KPMG TaxWatch Webcast Executive Summary

Tax Cuts and Jobs Act (H.R. 1) – Potential implications for a globally mobile workforce

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Global Mobility professionals now face a number of potential program changes and key decisions affecting their tax reimbursement, assignment, and relocation policies. This summary addresses the potential impact of the Tax Cuts and Jobs Act (H.R. 1) (TCJA). In particular, we will address program costs, relocation moving expenses, compensation reporting, and payroll impacts.

Global mobility program costs

— Changes to the individual income tax rates and tax deductions will likely affect the overall cost of international assignments, but their impact on a global mobility program will depend upon that program's assignee population[1].

  – Lower tax rates could result in U.S. outbound assignments becoming more expensive for certain employees, as the U.S. hypothetical tax offset would be lower.

  – Conversely, lower rates could result in U.S. inbound assignments becoming less expensive, as the actual U.S. tax cost for an employee would be reduced.

  – Costs in arrival and departure years may be higher due to fewer itemized deductions.

— KPMG LLP (KPMG) suggests that program managers consider re-evaluating originally run assignment cost projections to determine cost impacts and updating associated cost accruals and communicate those changes with other stakeholders, such as business leaders and finance groups.

[1]It should be noted that the United States continues to be a top leading assignment country location for inbound assignments from abroad, along with U.S. global organizations having large volumes of outbound employees sent abroad from the United States on temporary work assignments and indefinite transfers.

In a survey of nearly 200 global organizations, the United States leads as the top sending and receiving country location (KPMG's Global Assignment Policies and Practices [GAPP] Survey – 2017 Results).

Audience polling results from HR executives and global mobility professionals
With regard to assignment cost projections (CPs) and accruals, your company plans to:

24% Perform a comprehensive review and adjust all assignee CPs and associated accruals as needed

36% Perform a review on a case-by-case basis and adjust associated assignee CPs and accruals

40% Not take any action at this time

n=173

Global mobility policy - relocation moving expenses

Considerations for a lump-sum policy approach for moving expenses

One key change that will impact mobility professionals is the repeal of moving expense deduction and exclusion. Costs previously excluded by employers from taxable income associated with shipment of household goods, storage expenses, and final move travel expenses become taxable for employees effective January 1, 2018.

As a result of TCJA, some employers may now consider moving to a full or partial lump-sum policy approach for moving expenses. On one hand, the lack of a tax deduction could help to simplify program administration for employers. It may be feasible to simply provide employees with a moving allowance and forego the requirement that assignees/transferees account for their moving expenses.

However, organizations need to keep in mind that for international moves, the United States only reflects one part of the bigger picture and need to ensure that global mobility policies address assignee and business needs as well as tax considerations on a global level for home and host country parings to further determine taxability impacts.

Further to a lump-sum approach, KPMG suggests that there are also associated pros and cons of a self-managed vs. fully/partially managed move. Overall, several key factors and decision points should be reviewed and discussed when considering a policy change:

- Maintain a policy approach consistent with the organization's overarching compensation methodology (i.e., balance sheet) and tax reimbursement policy
- Employer vs. employee initiated assignments/transfers
- Employee level/position: lump sum vs. fully managed relocation
- Single or accompanied status
- Supporting business goals and assignment success
- Employee satisfaction and retention
- Overall duty of care considerations.

"To gross up or not gross up"

- TCJA makes two changes to the treatment of moving expenses beginning in tax year 2018: (1) qualified reimbursements are no longer deductible to the taxpayer (section 217(a)), and (2) reimbursements of qualified moving expenses are no longer excludible from compensation (section 132(g)).
- The change could have significant implications for assignment costs (averaging $14,500—and often much higher—per assignee/transferee for moving/storing of household/personal goods and final move travel – Worldwide ERC surveys).
- With moving expenses no longer excludable, organizations will need to consider global mobility and tax reimbursement policy approaches going forward, including whether organizations will assist with assignee/transferee tax liability (tax gross ups).
- With the majority of programs following a balance sheet/tax equalization policy approach (80 percent of GAPP Survey participants follow a home-based/balance sheet methodology with 79 percent having a tax equalization policy approach), the elimination of the deduction for moving expenses will greatly increase gross-up costs which could be quite significant, easily representing 50 percent of the cost or more depending on the gross-up method used.

Audience polling results from HR executives and global mobility professionals

With the suspension of the exclusion for employer-provided moving expense reimbursements beginning in 2018, does your organization plan to:

21% Continue fully managed relocation support through in-house or third-party assistance

16% Move to a full or partial lump-sum (relocation allowance) policy approach depending on employee level or other business factors

5% Move to a full lump-sum approach for all employee levels

57% We have not decided on our policy approach yet

n=261

Does not equal 100% due to rounding

In 2018, if your organization pays for or reimburses the shipping of an employee's household goods, do you intend to gross-up the payment (assist with assignee's/transferee's tax liability)?

27% **For all assignees/transferees approved under policy**

10% **Only for certain assignees/ transferees**

7% **For no assignees/ transferees**

56% **We have not decided on our policy approach yet**

n=244

Global tax reimbursement policy updates

Key policy change considerations for employers:

— Tax equalization policies reference hypothetical itemized deductions and personal exemptions. KPMG recommends reviewing and updating current policies to reflect TCJA changes and hypothetical withholding adjusted.

— The suspension of the foreign real property tax deduction may increase assignment costs for U.S. taxpayers who have previously been allowed the deduction:

  – For example, in the case of an inbound U.S. assignee under a tax equalized program where the employer is responsible for all U.S. taxes

  – Typically our recommendation is not to permit assignees to purchase a home in the host country, which can negatively restrict mobility based on a number of factors including detrimental tax impacts to the employer and/or assignees.

— Under prior law, a nonresident short-term business traveler whose only source of taxable income was U.S.-source compensation not in excess of the personal exemption amount was not required to file a U.S. income tax return.

— Repeal (suspension) of personal exemption may require more nonresident aliens to file U.S. tax returns (e.g., short-term business visitors).

Compensation and benefits

Fringe benefits with limited deductions – Meals

— Meals provided for the convenience of the employer or through an employer-operated eating facility that qualified as a de minimus fringe benefit are now limited to 50 percent and then nondeductible after 2025.

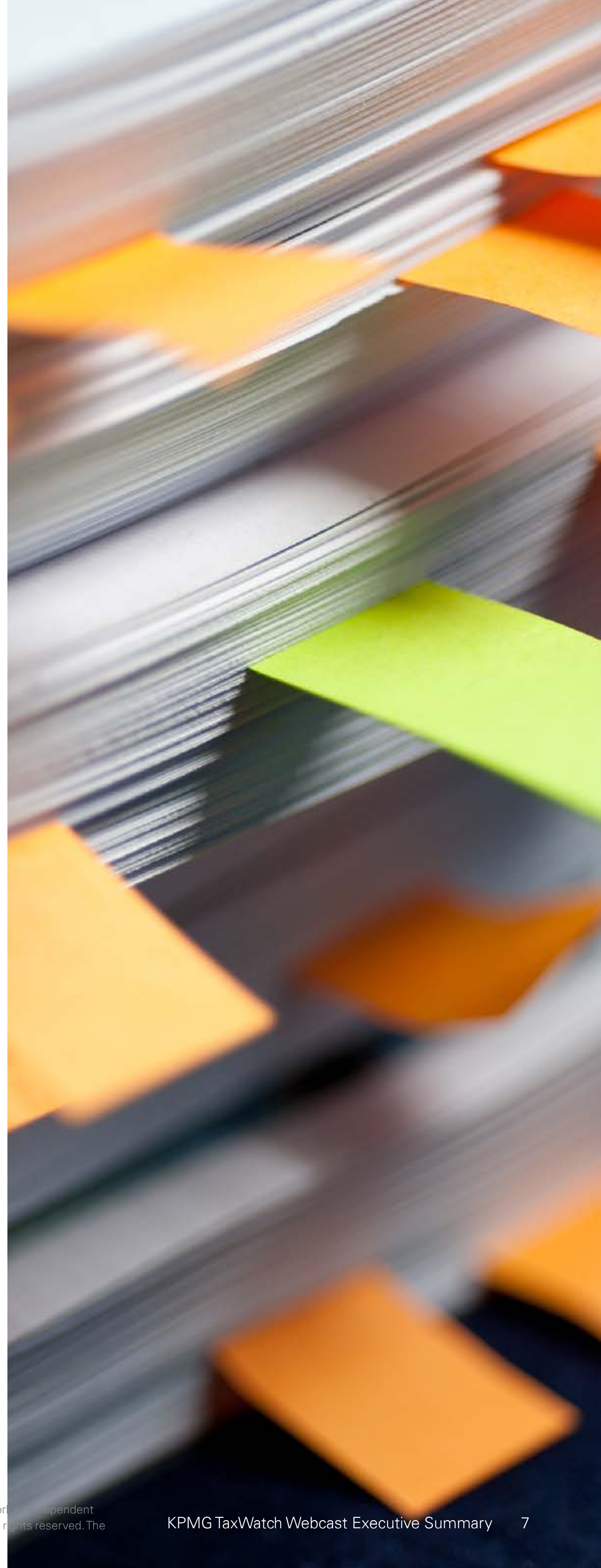
  – This change will impact global mobility programs for certain industries, such as typically found in mining and oil and gas/energy, for example, for assignees living in camp housing arrangements.

Payroll and compensation reporting

— Considering payroll and compensation reporting, it will be important for organizations to discuss how moving expenses will be captured and reported going forward. Organizations should ensure that pay codes are set up appropriately and that moving expenses are accounted for and properly grossed up per relocation policy decisions.

— Global mobility program managers should also plan to leverage the assistance of their tax services providers as needed in supporting discussions with key stakeholders, such as finance and payroll groups regarding TCJA change impacts to assignment cost projections, accruals, hypothetical withholdings, and wage reporting.

Visit our Web site to find more information, Insights on Global Mobility. To access a replay of our recent Webcast, click here.



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