GTN Newsletter – October 2017

Year-End Payroll Reporting for Permanent Transferees

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As we approach year-end, global mobility teams are focused on US W-2 reporting for cash and non-cash allowances provided to mobile employees on long-term assignments. While this focus is clearly important, we often see gaps in payroll reporting compliance for permanent transferees. At GTN, we have developed a solution for Relocation Expense Tax Services.

Although some countries allow certain moving expenses and relocation allowances to be paid in a tax-free manner, there are risks with assuming that ALL payments made on behalf of international transferees are only taxable based on their home country rules.

The top 3 factors that are driving this new focus on ensuring payroll reporting compliance for transferees includes:

1. A transition from long-term assignees to permanent transferees.
2. A transition from lump-sum payments made by the company to specific moving expense items and relocation allowances paid in accordance with standard policies.
3. An increased desire to be compliant with tax regulations.

We have found that the following action items will help ensure payroll reporting compliance:

- Develop a taxability matrix: We recommend a matrix for each country where you have transfers (to or from). The matrix should include all relocation or transfer related benefits and an indication of their taxability. Contact me if you would like more information on how to develop a taxability matrix.

- Calculate tax gross-ups: This should be done once the moving expenses and relocation allowances have been determined taxable. Contact me to learn more about this process.

- Calculate tax withholdings on lump-sum payments: Lump-sum relocation allowances are often provided to transferees to help cover miscellaneous move-related expenses. These are typically paid on a “gross” basis, meaning that the transferee is liable for any tax withholding on the payment. It can be difficult to ensure the correct tax amount is withheld.

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.

- Identify trailing reporting obligations: 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 this include bonus payments and equity income. The company may have a payroll reporting requirement for these payments in their home or other countries. A possible solution to help manage this requirement is as follows:
    a. Many transferees are removed from their home country payroll system at the time of the transfer. Therefore, trailing payments are 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.
    b. Even when under-withholding of tax can be corrected on their home country tax return, there are limitations with this approach:
        i. in some cases, the transferee is not authorized for tax services for years after the transfer year, or they have declined tax services;
        ii. there typically is no mechanism to correct under-withholding for social security purposes

Transferring employees can be a cost-effective way to increase intra-firm mobility. However, proper planning and a thorough review is required to ensure global payroll compliance.

For further assistance regarding year-end payroll compliance, see our **Compensation Collection FAQ Document** for some frequently asked questions related to year-end compensation collection.

DOWNLOAD FAQ DOCUMENT

To learn about GTN and how we may be able to help you, please reach out to me at mtirpak@gtn.com or +1.713.244.5020.