Global Mobility - Is your Tax Policy Costing you Too Much?

Today's difficult environment presents many challenges for employers – control costs, expand the business, manage employee expectations, hire the best people, retain the right staff, be compliant with immigration and tax regulation, be socially responsible – the list is endless! However, while many of these issues are not new, the increasing requirement for cost reduction and the emergence of the so called "Millennials", a young, mobile, ambitious, educated, confident and tech savvy generation into the workforce will add a further challenge to employers.

By Ursula Mathews

So How Do the Costs Arise?

When international assignments began to gain popularity, the business need was for strategic assignments to be made, for example, a CEO was needed to lead a start up operation in a greenfield site and an assignment was initiated from North America to Ireland or some other location in Western Europe.

For the most part the assignments were initiated by employers, keen to expand and develop their business in perhaps previously untapped markets. Organisations found themselves, however, having to persuade their staff to take up the assignment and offered various incentives to get their key people to where they needed them. Employees were often reluctant to leave their home country if it meant substantially increased tax costs. Thus, the concept of tax equalisation grew in popularity, largely driven by the main benefit of leaving the assignee in a tax neutral position throughout their assignment years.

Employees of a certain generation were comforted by the fact that they would not have to concern themselves greatly with the payment of foreign taxes, the filing of foreign tax returns or indeed the potential loss of home country social security benefits. In reality, these issues didn't just go away under tax equalisation, but assignees for the most part received significant employer assistance (both in financial and support terms) which brought them the required security that everything was in order.

This approach of keeping assignees "whole", as if they had never left their home location (at least in tax and financial terms) helped them to make the sometimes difficult decision to uproot their family and move to some distant, previously unheard of location for perhaps a significant number of years.

Employers too benefited, primarily by having their staff where they needed them, but also because they too could predict and manage the costs associated with the assignment, even when in some cases these costs were significant. Indeed, sophisticated global mobility policies allowed the employer to benefit from the cases where the employee moved to a lower tax jurisdiction, as the employee was still kept whole to the home country tax rates. In addition employers were incentivised to structure assignments in a tax efficient manner, as any savings generated were passed to the employer.

Many assignment costs, including accommodation, utilities, cost of living allowances, flights home etc. are anticipated to some degree but unexpected issues can arise, for example where there may be a loss of home country benefits / reliefs as a result of the assignment e.g. where Irish stamp duty is clawed back because an assignee let outs his house while on overseas assignment. Is an employer expected to pick up this cost? The amounts involved are likely to be significant, even before you consider that a gross up for tax purposes may also be required!

While some multinational organisations with a long track record in global mobility may have well established policies and procedures, it is clear that many Irish companies looking to expand overseas do not fully appreciate, from the outset, how much tax equalisation can cost in both tax terms and additional administration required. In fact, employers have actually cancelled assignments, when the full cost implications have been identified. All too often, hidden costs can emerge, and employers may not have sufficient experience to adequately scope the extent of the costs they will incur.

Time For a Change?

Cost should always be a fundamental driver for change, and with an increased focus on cost control and cost reduction, employers should be aware of an apparent shift in assignment tax policies, away from the traditional home country tax equalisation policy to a more tailored approach.

Astute employers are looking again at whether their current tax policy is appropriate, and are starting to consider how alternative tax policies fit with their assignee populations.

While companies do not wish to go back to the days of bespoke assignments where assignment packages are individually tailored to suit a particular assignee, it seems that it may be more appropriate and cost effective to group certain broad sub-sets or categories of assignees together, and to apply varying assignment tax policies to each category.

Developmental Assignment

Where, for example, an assignee initiates an overseas assignment, their expectation of assistance is generally lower than an employer initiated assignment. This would be typical of the Millennial generation, where they want, and indeed, expect to work abroad and recognise an overseas assignment as an important part of their own personal development.

The main focus for Millennial employees is training and career development, with less importance being attached to the quantum of salary and benefits. Family and dual career issues are generally ranked as the main reasons why assignments are turned down but because the profile of this generation is that they are younger, with less family and financial commitments in their home country, the Millenial generation are more mobile than previous generations. For this reason, if the only tax policy that is used in your company is a traditional tax equalisation policy, and you continue to "keep the employee whole", you are, in all likelihood spending too much!

The "Local plus" model, where the remuneration package is determined based on local standards in the assignment location, but with scope for increases for non-standard or employee specific items in a flexible manner, has begun to emerge as an alternative to the home based, tax equalised approach. This type of policy clearly has positive aspects in providing flexibility to allow employers to deploy assignees quickly and with less hidden costs, such as tax gross ups etc.

As economies, living standards and even compensation levels begin to harmonise across the globe, it is anticipated that this type of policy will become more prevalent. The assignee is happy if they are no worse off financially, but appreciate being afforded the opportunity to develop themselves with the support of their employer. From an employer's perspective, it can be a "win – win" situation, where capacity exists in one location, the resources can be redeployed where needed, for a relatively low cost.

Commuter Assignment

Where an employee is perhaps reluctant to take up a long term assignment at another location, the "Commuter" assignment may be an acceptable alternative. As the speed and ease of travel increases, and technology advances, it has become more feasible and therefore more common for employees to commute weekly or fortnightly between their work country and their home country. While this circumvents the family issues that a long term assignee might have, because these assignments will, in general be employer initiated, the level of assistance required, and therefore costs, will be heightened.

The type of tax policy appropriate to commuters is not prescriptive. However, given that a commuter's travel pattern is likely to result in overlapping tax obligations in both the home and host countries, and these assignments are, for the most part, employer initiated, tax equalisation is likely to be the preferred tax policy.

Employers assigning employees under a commuter arrangement for the first time should bear in mind that the level of continuing assistance provided to an assignee in relation to travel/accommodation costs etc. is likely to have tax implications in both the home and host country throughout the assignment, and the associated tax costs can mount up. To control and reduce costs, they need to be aware of and, where possible structure the assignment in such a way as to avail of any assignment related tax reliefs (e.g. tax reliefs for temporary assignees to Ireland or detached duty relief in the UK).

One Way Transfers

Another category within employee mobility is a one way transfer. This type of transfer would mainly tend to arise where there is an identified skills shortage in a different location and the employer supports the employee to transfer to take up that position. In general, while some assistance may be provided to the employee, this is often limited to the transition year only, and would be limited in monetary terms. In this scenario, the employee essentially becomes a "local" hire in the new location, and ties are severed in the home country.

Typically, these transfers are employee initiated and therefore it would be generally accepted that the employee is responsible for the tax costs in both the original (home) country and the new location. However, where relocation costs are discharged or temporary assistance is provided by the employer, it may be that these trigger tax costs, and the employer needs to consider how these will be dealt with.

Long Term Assignees / Strategic moves

Despite the emergence of the various, newer types of assignment, the traditional, longer term assignments still have a place in global mobility. These may be used in the deployment of strategic leadership, to get the best talent in the most important places, or it may be promote the development of high potential talent. In general, the investment required to make these moves happen is significant but given the calibre the candidates, the investment is usually considered worthwhile.

Most long term assignments will be employer initiated and as such the extent of assistance and support needed to persuade the employee to take up the assignment will depend on the seniority of the individual concerned and how badly the employer wants him/her to move.

Significant demands can be placed on employers in terms of personal items or issues that are important to the assignee and these can translate into significant costs for an employer. For example, a relatively simple issue such as the transport of household pets can create a huge cost if quarantine is involved. While an employer may agree to discharge this cost, does it create an unexpected gross up for tax purposes if that assignee is tax equalised? A pre-determined policy helps to remove the emotion from such negotiations.

Localisation

When an assignment ends is also an important question. How long will an employer fund the assignee's accommodation? Does this answer change if the assignee sells their home country residence? When is a decision made in relation to repatriation or localisation? After three years? Five years?

Employers may have assignees that have been out of their home countries for over ten years who are still tax equalised and still receiving assignment related support and assistance. While this may be the intention in some cases, it may be the appropriate time to reconsider your assignment policy and to reconsider if it is possible to implement changes to reduce costs.

When things go wrong!

All too often employers do not appreciate the costs they will incur if they get things wrong. Fixing the problems after they have happened will require huge amounts of HR and Finance time input but, depending on the issue, could also result in immigration problems, tax penalties, publication and Revenue Authority scrutiny. What is clear is that a tax equalisation or alternative tax policy must address numerous issues which may not be apparent from the outset. In addition, changes in policies, changes in the packages provided and indeed the way in which they are provided can have tax implications in either the home or host country and these must be considered carefully (and costed) before being introduced.

Conclusion

Organisational success is dictated by the foresight of the people leading and driving the business. More than ever before, employee mobility is an expected and necessary aspect of an employer's strategy to grow their business. In order to succeed, the appropriate people strategy must be put in place, and within that strategy, the varying needs of the different types of employee must be addressed. A "one size fits all" mobility policy is no longer sufficient, but instead HR and Finance teams must work closely together to achieve a solution that works from all perspectives. The ultimate questions for employers will be:

- Do they have an appropriate mobility policy in place to enable them to grow their business?
- Can they identify the various types of assignments they have within their organisation?
- Are they achieving the maximum cost reductions and tax savings possible through global mobility?
- Are they aware of the consequences of getting things wrong?

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