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House GOP Tax Cuts and Jobs Act 2017

6 Ways "The Act" May Affect Employment Policies on a Domestic and Global Basis

Proposed Change	Issues to Consider
<p>Revamped marginal tax rates and brackets, increases to standard deductions and modifications to or total repeal of certain itemized deductions such as state income taxes, real estate taxes, mortgage interest, medical expenses and miscellaneous itemized deductions.</p>	<p>Global mobility managers will want to consider recalculating hypothetical withholding for all assignees with the US as their "home base" to prevent significant swings in tax equalization, tax protection or other tax settlements for tax years 2018 forward and assignee dissatisfaction.</p>
<p>Certain changes will directly affect employees assigned to the US from abroad or relocating to the US permanently from abroad, including a new requirement that children have social security numbers to qualify for the child tax credit; tuition credits being disallowed for nonresidents and dual-status persons, and disallowance of a deduction for foreign property taxes paid.</p>	<p>For non-US employees assigned to the US and equalized in their home country, company program tax costs may increase. If the non-US employee is localizing to the US, personal tax cost may increase. Global mobility managers may want to determine the overall cost effect of these changes if a company program has a significant amount of US inbound assignees.</p>
<p>The provision allowing the deduction of moving expenses will be repealed as will the provision allowing qualified moving expense reimbursements to be excluded from income by employers.</p>	<p>The cost of domestic and international relocations stands to increase considerably based on the repeal of these provisions. For permanent transfers, assuming employers will now gross up previously qualified moving expenses such as airfare and shipment of goods and pets, the cost of a relocation may increase by at least 50%. For long-term assignments, employers will incur the increase in cost in both the year of expatriation and the year of repatriation. Global mobility and HR managers may want to consider paying carriers and reimbursing airfare for moves planned for the remainder of 2017 or in early 2018 prior to the close of 2017 in order to avoid gross up costs.</p>

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<p>The deduction for expenses attributable to employment will be repealed. Examples include professional license fees, union dues, travel, including mileage and work tools.</p>	<p>To the extent that employers do not reimburse business expenses to employees, employees would be able to deduct these expenses subject to a 2% of AGI floor. For example, if an employer does not reimburse an employee for business use of personal vehicles, the employee may be able to deduct travel expenses based on the standard mileage rate. Depending on the amount of travel, the employee may receive a significant tax benefit for this deduction. The repeal of this provision may necessitate a conversation between employee and employer regarding the employer's expense reimbursement policy.</p>
<p>Qualifying for the exclusion of gain associated with the sale of a personal residence increases the ownership and principal residence use requirement to 5 out of the prior 8 years vs. 2 out of the prior 5 years and applies to one sale every 5 years vs. 2 years. A dollar for dollar reduction in exclusion is imposed to the extent MAGI exceeds \$500K married, \$250K single.</p>	<p>As it relates to relocation policies, tax issues associated with employees selling homes when relocating has generally not been an issue due to the real estate market over the last 10 years and current exclusion provisions. The proposed lengthier ownership and use requirements, including a phase out of exclusion that would affect highly compensated transferees, necessitates the review of domestic and international relocation policies to determine if modifications need to be made to control employer exposure to additional cost.</p>
<p>Deductions for entertainment, amusement and recreation will be repealed. No deduction would be allowed for transportation fringe benefits, benefits in the form of on-premises gyms and other athletic facilities, or for personal amenities provided to an employee that are not directly related to the employer's trade or business.</p>	<p>Employers will need to determine how this provision affects benefits provided to employees and expense reimbursement policies. If entertainment expenses are reimbursed to an employee, or if listed benefits are provided to the employee, these items will have to be included in the employee's income. Employers will have to address whether such expenses are reimbursed and benefits are provided and, if so, whether there will be any consideration for gross-ups.</p>