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Tax Support for Permanent Transfers

Brett Sipes
Branch Director
GTN Pacific
Phone: +1.619.758.4083
Email: bsipes@gtn.com

Relocating can be one of the most stressful events in a person's life; and providing support, service, and guidance to those that are relocating is a major undertaking by global mobility program leaders.

One major challenge faced by international permanent transfers is the tax rules and regulations in their new country.

Consider what the individual is facing when they transfer to a new country:

- Breaking home country tax residence.
- Ending home country social security contributions.
- Suspension of home country pension plans.
- Possible taxation of previously tax exempt income.
- Possibly facing a tax filing requirement for the first time (many countries do not require an annual tax return).
- Entering a new social security system.
- Uncertainties around net pay levels.
- Establishing a new pension plan.
- First time exposure to stringent foreign asset declaration rules.

The U.S. tax system can be particularly complex for permanent transfers. For example:

- Anyone with more than \$10,000 in foreign bank accounts needs to declare all their foreign accounts. Failure to do so can lead to penalties of 50% of the balance of the accounts or even jail time.
- The U.S. does not recognize tax exempt income from overseas, income from investments previously considered tax free may become taxable following a move to the U.S.
- Many countries allow for a tax free sale of real estate; this is often NOT the case once an individual is in the U.S.
- The U.S. has complex residency rules, especially in the first year of a transfer, which can have a large impact on the transferee's U.S. income tax liability.
- State income tax must be considered in addition to the federal income tax.

What services should be offered to help alleviate the stress of a permanent transfer?

Many companies will often offer tax support for permanent transfers including some or all of the following services:

- Tax counseling session or “entrance meeting” to advise the transferee on their new tax responsibilities such as filing requirements, residency rules, state tax issues, and personal income reporting.
- Tax counseling session or “exit meeting” for their home country to advise the transferee on potential tax planning before they transfer to their new country.
- Preparation of a net pay estimate for the new country, including both income and social taxes.
- Tax return preparation for the first, and sometimes the second, tax year in both the home and host countries.

While the stress of an international transfer cannot be fully eliminated, program leaders can help to lessen the burden on the transferee by showing support and providing services throughout the process. Providing tax assistance for the transferee can maximize employee satisfaction and will help to ease the stress the transferee and their family may be feeling.

For further information on this newsletter, please contact Brett Sipes at +1.619.758.4083 or via email at bsipes@gtn.com.

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