – February 2018

## Five Common Misconceptions of International Social Taxes

**Eric Loff, Managing Director**

GTN West Central

phone: +1.763.252.0642 | email: [eloff@gtn.com](mailto:eloff@gtn.com)

According to the United States (US) Social Security Administration, "dual social security tax liability is a widespread problem for US multinational companies and their employees." This problem results because US social security generally applies to both individuals working in the US and to US citizens and resident aliens working outside the US for an American employer, regardless of assignment location or duration. In addition, these mobile employees are often subject to social tax outside the US, based on their tax residency or workday locations under local domestic legislation. With combined employer and employee social tax rates outside the US that can exceed 40% of salary, these additional tax costs can be significant, especially if the company is covering this incremental cost under a tax equalization policy.

Despite the potentially large costs, many companies may misunderstand the rules or overlook social security tax altogether in considering the costs for their globally mobile employees. This article addresses five common misconceptions relating to US social security for mobile employees. Our goal is to help companies understand and proactively consider the social tax considerations for their mobile employees.

### **1. The employee will be tax exempt under an income tax treaty, so no social tax will be due.**

The US honors income tax treaties with over 60 countries. Although the requirements vary, these agreements typically provide an exemption from host country income taxation for short-term business travelers. On the other hand, the US has totalization agreements addressing cross-border social tax with only 25 countries. It is critical to understand that income and social tax are separate taxes, often covered by different laws and government departments. Thus, even if an employee is exempt from income tax under a treaty or host country income tax legislation, social tax can still be due.

Care should be taken to consider both the applicability of totalization coverage and the local host country requirements. Failure to comply with local social security withholding and reporting obligations can result in significant penalties and other risks for your organization.

### **2. A certificate of coverage is not necessary for a short-term assignment.**

The general rule provided under the totalization agreements concluded by the US is that the worker will remain subject exclusively to the social tax laws of the country where they are working. Most of the

agreements have an exception that allows the worker to remain in their home country social system for temporary assignments (generally for periods of up to five years). However, it is necessary to apply for a "certificate of coverage" with the home country social tax authorities to obtain documentation that the authorities have approved the use of the agreement. With the exception of the US agreement with Canada, which specifies that a certificate is only needed for assignments of greater than 183 days, there are no specific de minimis assignment lengths for the other agreements.

To ensure you are applying the correct social tax and appropriately managing risk, it is important you obtain the proper documentation and that this documentation is monitored. This will ensure it is both current and reflects the appropriate scenario (i.e., if the assignment intent changes to localization, host country tax should begin even if within the original period covered by the certificate).

### **3. We have a US certificate of coverage, so we don't have to pay any social tax outside the US.**

Even if a US certificate of coverage is received, it is important to understand the host country social tax that is covered by the certificate. For example, an assignee from the US to Italy with a US certificate of coverage would be exempt from some, but not all, components of the Italian social tax system. There are still so-called "minor" contributions that are due in Italy. In addition to the potentially unexpected tax cost, the requirement to withhold this tax may result in incremental administration and vendor fees to allow for the establishment of a local or shadow payroll to facilitate the local compliance.

### **4. It is always possible to get a certificate of coverage for US citizens working outside the US.**

As noted above, the general rule is that US citizen or resident alien employee of an American employer will be subject to US social security, regardless of their work location. The totalization agreements concluded by the US support this position by allowing for ongoing US coverage during temporary assignments outside the US. Because of these general rules, there is a misconception that a certificate of coverage will always apply for a US citizen or resident alien assigned temporarily to a location covered by a totalization agreement. However, if your company is hiring an individual who has not recently been covered by US social security (i.e., they were a non-US employee for another company, not subject to US social tax prior to hiring, and they are being sent directly on an assignment), it is important to review and understand the rules in advance. Failure to do so could subject the individual and company to significantly higher social tax than anticipated.

### **5. There is no planning that can be done relating to social tax.**

The costs of social tax can vary widely depending on the countries involved. For example, the US has significantly lower social tax rates than many countries in Europe. As a result, it is important to examine the application of totalization agreements to, where possible, secure coverage in the lowest cost social tax regime. For example, in the case described in the misconception above, it may be possible to obtain a US certificate of coverage if a local hire is first moved to the US for six months to establish a US social tax history prior to assignment in another location covered by totalization. In some cases, this type of planning can lead to cost savings running 10-15% of the total cost of the assignment.

By understanding the home and host country social tax legislation and availability of international agreements, it is possible to proactively manage your companies cost and risks.

If you have questions or would like further information, please contact me at [eloff@gtn.com](mailto:eloff@gtn.com) +1.763.252.0642, or visit our services page to see what assistance we can provide.



The information provided in this newsletter is for general guidance only and should not be utilized in lieu of obtaining professional tax and/or legal advice.