

Webinar:

# An overview of U.S. tax updates

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# Agenda

Webinar # 1: An overview of the U.S. tax updates that specifically impact organizations with domestic and/or international moves

- ☐ Introductions
- ☐ Overview of tax reform changes – individuals and corporations
- ☐ Specific tax changes that affect mobility and tax programs
- ☐ Questions and answers

Webinar # 2: Evolving your mobility program to address recent U.S. tax changes (February 7, 2018)

- ☐ Policy implications – lump sums, cost estimation, recruitment, and more
- ☐ Who is responsible for paying the new taxes — the employer or employee?

# Poll Question #1

How have the tax changes been identified as an issue for your organization? Check all the concerns that apply.

- ☐ Potentially higher personal income tax costs to the employee
- ☐ Net impact of tax costs across mobility or relocation programs
- ☐ Policies (e.g. tax equalization, relo support) may need to be revised
- ☐ Concerns have not yet been raised

# “Tax Cuts and Jobs Act”



Effective January 1, 2018

- Changes affect both individual and corporate taxpayers
- Critical for Mobility professionals to understand these changes and how they affect your mobility program

Tax is a significant cost in domestic relocation and expatriate compensation packages

Impact on policies, cost estimates, and budgets

Exterior, United States IRS building, Washington, D.C. - <http://www.loc.gov/>

“ Most U.S. taxpayers will see a reduction in Federal income tax, but will vary based on income, family size, deductions, and state. ”



# TAX CALCULATION

TOTAL INCOME

- EXCLUSIONS from Wages

= **ADJUSTED GROSS INCOME**

- EXEMPTIONS
- DEDUCTIONS (standard or itemized)

= **TAXABLE INCOME**

X TAX RATE %

= **TAX**

- CREDITS

= **TAX OWED**



# Impact of Tax Changes on Individual Tax Calculation

## TAX CALCULATION

### TOTAL INCOME

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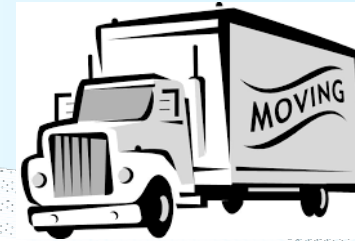
= **TAX OWED**

## Moving expenses are now taxable

- Includes household goods shipping, final move airfare, temporary living expenses, U.S. storage costs
- Impacts all final moves – international, domestic, and permanent moves
- Permanent move home sale programs are not affected – still nontaxable



**\$14,500/move\***



\* Worldwide ERC estimate for average tax gross-up costs for domestic moves

# Impact of Tax Changes on Individual Tax Calculation

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### Personal exemption has been eliminated

- 2017: \$4,050 per person (including dependents)
- 2018: \$0
- Larger impact on taxpayers who could previously claim an exemption for larger family sizes



Taxable  
Income



# Impact of Tax Changes on Individual Tax Calculation

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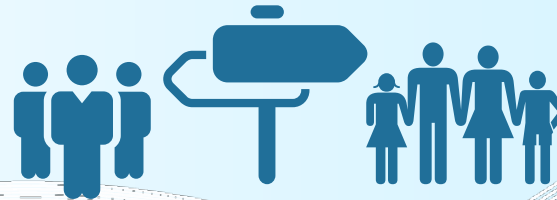
= **TAX**

- CREDITS

= **TAX OWED**

Standard deduction will be more beneficial to more people; will no longer itemize:

- Standard deduction nearly doubled – now \$12k/\$24k
- State and local taxes, property taxes – deduction capped at \$10k/\$5k
- Foreign property taxes non-deductible
- High income phase-out of itemized deductions eliminated



*Tax IMPACT will vary by individual*

# Impact of Tax Changes on Individual Tax Calculation

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= **TAX**

- CREDITS

= **TAX OWED**

Tax rate decreased

- Retain 7 individual tax brackets (slight changes) based upon income range

TAXES

2017

Rate	TAXABLE INCOME	
	Single	Married Filing Jointly
10%	\$0 to \$9,325	\$0 to \$18,650
15%	\$9,326 to \$37,950	\$18,651 to \$75,900
25%	\$37,951 to \$91,900	\$75,901 to \$153,100
28%	\$91,901 to \$191,650	\$153,101 to \$233,350
33%	\$191,651 to \$416,700	\$233,351 to \$416,700
35%	\$416,701 to \$418,400	\$416,751 to \$470,700
39.6%	\$418,401 and above	\$470,701 and above

2018

Rate	TAXABLE INCOME	
	Single	Married Filing Jointly
10%	\$0 to \$9,525	\$0 to \$19,050
12%	\$9,526 to \$38,700	\$19,051 to \$77,400
22%	\$38,701 to \$82,500	\$77,401 to \$165,000
24%	\$82,501 to \$157,500	\$165,001 to \$315,000
32%	\$157,501 to \$200,000	\$315,001 to \$400,000
35%	\$200,001 to \$500,000	\$400,001 to \$600,000
37%	\$500,001 and above	\$600,001 and above

# Individual Tax Rate Changes

2017

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35%	\$200,001 to \$500,000	\$400,001 to \$600,000
37%	\$500,001 and above	\$600,001 and above

Supplemental rate used for lump sum or bonus payments:  
22% for most taxpayers / 37% for >\$1M total annualized income

# Impact of Tax Changes on Individual Tax Calculation

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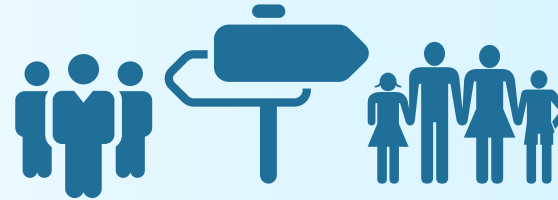
= **TAX**

- CREDITS

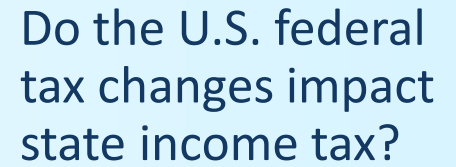
= **TAX OWED**

## Child tax credit doubled to \$2k

- Credit phased out once taxpayer reaches a higher income threshold
- Social Security number required - will limit ability for U.S. inbounds to take advantage of child tax credit



*Tax IMPACT will vary by individual*





# Mobility Program Impact



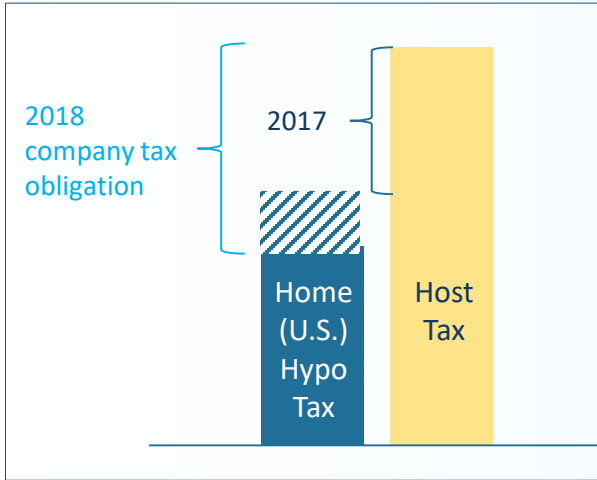
## Poll Question #2

In what scenarios do you anticipate your organization will gross-up moving expenses based on the new legislation?

- Plan to gross-up for all moving expenses
- Will gross-up in some situations but not others
- Still evaluating
- Employee pays the tax
- Other

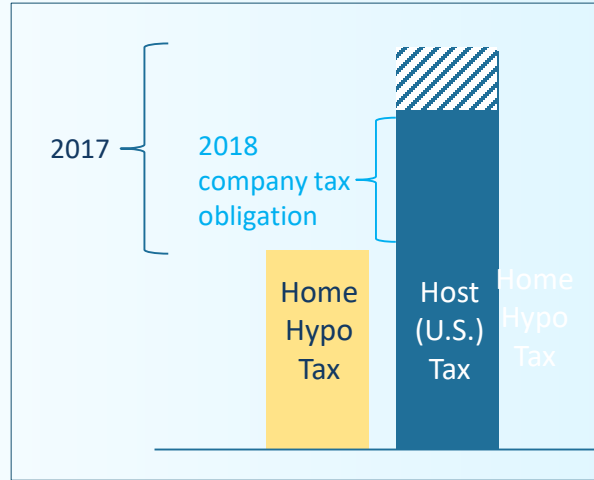
# Mobility Program **Impact**

## U.S. Outbound Assignees potential **increase** in tax cost



- lower hypo taxes, same host tax

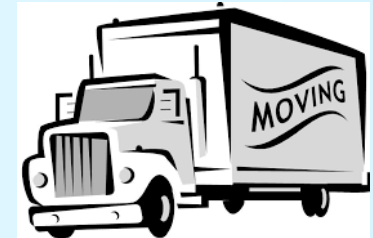
## U.S. Inbound Assignees potential **decrease** in tax cost



- lower host taxes, same hypo tax
- transfer year taxes may be higher – personal exemptions and child tax credits eliminated

## U.S. Domestic Transfers potential **increase** in tax cost

Tax gross-up of moving expenses  
(optional policy change)



Mobility programs should anticipate a change in tax costs;  
the overall impact will vary by assignee population

# Mobility Program Considerations

UPDATE POLICIES  
(Domestic & Int'l)

UPDATE COST  
ESTIMATES

TALLY BUDGET  
IMPACT

Policy changes to consider:

- Gross-up moving expenses and other allowances that are now taxable
  - Review gross-up methodologies - employees may challenge the calculations
  - True-up for actual taxes after tax year filing?
- Leverage Lump Sum allowances to reduce corporate administration (tax impact now the same)
- Reduce other allowances to offset increased moving expense costs
- Substitute furnished accommodations in lieu of household goods shipments
- Update tax policy text to update references to 'itemized deductions' and 'personal exemptions'
- Communicate to affected employees about impact to pay and relocation programs

Major tax law change is causing significant uncertainty – AIRINC can help

# Upcoming Webinar: **Evolving your mobility program to address recent U.S. tax changes**

February 7, 2018

- Policy implications – lump sums, cost estimation, recruitment, and more
- Who is responsible for paying the new taxes — the employer or employee?
- Questions and answers

Register here: <https://attendee.gotowebinar.com/rt/4504018929251806721>

# AIRINC Product Updates



Tax logic in AIRINC products will be updated based on the following timeline:

- [International Tax Guide](#) -- **late January**
- [Assignment Cost Estimator](#) -- **early February**
- [Salary Evaluation Tool](#) and [Host Pay Calculator](#) -- **early February**
- [Balance Sheet Manager](#) – will vary by host location according to the update schedule
  - **February 1** for host locations in Europe and Asia-Pacific
  - **May 1** for host locations in Americas, Middle East, Africa, and Southeast Asia-Pacific

[More information about each of these tools provided in the Appendix of this deck]

# Questions?



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# Poll # 3

Would you like to speak with an AIRINC representative about how we can help?

- Yes
- No

# Thank you for your time

- We will follow up with answers to questions that we didn't get time to address during the session
- Webinar recording will be emailed to you
- Brief two-minute follow-up survey; please fill it out if you have time!

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# Appendix

Tools to help you achieve global mobility success



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## Build Tailored Lump Sums

# Lump Sum Calculator

- ✓ Provides **cash lump sum** or **reimbursable** limits for both **domestic** and **international** moves
- ✓ **All data types and calculations** can be configured

## Types of Calculations

## Components

- |                    |                                |                 |
|--------------------|--------------------------------|-----------------|
| ✓ Home Finding     | ✓ Airfare / Mileage            | ✓ Childcare     |
| ✓ Temporary Living | ✓ Meals                        | ✓ Pet Boarding  |
| ✓ Final Move       | ✓ Rental Car                   | ✓ Shipping      |
| ✓ Home Leave       | ✓ Public Trans.                | ✓ Miscellaneous |
|                    | ✓ Lodging – Hotel / Corp. Apt. |                 |
|                    | ✓ Optional Tax Gross-Up        |                 |

- ✓ **Employee-specific summary**  
matches your company branding and tells the employee what their lump sum covers

Lump Sum Inputs	
Lump Sum Type	House Hunting Trip
Home Country	Boston MA, U.S.A.
Host Country	Paris, France
Employee Name	James Smith
Job Grade	3
Family Size	2
Number of Days	7
Target Payroll Transfer Date	1st May 2016
Tax Gross-Up Marginal Rate	35%

Lump Sum Components		
Housing Allowance	2,374	EUR
Airfare Allowance	3,240	EUR
Transportation Allowance	427	EUR
Food Allowance	874	EUR
Taxes	2,420	EUR
<b>Total Lump Sum Amount</b>	<b>9,300</b>	<b>EUR</b>

- Airfare
- Accommodations
- Rental car / transportation costs
- Meals during temporary living

You will be responsible for paying income tax on this allowance. These allowances include a gross-up of your top marginal rate of 35%.

# Cut your global tax costs with statistical income tax calculations

## International Tax Guide

### ✓ Statistical tax models

- Automated hypothetical tax calculations
- Reduces prep time
- More affordable than individual calculations

### ✓ Tax calculations cover

- Deduction
- Credits
- Personal allowances

### ✓ 280+ tax jurisdictions covered

- National taxes
- State tax
- Cantonal taxes



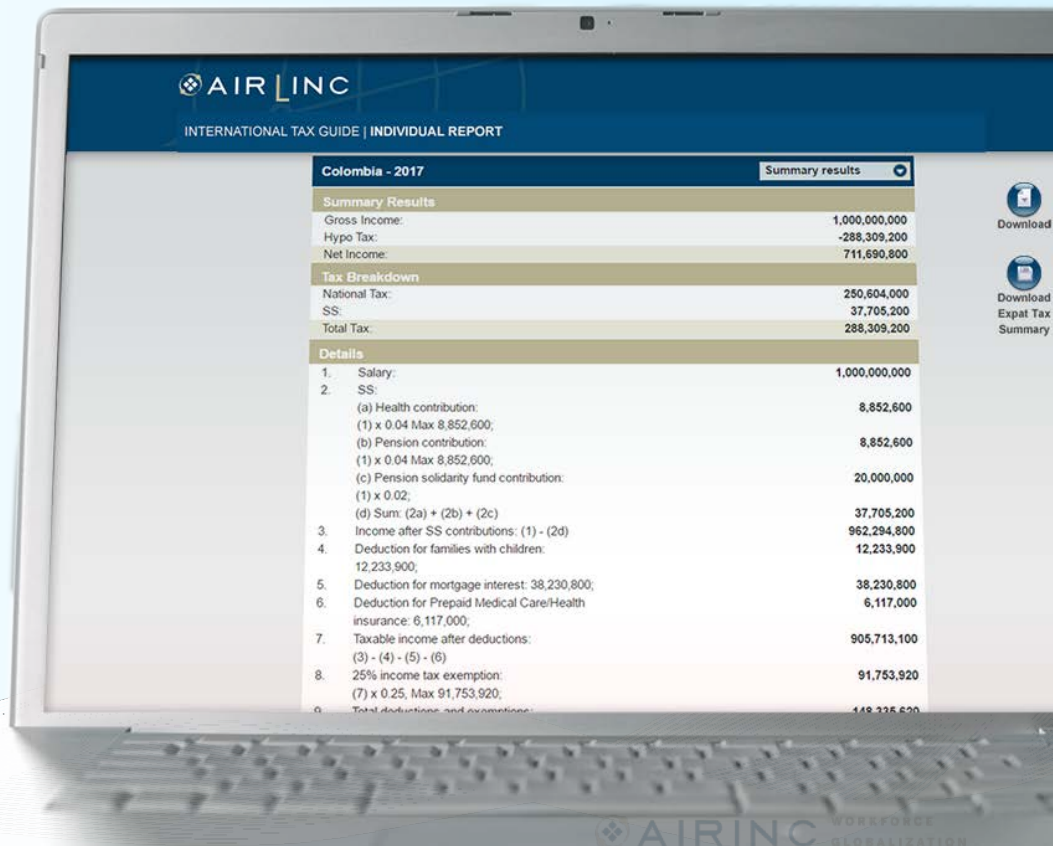
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# Statistical Income Tax Methodology

## International Tax Guide

- ✓ Research **income taxes**  
Source information from:
  - Tax agencies
  - Tax legal publishers
  - Tax accounting firms
- ✓ Team of tax **experts analyze**  
Team of former Big Four employees  
look at tax law changes
- ✓ Create **models**  
Release new tax models with  
summary of changes and their  
impact



**AIRINC**  
INTERNATIONAL TAX GUIDE | INDIVIDUAL REPORT

Colombia - 2017 Summary results

Summary Results	
Gross Income:	1,000,000,000
Hypo Tax:	-288,309,200
Net Income:	711,690,800
Tax Breakdown	
National Tax:	250,604,000
SS:	37,705,200
Total Tax:	288,309,200
Details	
1. Salary:	1,000,000,000
2. SS:	
(a) Health contribution:	8,852,600
(1) x 0.04 Max 8,852,600;	
(b) Pension contribution:	8,852,600
(1) x 0.04 Max 8,852,600;	
(c) Pension solidarity fund contribution:	20,000,000
(1) x 0.02;	
(d) Sum: (2a) + (2b) + (2c)	37,705,200
3. Income after SS contributions: (1) - (2d)	962,294,800
4. Deduction for families with children:	12,233,900
12,233,900;	
5. Deduction for mortgage interest: 38,230,800;	38,230,800
6. Deduction for Prepaid Medical Care/Health insurance: 6,117,000;	6,117,000
7. Taxable income after deductions:	905,713,100
(3) - (4) - (5) - (6)	
8. 25% income tax exemption:	91,753,920
(7) x 0.25, Max 91,753,920;	
9. Total deductions and exemptions:	148,326,600

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# Create reliable cost estimates quickly

## Assignment Cost Estimator

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ASSIGNMENT COST ESTIMATOR

ACE / Calculator | ?

Inputs | Review | Results

**Select home and host locations**

Policy type: Home-based Equalized

Home country: United States

Home city: New York City

Host country: Netherlands

Host city: Amsterdam

Display currency: USD

**Select options**

Employee name: Jane Expat Title:

Start date: 01/Sep/2017 End date: 02/Sep/2020

Report years: Calendar Year

Annual base salary: 125000 USD Annual incentive: USD

Family size: 4 School-aged children: 2

Non-relocating dependents: 0

Annual compensation increase: 3 % Annual allowance increase: 0 %

Home residence: Homeowner Plans for home residence: Leave Vacant

Home housing and utilities deduction

U.S. tax status: Married Filing Jointly

Use expatriate ruling: ☒

Social security treaty exists: Yes Pay social security in: Home location

Review

- ✓ **Online access**  
Create your own estimates in minutes
- ✓ **Embedded allowances and tax logic**  
make it easy for your team to run estimates
- ✓ **Configurable**  
Logic and on-screen text can be configured to match your policy
- ✓ **Robust tax logic**  
Social, income, and tax on allowances

# Host Pay Calculator

## ✓ Robust Tax

Includes social, income tax, and U.S. residual tax liability

## ✓ Build up

Find out what salary would keep an individual whole

## ✓ Transition

## Calculate a transition payment to step employees down to local terms

Inputs Detail		Assignment Host Pay Calculation				
		Home		Host		Differential
		USD	EUR	USD		USD
Home location:	New York NY, U.S.A.					
Host location:	Amsterdam, Netherlands					
Family size:	Married + 2					
Gross salary at home:	USD 125,000					
Cost adjust variable pay:	No					
Include residual U.S. tax liability:	Yes					
Calculate social security in:	Home Location					
Use expatriate tax ruling:	Yes					
<b>Additional Options</b>						
<b>Currency Options</b>						
Exchange rate 1 USD =	.937 EUR					
<b>Methodology Options</b>						
Housing methodology:	Local-to-local					
Good and services methodology:	AIRINC G&S Index					

Expenditure category	Home	Host	Differential	Index
	USD	EUR	USD	USD
Home Gross Salary	125,000			
Home Gross Variable Pay	0			
Total Gross Compensation	125,000			
Home Income Tax	29,516			
National tax	10,452			
Local tax	9,501			
Social security	9,563			
Net Income	95,484			
Savings	5,743	5,381	5,743	100.0
Housing	32,107	22,029	23,510	(8,597) 73.2
Goods and Services	57,634	55,241	58,955	1,321 102.3
Food	14,585	9,454	10,090	(4,495)
Personal and medical care	4,789	3,570	3,810	(979)
Household operations	17,298	15,692	16,747	(551)
Clothing	3,481	4,143	4,422	941
Transportation	10,058	16,710	17,833	7,775
Recreation and entertainment	7,423	5,672	6,053	(1,370)
Total Net Income	95,484	82,651	88,208	(7,276) 92.4
Host Income Tax		28,768	30,702	1,186
National tax		22,536	24,051	13,599
Local tax		0	0	(9,501)
Social security		8,500	9,071	(482)
Family allowance		(2,268)	(2,420)	(2,420)
US residual income tax		0	0	0
Total Gross Compensation	125,000	111,419	118,910	(6,090) 95.1

We have been working with AIRINC since 2012.

This tool is invaluable at helping us make informed decisions when moving our associates internationally.

**—Sally Chapman , Senior Global Mobility Manager, Novartis  
Pharmaceuticals UK Limited**

# Understand the impact of global taxes and cost of living on salary across locations

## Salary Evaluation Tool

Family size:	Married + 2
Offered salary at host:	EUR 98,000
Variable pay at host:	EUR 9,800
Salary at home:	USD 125,000
Variable pay at home:	USD 12,500
Cost adjust home variable pay:	No
Include residual U.S. tax liability:	Yes
Calculate social security in:	Host Location
Use expatriate tax ruling:	No
<b>Additional Options</b>	
<b>Currency Options</b>	
Exchange rate 1 USD =	.937 EUR

Expenditure category	compensation	compensation	compensation	Index
	EUR	EUR	EUR	
Gross Salary	98,000	117,125		
Variable Pay	9,800	11,713		
Gross Total Compensation	107,800	128,838	154,173	
Income Tax	44,012	32,471	68,636	
National tax	38,006	12,822	62,244	
Local tax	0	10,391	0	
Social security	8,274	9,258	8,660	
Family allowance	(2,268)	N/A	(2,268)	
US residual income tax	0	N/A	0	
Net Income	63,788	96,367	85,537	
Goods and services		54,004	52,331	96.6
Housing		30,084	20,927	69.6
Savings		12,279	12,279	100.0



**Compare after-tax income**

A comparison of net income of the offer vs. a person's current salary

**Evaluate salary purchasing power**

Salary in right column tells you how much income would keep this individual whole

**Help hiring managers communicate**

Confidently explain the economic impact of a move to an employee

“ We were able to reduce turnaround time from a week to a day, on requests from the business around local packages for international hires. ”  
- Director of Compensation at Fortune 500, Pharmaceutical Company

# Manage your assignment allowances

## The Balance Sheet Manager

- ✓ **Thousands of country combinations**  
AIRINC personally surveys more locations than anyone
- ✓ **Cost-effective balance sheets**  
for multiple assignees
- ✓ **Receive notifications of new recalculated sheets**  
following updates for inflation and f/x changes

**Select options**

Income Taxes:

☒ Home location  
☒ Hypothetical tax  
☒ Include Social Security  
☐ Include Family Allowance

Host location  
☐ Estimated tax gross-up

Report details			
All amounts are annual			
	CNY	ROE	USD
<b>1. Base Salary</b>			
a. Home Location Hypothetical Tax on (1)			(27,228)
b. Income After Tax			97,772
<b>2. Housing and Utilities Costs</b>			
a. Host Location (Variant: MOD)	365,873	/ 6.72 =	54,445
b. Home Location (excluded)			(0)
c. Housing and Utilities Differential			54,445
<b>3. Goods and Services Costs</b>			
a. Host Location (Variant: MBL)	411,102	/ 6.72 =	61,176
b. Home Location			(49,899)
c. Goods and Services Differential (Index = 122.6)			11,277
<b>4. Automobile Costs</b>			
a. Host Location	161,579	/ 6.72 =	24,044
b. Home Location			(12,277)
c. Automobile Differential			11,767
5. Total Host Location Payments	938,554		
6. Net Foreign Compensation (1b) + (2c) + (3c) + (4c)			175,261

Calculations

Payment 2  
☐ Bonus  
☐ % of base salary  
☐ Flat annual  
☐ Include in home hypo tax

Host location  
☒ Rent  
☒ Utilities

Other costs  
Host location  
☒ Insurance & fees  
☒ Gas/petrol  
☒ Repairs & maintenance  
☒ Auto ownership costs

Cost of living, housing, and transportation allowances for home-based assignments

# Easy access to **your** mobility data

## International Assignment Calculator

### ✓ All your data in **one place**:

- Housing and Utilities Budgets
- Hardship
- Income Tax
- Transportation

### ✓ **Quick access**

to all of your data, specific to an assignee

### ✓ **Reduce your time**

spent on creating pay statements and updates

### ✓ **Aggregate data and allowances** for payroll more easily

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INTERNATIONAL ASSIGNMENT CALCULATOR

Inputs Review Results

**Line Item Options**

Expenditure category	Configuration	Job Level	Calculated	Override	Currency	Exclude
<b>Paid in Home</b>						
Hypothetical Tax	Standard		(33,022) USD		USD	<input type="checkbox"/>
Hardship Premium	Standard		18,750 USD		USD	<input type="checkbox"/>
Mobility Premium	10% Mobility Premium		12,500 USD		USD	<input type="checkbox"/>
Home Housing	Standard		(20,019) USD		USD	<input type="checkbox"/>
Home Goods and Services			(60,501) USD		USD	<input type="checkbox"/>
<b>Paid in Host</b>						
Host Rent	Host Rent Budgets - Expat	Mid-level	462,000 CNY		CNY	<input type="checkbox"/>
Host Utilities	Host Utilities Budgets - Expat	Mid-level	36,600 CNY		CNY	<input type="checkbox"/>
Host Goods and Services	Expat Index		82,039 USD		USD	<input type="checkbox"/>

**Additional Line Items**

Expenditure category	Description	Home payment	Annual amount	Currency	Remove
Paid in Home		<input checked="" type="checkbox"/>		USD	<input type="checkbox"/>

**Report Note**

Characters Remaining: 250 of 250