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Tax Reporting for Permanent Transfers

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In recent years, the mobility world has seen an increase in permanent transfers and a decrease in the use of long-term assignments. Under a long-term assignment scenario, an individual is sent to work in a Host location for a limited number of years (typically a period of up to five years). The individual usually remains an employee of their Home country employer and continues on Home payroll and benefits. Under a permanent transfer scenario, the individual typically becomes an employee in the Host location, with the Host employer handling payroll and benefits.

While many global mobility managers believe that a permanent transfer comes with less administrative tasks than a long-term international assignment, due to the fact that the employment relationship ends in the Home location, there are still a number of items to consider. From a tax perspective, for example, there can be ongoing Home and Host country payroll complexities on payments made to the permanent transferee. Here the payroll requirements can be impacted by factors such as the timing and location of the payments to the permanent transferee.

Below highlights two common concerns faced by companies with permanent transfers:

- How to report moving expenses and relocation payments for payroll purposes; and
- How to handle trailing tax liabilities on bonus and equity income.

By understanding the tax rules and providing appropriate compensation, companies can proactively manage risk and encourage global mobility within their organizations.

Moving expenses and relocation payments

To support employee transfers, it is common for employers to provide some level of financial support to assist the employee with move-related costs. For example, the company may cover all, or part of, the cost of moving household goods to the new work location. Many companies will also provide lump-sum relocation allowances to help transferees cover miscellaneous move-related expenses and to provide an incentive to employees to relocate.

From a tax perspective, some companies may rely on the assumption that all payments made on behalf of international transferees are taxable based only on Home country rules or the rules in the country where the payment occurred. There are risks associated with this treatment. For instance, moving expense reimbursements of up to GBP 8,000 may be excludable in the UK. However, the recent US tax reform eliminated the deduction/exclusion for moving expenses. As such, a UK company paying moving expense reimbursements of up to GBP 8,000 may be excludable in the UK. However, the recent US tax reform eliminated the deduction/exclusion for moving expenses. As such, a UK company paying moving expenses for a transferee to the US may either, neglect to withhold, or withhold insufficient US tax, if relying only on the UK tax rules.

Because of the complexity in global payroll reporting, we often see gaps in payroll reporting compliance for permanent transferees. Here are two possible solutions to consider:

1. Some companies have their local payroll department in the Home country pay the lump-sum relocation allowance to the transferee. This way, the appropriate amount of withholding can be determined at the time of payment by the company's payroll department. It is important to check the taxability of the lump-sum payment in the transfer country if that country has so-called forward attribution rules.

2. Other companies have their relocation firms pay the lump-sum relocation allowance. It is important to ensure they are working with the company's tax provider to calculate the tax withholdings for lump-sum relocation payments made outside the US.

To assist companies in addressing these complexities, GTN has developed a solution for Relocation Expense Tax Services.

Trailing tax liabilities on bonus and equity income

Permanent transferees sometimes receive payments after moving to the Host location that were earned during the period worked in their Home location. Common examples of income that can be earned in a period prior to payment include bonus and equity income. The company may have a payroll-reporting requirement for these payments in one or more locations.

Many transferees are removed from their Home country payroll system at the time of their transfer. Therefore, trailing payments are often only reported in the transfer country payroll. Unless the transferee is authorized for tax services in years subsequent to the transfer, it is unlikely that these trailing payments are reviewed to determine if a portion should be reported on the Home country payroll or on a Home country tax return.

Understanding the taxation of equity income can be particularly challenging. Countries can differ in the timing of taxation for equity (e.g., grant, vest, exercise). These differences can result in the equity income being taxed in two or more countries on the same income, with the potential for double taxation if foreign tax credits are not allowed.

It may be possible to uncover specific strategies to reduce or eliminate adverse tax consequences resulting from the transfer, such as:

- Realizing the equity income before or after the move;
- Cancellation of awards / use of alternative compensation strategies;
- Delaying or cancelling the transfer to the new location if the tax implications of equity income are significant enough.

It is critical for companies to understand the income and payroll tax rules in the locations their employee has worked. This way, a plan can be created to address any reporting or withholding requirements in the Home, Host, or other locations where the employee earned the income. A matrix summarizing the tax rules by applicable country is a good start in helping your company's payroll team understand the requirements.

Another of our solutions, Global Equity Tax Services, assists clients in getting started with understanding the rules and setting up processes to handle the compliance in this complex area.

The use of permanent transfers can be an effective part of a company's talent management strategy. Proactive management of the global payroll process is an important step in supporting a global mobility program.

If you have questions or would like further information, please contact me at bsipes@gtn.com or +1.619.758.4083, or visit our services page to see what assistance we can provide.

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