

Webinar:

# Evolving your mobility program to address recent U.S. tax changes

Jordan Blue | *Director, West Coast*

Genie Martens | *Senior Director, Client Engagement*

Jeremy Piccoli | *Tax Manager*



AIRINC

WORKFORCE  
GLOBALIZATION

...

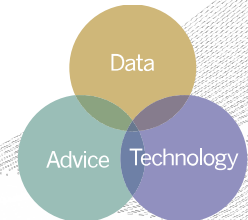
# Agenda

- ❑ Review of key U.S. 2018 tax changes
- ❑ Tax equalization: hypothetical tax update and cost impacts
- ❑ Relocation: cost impacts/case studies
- ❑ Program strategies
- ❑ Questions

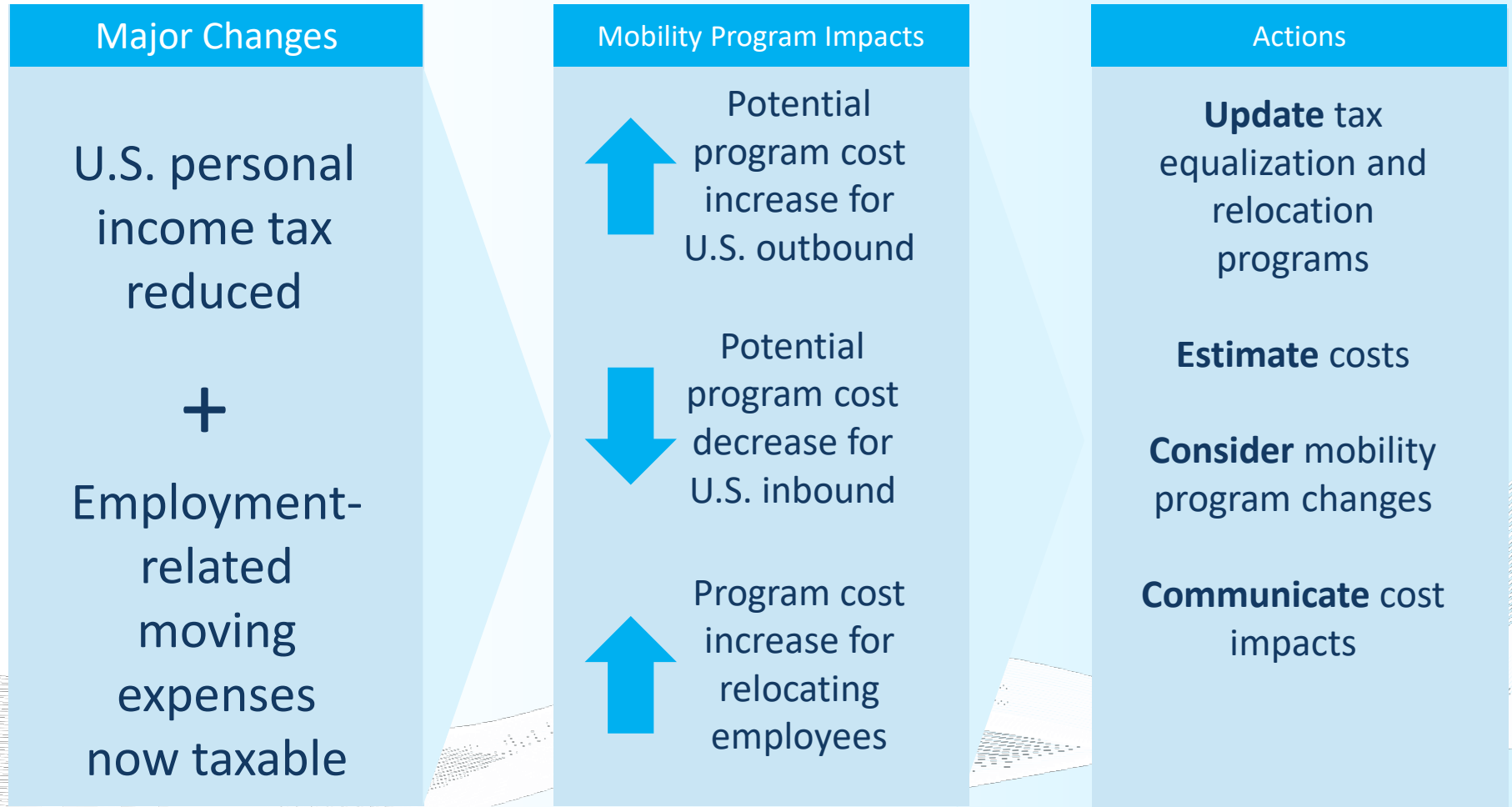


WORKFORCE  
GLOBALIZATION

# Review of U.S. 2018 tax changes



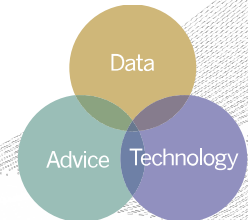
# U.S. tax change overview and **key impacts** to mobility programs





WORKFORCE  
GLOBALIZATION

# Revising U.S. hypothetical tax



# Updating U.S. hypothetical tax withholdings

## TAX CALCULATION

TOTAL INCOME

- EXCLUSIONS from wages

= **ADJUSTED GROSS INCOME**

- EXEMPTIONS

- DEDUCTIONS (standard or itemized)

= **TAXABLE INCOME**

X TAX RATE %

= **TAX**

- CREDITS

= **TAX OWED**

How will the 2018 tax changes affect personal income taxes?

Personal exemption eliminated



Standard deduction nearly doubled



Limits on itemized deductions: State, local and property tax deduction caps, mortgage interest maximum, limits or elimination of other deductions (medical, miscellaneous)



Tax brackets adjusted and tax rates reduced



Child tax credit doubled



**Overall impact on tax**



Fewer taxpayers will itemize; smaller benefit to those in high tax/high property value states

Larger decreases for those with dependents than singles/couples

# Hypo tax comparison

Professional in Texas  
Salary - \$100,000  
Family of 2

	2017	2018	Change
<b>Income is</b>	\$100,000	\$100,000	
<b>Deductions are</b>	\$14,952	\$24,000	<b>\$9,048</b>
<b>Exemptions are</b>	\$8,100	\$0	<b>(\$8,100)</b>
<b>Taxable income</b>	\$76,948	\$76,000	<b>(\$948)</b>
<b>Federal Tax:</b>	\$10,715	\$8,739	
<b>Social Security:</b>	\$7,650	\$7,650	
<b>State Tax:</b>	\$0	\$0	
<b>Total Tax:</b>	\$18,365	\$16,389	<b>(\$1,976)</b>
<b>Net Income:</b>	\$81,635	\$83,611	<b>\$1,976</b>
<b>Effective Tax Rate</b>	24%	22%	<b>-2%</b>

Executive in New York City  
Salary - \$250,000  
Family of 3

	2017	2018	Change
<b>Income is</b>	\$250,000	\$250,000	
<b>Deductions are</b>	\$50,383	\$29,312	<b>(\$21,071)</b>
<b>Exemptions are</b>	\$12,150	\$0	<b>(\$12,150)</b>
<b>Taxable income</b>	\$187,467	\$220,688	<b>\$33,221</b>
<b>Federal Tax:</b>	\$39,375	\$39,544	
<b>Social Security:</b>	\$11,511	\$11,586	
<b>State/Local Tax:</b>	\$23,341	\$23,200	
<b>Total Tax:</b>	\$74,227	\$74,330	<b>\$103</b>
<b>Net Income:</b>	\$175,773	\$175,670	<b>(\$103)</b>
<b>Effective Tax Rate</b>	40%	34%	<b>-6%</b>

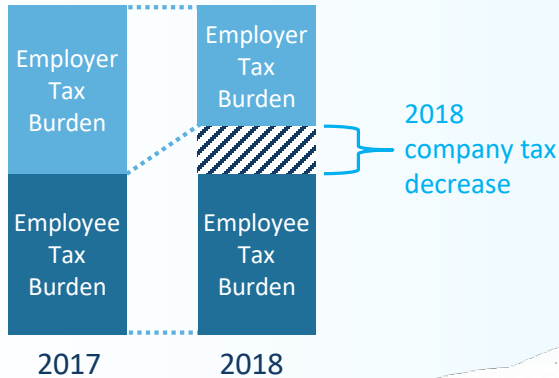


# State tax implications

## High Tax State

Higher taxable income increase  
hypo tax withholdings

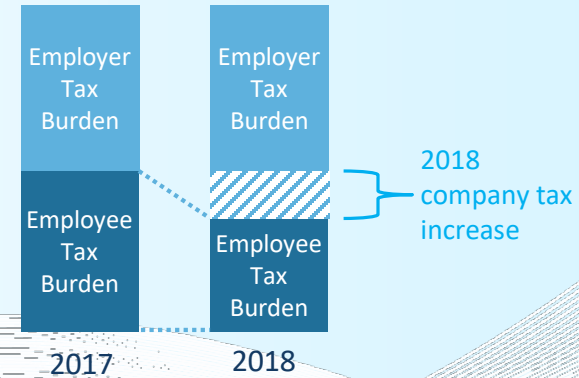
Employer picks up a smaller  
share of total tax burden



## Low Tax State

Lower tax rates decrease hypo  
tax withholdings

Employer picks up a larger  
share of total tax burden





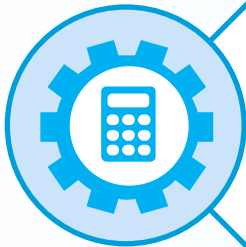
# Program considerations – why update U.S. hypo tax?



Ensure **integrity of balance sheet approach** – assignee tax deduction should reflect typical home obligations specific to income and family size



Accurate withholding will **reduce the need for tax reimbursements** at end of year true-ups



Consider reviewing basis for hypothetical tax calculation; is it **the best fit** for your assignee population?

- Incorporate statistical itemized deductions in the tax model; still relevant for higher incomes
- Depending on demographics, withholding both federal and state taxes may be appropriate

# Program costs and communications



Update **cost estimates and accruals** for assignments into and out of the U.S. to predict **program-wide cost impacts** and assess **mobility strategy**



Communicate to **the business**:

- Assignment costs will change – and sometimes in unpredictable ways



Communicate to **assignees**:

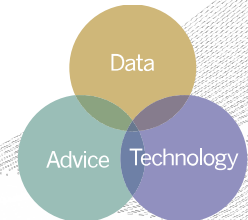
- Hypo tax withholding change statement
- May wish to modify language in policy documents and briefings to recognize the shift toward greater simplification



WORKFORCE  
GLOBALIZATION

# Relocation: program impacts and cost strategies

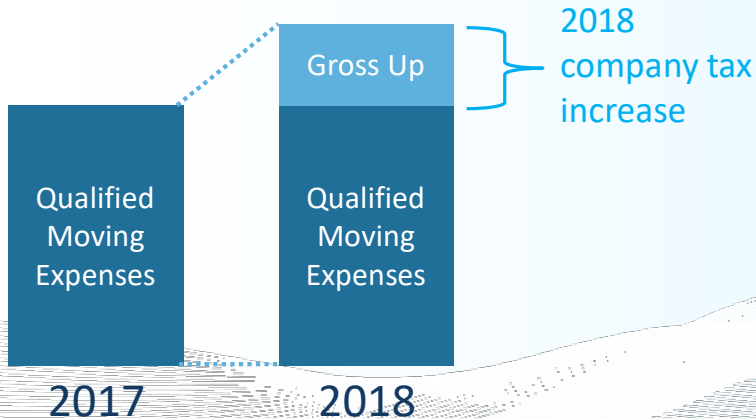
---



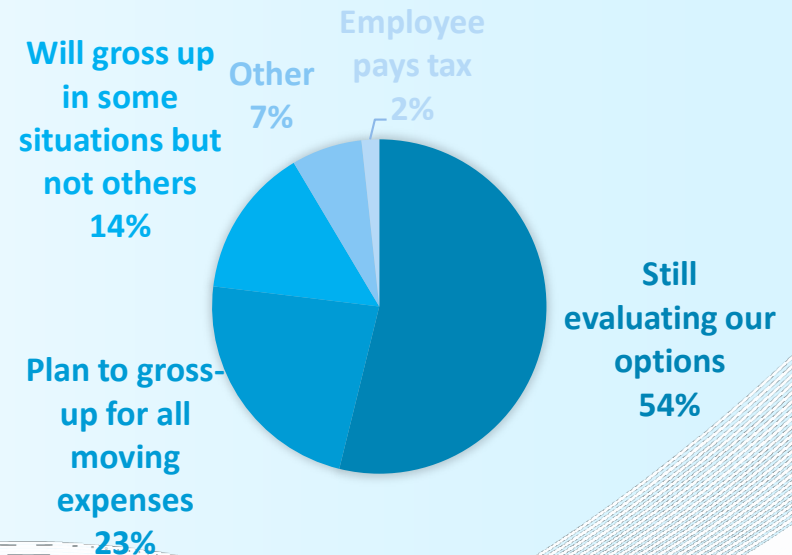
# Change in moving expense taxability

## Moving expenses 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



## In what scenarios do you anticipate grossing-up moving expenses?



# Tax gross-up methodologies and cost impacts

Gross-up: To increase a net payment to include taxes that will be incurred by the receiver

Formula:

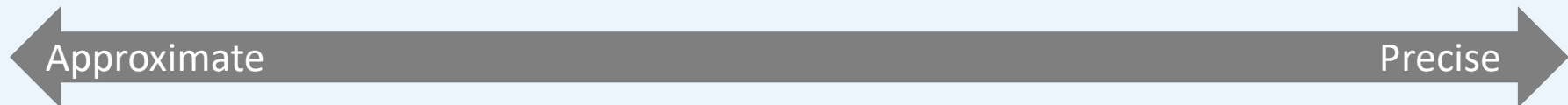
$$\frac{\text{Allowance}}{1 - \text{tax rate}} = \text{Total Payment}$$

$$\text{Total Payment} - \text{Allowance} = \text{Gross Up}$$

Professional in Texas  
Salary - \$100,000  
Family of 2

Lump Sump Payment of \$14,500  
Incremental Tax Liability of \$5,413

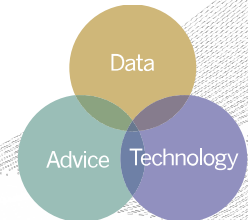
Top Marginal Tax Rate – 37%		Fixed Supplemental Rate – 22%		Before/After Tax Calculation	
Allowance	\$14,500	Allowance	\$14,500	Allowance	\$14,500
Gross Up	\$8,516	Gross Up	\$4,579	Gross Up	\$5,413
Grossed Up Payment	\$23,016	Grossed Up Payment	\$19,079	Grossed Up Payment	\$20,413
Overpayment	\$2,603	Underpayment	(\$1,334)	Correct payment	\$ -





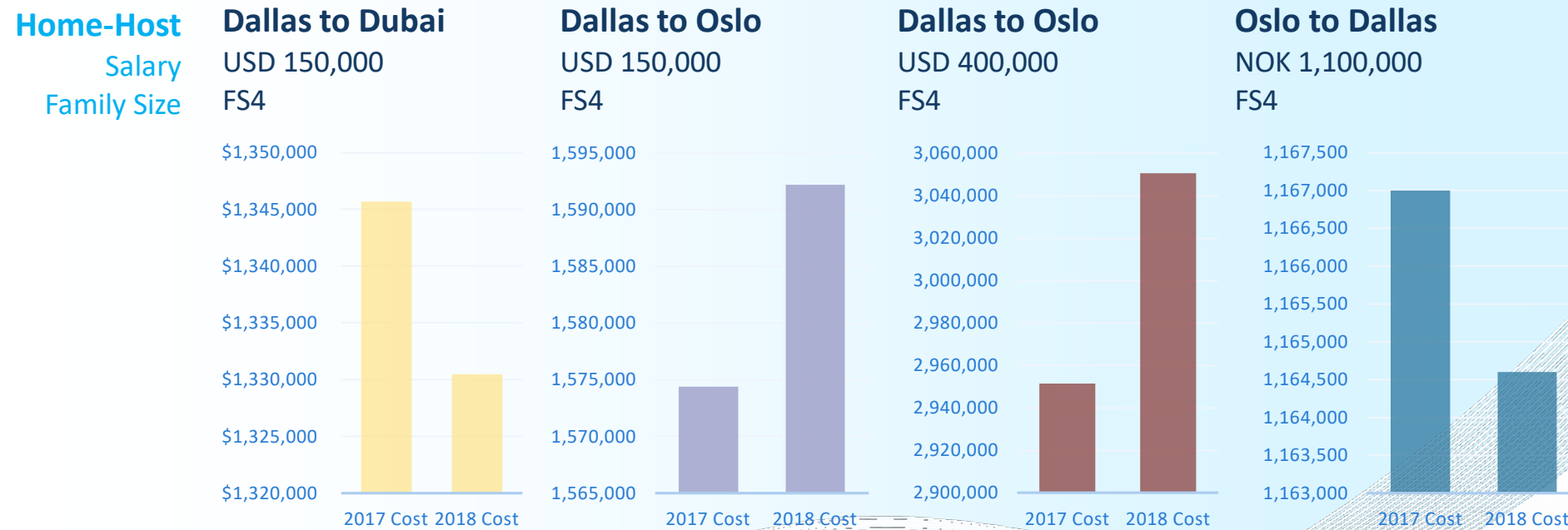
WORKFORCE  
GLOBALIZATION

# Program cost case studies



# Case study comparisons – 3-year assignment costs

Cost impacts can be significant – and difficult to predict given the complex interaction of changes in U.S. tax rates, deductions, taxability of relocation costs, and more.



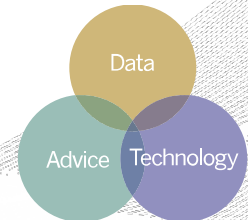
Difference   **USD (15,200)**   **USD 17,800**   **USD 99,000**   **USD (2,400)**





WORKFORCE  
GLOBALIZATION

# Program strategies



## Poll Question:

Do you provide – or are considering providing – lump sum payments for any of the following? Select all that apply.

- Not providing or considering lump sum
- Home- finding Trip
- Temporary living
- Home sale and purchase assistance
- Total relocation (move costs, temporary living, etc.)

# Build tailored lump sums

- ✓ Consider which **data types and calculations** to include:

## 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.	
	Tax Gross Up Options	

- ✓ **Employee-specific summary**

Communicate to the employee what their lump sum covers


- ✓ Consider using **cash lump sum** or **reimbursable** limits for both **domestic** and **international** moves

Limits administration, provides choice

### Lump Sum Calculator

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

Lump Sum Components	
Housing Allowance	2,523 USD
Airfare Allowance	3,240 USD
Transportation Allowance	457 USD
Food Allowance	606 USD
Taxes	2,389 USD
<b>Total Lump Sum Amount</b>	<b>9,200 USD</b>

 WORKFORCE GLOBALIZATION

Export Report

# Considerations on shipping/housing strategy

## Cost

- What's the breakeven between:
  - Shipping
  - Housing costs
  - Furnishings allowances

## Administration

- What is required to:
  - Ship goods
  - Return shipments
  - Deal with damages

## Tax planning

- Can we take advantage of the Foreign Housing Exclusion through furnished housing?

## Furnishings Allowance

- Similar to “Free Housing”, many companies want to stay out of personal matters
- Furnishings allowances are a low admin option for unfurnished housing markets



# Eliminate household goods shipments



## What are our housing/shipping options?

Unfurnished Housing + Shipping	
Enroute Shipment	\$10,500
Housing Cost (\$60,000/year)	\$180,000
Return Shipment	\$11,500
<b>Cost</b>	<b>\$202,000</b>

Furnished Housing + Extra Baggage	
Extra Baggage	\$500
Housing Cost (\$66,000/year)	\$198,000
Extra Baggage	\$500
<b>Cost</b>	<b>\$199,000</b>

Unfurnished Housing + Furnishings Allowance	
Furnishings Budget	\$15,000
Extra Baggage	\$500
Housing Cost (\$60,000/year)	\$180,000
Extra Baggage	\$500
<b>Cost</b>	<b>\$195,000</b>

# U.S. tax changes: challenges and opportunities!

ARE YOU...	TIPS FROM AIRINC
<b>Aware of the net impact of tax costs across your mobility or relocation program?</b>	<div data-bbox="971 250 1746 368"><input checked="" type="checkbox"/> Calculate/recalculate cost estimates to ensure that you have accurately projected assignment and tax costs based upon the 2018 tax code</div> <div data-bbox="971 428 1727 506"><input checked="" type="checkbox"/> Update U.S. hypothetical tax withholdings for tax-equalized international assignees</div>
<b>Reimbursing moving expenses (domestic/ international)?</b>	<div data-bbox="971 533 1740 611"><input checked="" type="checkbox"/> Consider offering cash lump sums or reimbursable limits</div> <div data-bbox="971 635 1682 713"><input checked="" type="checkbox"/> Think about varying the level of self-service by employee groups or relocation policy</div>
<b>Planning to gross-up moving expenses?</b>	<div data-bbox="971 774 1769 892"><input checked="" type="checkbox"/> Review gross-up methodologies (flat rates or income-/family size-specific) and select an approach to best fit your mobility program needs</div> <div data-bbox="971 976 1765 1054"><input checked="" type="checkbox"/> Determine whether you will review actual taxes after tax year filing and perform true-ups as needed</div>



# U.S. tax changes: challenges and opportunities!

ARE YOU?	TIPS FROM AIRINC
Updating policy documents?	<input checked="" type="checkbox"/> Update to reflect any changes, for example to gross-up moving expenses
	<input checked="" type="checkbox"/> Review policy documents for references to U.S. tax "itemized deductions" and "personal exemptions"
	<input checked="" type="checkbox"/> Review policies to ensure they still make business sense given the current tax structure, and consider modifying policy elements to offset increased program tax costs
Communicating the impact of the 2018 tax changes to your employees?	<input checked="" type="checkbox"/> Determine which internationally mobile or relocating employees will be affected by tax and/or policy changes, and communicate changes as required



- Go beyond compliance and actively seek simpler and less costly policies
- Use cost information thoughtfully to assess and plan



# Questions?



**AIRINC**

WORKFORCE  
GLOBALIZATION

# Poll question

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!

Genie Martens  
gmartens@air-inc.com

Jordan Blue  
jblue@air-inc.com

Jeremy Piccoli  
jpiccoli@air-inc.com

## AMERICAS

Cambridge, MA (Global Headquarters)  
United States of America  
T +1 617 250 6600

## EMEA

Brussels, Belgium  
T +32 (0)2 650 0970

London, United Kingdom  
T +44 (0)20 3514 8650

## APAC

Hong Kong  
T +852 2541 8380

# Appendix

Tools to help you achieve global mobility success



**AIRINC**

WORKFORCE  
GLOBALIZATION

# 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

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

- ✓ **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%

TOTAL ALLOWANCE

Your Lump Sum costs not including flexible costs for your Lump Sum

Airfare

Accommodations

Rental car / transportation costs

Meals during temporary living

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

Total Lump Sum Amount

9,300

EUR

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



**AIRINC**

WORKFORCE  
GLOBALIZATION



# 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

AIRINC WORKFORCE GLOBALIZATION



# AIRINC Product Updates

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

- [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



# Create reliable cost estimates quickly

## Assignment Cost Estimator

The screenshot shows the AIRINC Assignment Cost Estimator (ACE) web application. The interface is divided into two main sections: "Select home and host locations" and "Select options".

**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
- U.S. tax status: Married Filing Jointly
- Use expatriate ruling: ☒
- Social security treaty exists: Yes
- Pay social security in: Home location

A "Review" button is visible on the right side of the form.

- ✓ **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

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

Additional Options

Currency Options

Exchange rate 1 USD =

.937

EUR

Methodology Options

Housing methodology:

Local-to-local

Good and services methodology:

AIRINC G&S Index

Recalculate

Assignment Host Pay Calculation

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	Expenditure category	compensation	compensation	compensation	Index
			EUR	EUR	EUR	
Offered salary at host:	EUR 98,000	Gross Salary	98,000	117,125		
Variable pay at host:	EUR 9,800	Variable Pay	9,800	11,713		
Salary at home:	USD 125,000	Gross Total Compensation	107,800	128,838	154,173	
Variable pay at home:	USD 12,500	Income Tax	44,012	32,471	68,636	
Cost adjust home variable pay:	No	National tax	38,006	12,822	62,244	
Include residual U.S. tax liability:	Yes	Local tax	0	10,391	0	
Calculate social security in:	Host Location	Social security	8,274	9,258	8,660	
Use expatriate tax ruling:	No	Family allowance	(2,268)	N/A	(2,268)	
		US residual income tax	0	N/A	0	
		Net Income	63,788	96,367	85,537	
Additional Options		Goods and services		54,004	52,331	96.6
Currency Options		Housing		30,084	20,927	69.6
Exchange rate 1 USD =	.937 EUR	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>			125,000
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
<b>5. Total Host Location Payments</b>	938,554		
<b>6. Net Foreign Compensation (1b) + (2c) + (3c) + (4c)</b>			175,261

Calculations

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

Host location  
☒ Rent  
☒ Utilities

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

**AIRINC**  
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	
Hardship Premium	Standard		18,750 USD		USD	
Mobility Premium	10% Mobility Premium		12,500 USD		USD	
Home Housing	Standard		(20,019) USD		USD	
Home Goods and Services			(60,501) USD		USD	
<b>Paid In Host</b>						
Host Rent	Host Rent Budgets - Expat	Mid-level	462,000 CNY		CNY	
Host Utilities	Host Utilities Budgets - Expat	Mid-level	36,600 CNY		CNY	
Host Goods and Services	Expat Index		82,039 USD		USD	

**Additional Line Items**

Expenditure category	Description	Home payment	Annual amount	Currency	Remove
Paid In Home		✓		USD	

**Report Note**

Characters Remaining: 250 of 250