Tax Equalization Policy

www.theresforum.com

This document is copyrighted ©. All rights reserved.

This document is for the use of the purchaser only. Any redistribution or reproduction of part or all of the contents in any form is prohibited. You may not distribute or commercially exploit the content. Nor may you transmit it or store it in any other website or other form of electronic retrieval system.

TAX EQUALIZATION POLICY

Contents

1 Introduction 5

1.1 What is Tax Equalization? 5

1.2 Objectives 5

1.3 Scope 6

2 Definitions 8

3 Employee Company Income Tax Withholding 9

3.1 Estimated Hypothetical Tax Deduction and Tax Year End Equalization Calculation 9

3.2 Home Country Tax Return Calculation and Tax Year-End Equalization Calculation 10

3.3 Hypothetical Tax and Social Taxes 10

3.4 Employee Voluntary Pension Related Social Security Contribution 11

4 Treatment of Income 13

4.1 Income Subject to Equalization 13

4.2 Incomes included in Hypothetical Tax Calculation 13

4.3 Income included in Tax Equalization Settlement Calculations 14

4.4 Income Not Subject to Equalization 15

5 Actions Resulting in Potentially Higher Tax Costs to Assignee 17

5.1 Transferring Income into the Host Country 17

5.2 Sale of a Principal Residential Property 17

5.3 Inheritance of Estate 17

5.4 Stock Activity 18

5.5 Financial Investing in the Host Location 18

5.6 Remaining in Host Country after agreed Repatriation Date 18

5.7 Severance Payments 19

6 Responsibilities 20

6.1 Responsibilities of the Employee 20

6.2 Responsibilities of the Employer 21

6.3 Responsibilities of the Tax Advisers 22

6.4 Filing Positions 23

6.5 Filing State/Provincial/Cantonal Return 23

6.6 Payment of Host Country Income/Social Tax 23

6.7 Foreign Tax Credits 24

6.8 Penalties and Interest Fees 25

6.9 Deductions from Payroll 25

1 Introduction

The purpose of this document is to explain the concept of tax equalization, why [Global Company Name] has a tax equalization policy and how the policy will be implemented. The policy will explain how [Global Company Name] will support employees' taxation when they work in different countries and clearly set out the responsibilities of both the employer and the employee in this agreement.

[Global Company Name] has developed policies and processes to enable us to move our employees across borders and continents. The Tax Equalization Policy is part of the portfolio of policies to govern the temporary relocation of employees.

1.1 What is Tax Equalization?

Tax equalization is a method of calculating the total tax liability of an employee during their international assignment and working out what portion of the liability should be paid by the employee and what should be paid by the employer. The employee is protected to pay the same amount of taxes on their employment income that they would have done had they remained in their home country with the same marital status. This amount of tax is calculated at the start of the assignment. It is called estimated hypothetical tax. It is deducted from the employee on a regular basis – much like the tax deduction they would have experienced through their payroll, before going on international assignment. The employer pays all actual taxes (as detailed in tax equalization income section below) due in the home and host country for the duration of the assignment, using the hypothetical tax to offset against some of this total global tax liability.

An international assignment potentially increases tax liability due to allowances and benefits being taxable in the host location – for example cost of living allowances, housing allowances, home leave flights, etc.

1.2 Objectives

The objectives of the Tax Equalization Policy are to ensure that the employee is broadly no better or worse off from a tax perspective on their [Global Company Name] employment net income than they would have been had they remained in their home country with the same marital status. It purposefully aims to remove an employment income tax liability loss or gain from the assignment. It seeks to ensure that the employee's decision to accept the assignment is not impacted by the tax rates and rules in different countries. It also ensures both the employer and the employee are tax compliant in both the home and host countries.

The complexities of different tax laws and the resulting changes in the tax liabilities created by the combination of home and host tax laws should not be a burden to the employee.

The assignment may create additional taxes in both the home and host location, however the [Global Company Name] will settle any tax liability in the home and host countries on company sourced employment income received during the assignment or as a consequence of the assignment. In consideration for the above a hypothetical tax deduction will be deducted from the assignee.

Tax equalization also protects the employee against cash flow disadvantages. There may be circumstances where the employment income is subject to tax in two countries at the same time, and a tax refund is only claimable at the end of a tax year. The employer takes the responsibility for this cash flow disadvantage on behalf of the employee.

The long term international assignment policy is designed to financially support the employee to retain their standard of living and spending power throughout their time in the host location. Without tax equalization in place, the employee would be personally subject to taxes on the policy allowances, meaning they would be worse off and would receive smaller net amounts that would not fully cover their additional costs incurred from living and working in the host country.

1.3 Scope

This policy shall apply to all [Global Company Name] employees who are invited to take an international assignment without exception. It applies from the first day of the income year during which the assignment begins until the last day of the income year during which the assignment concludes, unless stated otherwise in this policy.

An international assignment is when an employee goes to work in another country on behalf of [Global Company Name], either at another [Global Company Name] entity or at a client site, on a temporary basis, whilst remaining an employee of their home country and remaining on the payroll of the home country.

The employee does not have the choice to opt out of tax equalization it will apply to all international assignments. The Tax Equalization Policy does not apply to any employee who is permanently transferring from one [Global Company Name] location to another. Nor does this policy apply to a foreign national hire, when a new recruit is hired in one country and moves country to take up their new job with [Global Company Name].

By accepting the offer of an international assignment the employee accepts that [Global Company Name] will utilize the tax equalization methodology. [Global Company Name]

maintains the right to make changes, additions or discontinue at any time the tax equalization policy. A written notification will be made to the employee of any changes. Any questions relating to circumstances that are not directly covered by this policy should be referred firstly to the Home HR Manager, who may opt to take consultation from the preferred tax service provider.

This tax equalization policy has been designed to tax equalize [Global Company Name] employment related income only.

2 Definitions

Employer – For the purposes of this policy the employer is the home Company entity.

Employee – For the purposes of this policy the employee is the individual who has been identified to undertake an international assignment.

Home Country – The country that the employee is originally employed in.

Host Country – The country that the employee is assigned to work and live in for the duration of the assignment.

3rd Country – Other countries that the employee may travel to and work in over the duration of their international assignment. The amount of time that is spent in the 3rd country is less than the amount of time spent in the host country.

3 Employee Company Income Tax Withholding

Due to the length of time that the employee is absent from the home country when they accept a long term international assignment, the home country tax residency rules in many cases allow for home country income taxes to stop until the employee returns to the home country and re-establishes their tax residency. The home country tax advisers will assess if this is applicable and instruct the company on what to do next.

If the home country tax residency rules mean that home country income taxes stop on the employee's income, then the employer will introduce an estimated hypothetical tax deduction as part of the tax equalization procedure.

3.1 Estimated Hypothetical Tax Deduction and Tax Year End Equalization Calculation

With the employee's consent [Global Company Name] will deduct during each pay cycle an **estimated hypothetical tax** from the employee's earnings. The employee will no longer have an actual home country income tax deduction from their earnings; these are replaced by the hypothetical tax deduction that has been calculated by the approved home country tax service provider. The hypothetical tax calculation is similar to the actual tax levels and is described in more detail further into this policy. This is an estimate.

If the employer is using a balance sheet approach to present the compensation package to the employee; hypothetical tax deductions will be made on a monthly basis and will be shown in the employee’s compensation balance sheet.

After the tax year is complete a year-end tax reconciliation figure is calculated (the Tax Equalization Calculation). The employee may owe [Global Company Name] an additional sum of hypothetical taxes or they may receive a refund of taxes from [Global Company Name]. Examples of why more tax might be due are if the employee earned a one off exceptional bonus/payment received mid-year, or a pay increase mid-year. A tax refund might be due if the employee is eligible for deductions against income not originally disclosed at the start of the assignment – e.g. business cost related deductions such as subscriptions to Professional Institutions.

If the year-end balance shows that the employee owes taxes to [Global Company Name], the employee must pay the balance to the company within 30 days. If the company is not in receipt of full payment of the balance within 30 days, interest will accrue on the outstanding amount until the date of full repayment.

OR

3.2 Home Country Tax Return Calculation and Tax Year-End Equalization Calculation

As determined by the home country tax rules, there may be circumstances where actual taxes continue to be withheld through the normal home country payroll process for part or all of the international assignment, particularly if the assignment is short term eg less than 12 months and if there are frequent visits back to the home country. The taxes continue to be paid directly to the home country tax authorities. This means that hypothetical tax cannot be set up by the Company.

At the end of the home country tax year, the tax service providers will prepare a home country tax return and a tax equalization calculation. The home country tax return calculations may result in either additional home country taxes due or a repayment of home country taxes created by the assignment. Any additional employment income taxes resulting from the international assignment will be paid by [Global Company Name].

If a refund of home country taxes is due, the tax equalization calculation will determine what amount of the refund should be kept by [Global Company Name], and what amount should be kept by the employee. The company-related refund may be created by the double payment of taxes in the home and host country; the employee-related refund might be due to employee-eligible tax deductions normally claimed on previous home country tax returns, in accordance with the home country tax legislation.

An employee is equalized to the location of their employment address in their home country.

3.3 Hypothetical Tax and Social Taxes

The hypothetical tax calculation does include social taxes.

Social taxes generally cover state-related sickness pay, family-related benefits, health insurance, unemployment benefits and pension. The main benefit that an employee typically wishes to continue over the duration of their assignment is the pension contribution.

The ability to continue to contribute into the home country social security scheme is determined by home country social security legislation, and additionally whether the home country has entered into a reciprocal social security agreement with the host country.