



Securing Corporate Tax Deductions for Equity Awards on a Worldwide Basis – The Citigroup Experience



Robert Klein, Citigroup Inc.
 Vishal Khosla, Citigroup Inc.
 Lucy Tavella, Citigroup Inc.
 Michael Bussa, Ernst & Young



Quality In Everything We Do

Today's Discussion

- Citigroup Overview
- Equity Re-Charge Analysis
- Financial Benefits from Re-Charge Arrangement and Corporate Tax Deduction
- Re-Charge Feasibility and Implementation

Overview of Citigroup's Global Equity Programs

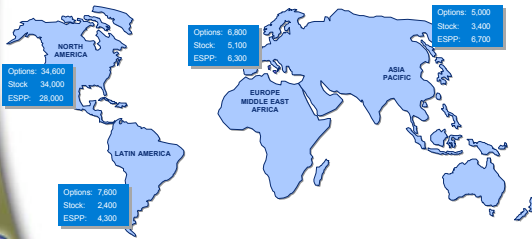
Participants by Equity Program – Worldwide

Pre - 2005	# Participants
Stock Option programs	54,000
CAP Stock Awards	20,000
Stock Purchase Program	45,000
U.S./Canada Broad-based Stock Awards & Options	143,000
CAP from 2005	
Core CAP Stock Awards	21,000
Supplemental CAP Stock Awards	20,000
CAP Stock Options	3,000

Participants in more than one program are counted more than one time

Overview of Citigroup's Global Equity Programs (cont.)

Participants By Region



Overview of Citigroup's Global Equity Programs (cont.)

Restricted or Deferred Stock Awards

- **Core CAP**
 - A portion of annual discretionary incentive delivered in the form of stock
 - Awarded at 25% discount
 - Four year straight line vesting
 - Stock option election
- **Supplemental CAP**
 - Discretionary stock award
 - No discount
 - Four year straight line vesting
 - Stock option election

Overview of Citigroup's Global Equity Programs (cont.)

CAP Stock Option Program

- Options granted based on employee election (up to 100% of CAP award)
- Six year term
- Four year straight line vesting
- Two year sale restriction after exercise
- Cash Purchase, Swap, Sell-to-Cover exercise methods

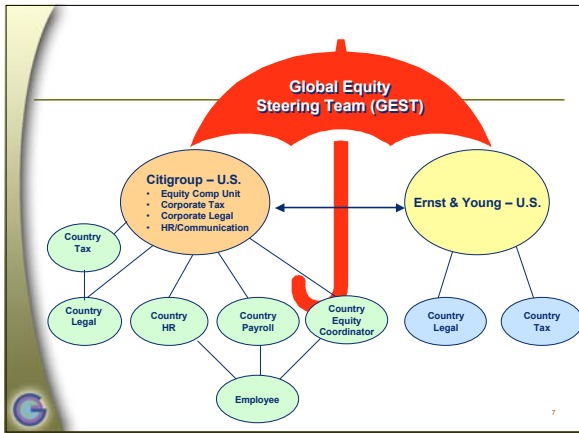
Overview of Citigroup's Global Equity Programs (cont.)

Employee Stock Purchase Program

- One month enrollment period 6/15/03 to 7/15/03
- Program extends 25 months to 7/15/05
- Offering price = FMV on offering date (6/15/03)
- Interim purchase and new hire offering after 12 months
- Final purchase price = lesser of offering price or FMV on closing date (7/15/05)
- U.S. Section 423 plan and International mirror plan

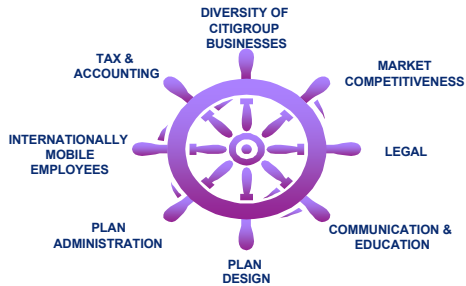


6



7

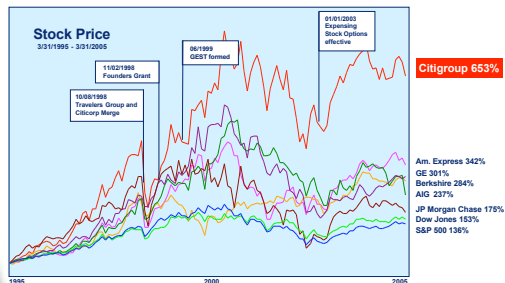
Multi-disciplinary Approach



8

Citigroup 10 Year Performance

Comparative prices based on equivalent value of 100 at 31 March 1995



Equity Re-Charge Analysis

- “Tax 101”: Corporate income tax rules globally require that deductions for equity awards reside in the country and with the entity which benefits from the employee’s services
- Led to significant annual tax and legal due diligence through E&Y on a worldwide basis to ensure proper and appropriate corporate tax deductions for both local and expatriate employees
- New program added 51 new countries to receive Deferred Stock awards and confirmed that corporate tax deduction would be linked to cash settlement and compliant with transfer pricing rules
- Country-specific tax information and compliance requirements are maintained and updated for 90+ countries

FASB/ IASB Accounting Issues

- Citigroup was an early adopter of FAS 123 effective January 1, 2003 for expensing of stock options and implemented binomial model January 1, 2004
- U.S. GAAP accounting expense is based on award values and thus differs in *timing* and *amount* from employer corporate tax deductions
- Move toward consistent accounting for share-based compensation globally
 - IFRS 2, Share-based Payment – Issued by IASB on February 19, 2004 effective January 1, 2005
 - FAS 123R Share-based Payment – Issued by FASB on December 16, 2004. Effective date extended by SEC on April 14, 2005 – required for *first annual accounting period* that begins after June 15, 2005 for most public companies.
- Globally, due diligence is being conducted to determine the interplay between:
 - FAS 123 and IFRS 2
 - IFRS 2 and local corporate income tax deductions

The Drivers: Financial Benefits from Re-Charge Arrangement and Corporate Tax Deductions

- U.S. GAAP/Company Policy
- Maximize corporate income tax savings globally
- Tax-free repatriation to U.S.
- Financial cost/benefit analysis



12

The Drivers: Financial Benefits from Re-Charge Arrangement and Corporate Tax Deductions (cont.)

U.S. GAAP / Company Policy

- U.S. GAAP: Citigroup applies FAS 123R to all Global Equity Programs
- Company Policy: Citigroup has implemented a “share and share alike” policy, transferring to non-U.S. subsidiaries and branches:
 - U.S. GAAP expense for equity awards to subsidiary and branch employees
 - Economic cost under our share buyback program of delivering shares to these employees



13

The Drivers: Financial Benefits from Re-Charge Arrangement and Corporate Tax Deductions (cont.)

Maximize Corporate Income Tax Savings Globally

Without Re-Charge to Non-U.S. Subsidiary Company	With Re-Charge to Non-U.S. Subsidiary Company
Parent Company <ul style="list-style-type: none"> • No U.S. corporate tax deduction (employee is not performing services for parent company) • All costs associated with share delivery borne by parent company • Increased cost of capital 	Parent Company <ul style="list-style-type: none"> • Costs of shares delivered is transferred to non-U.S. subsidiary • Tax-free repatriation of cash to the U.S. and reduced cost of capital • Creates opportunities to credit foreign taxes on other income
Non-U.S. Subsidiary Company <ul style="list-style-type: none"> • No local corporate tax deduction (subsidiary has not incurred an economic cost) 	Non-U.S. Subsidiary Company <ul style="list-style-type: none"> • Local corporate tax deduction • Reduced local corporate income taxes

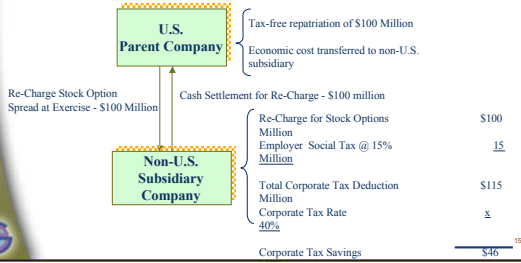


14

The Drivers: Financial Benefits from Re-Charge Arrangement and Corporate Tax Deductions (cont.)

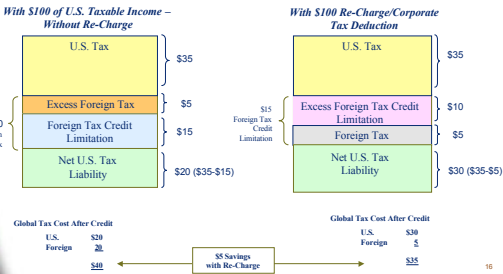
Maximize Corporate Income Tax Savings Globally

Overview of Re-Charge for Stock Options

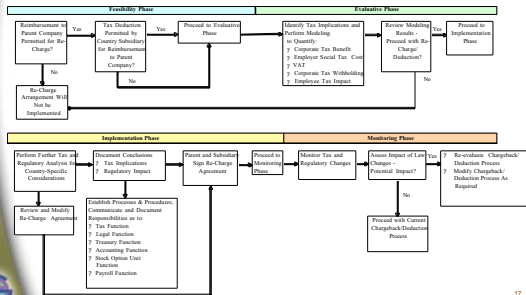


The Drivers: Financial Benefits from Re-Charge Arrangement and Corporate Tax Deductions (cont.)

Maximize U.S. Foreign Tax Credit



Re-Charge Feasibility and Implementation Process



Feasibility of Re-Charge and Corporate Tax Deduction

Feasibility review needs to address the following critical questions

- Do foreign exchange controls limit or restrict the cash reimbursement to the parent company?
- Is a corporate tax deduction for the amount of the re-charge permitted?
- Are there any significant limitations or requirements in order to secure the corporate tax deduction?



18

Feasibility of Re-Charge and Corporate Tax Deduction (cont.)

Examples of countries with foreign exchange controls or where corporate tax deduction for equity awards is limited or not permitted.

<u>Foreign Exchange Controls</u>	<u>Corporate Tax Deduction Limited/Not Permitted</u>
Algeria	Belgium
China	Canada
Colombia	Panama
Nigeria	Romania
Russia	South Korea
South Africa	Zambia
Tanzania	
Ukraine	
Venezuela	



19

Evaluating Impact of Re-Charge and Corporate Tax Deduction

- Quantify corporate tax benefit to determine if sufficient to support implementation of re-charge arrangement
- Determine impact of re-charge and deduction to non-U.S. subsidiary and employees as to
 - Income tax consequences associated with equity award
 - Social tax implications
 - Company reporting and tax withholding requirements
 - Value added taxes
 - Non-refundable corporate income tax withholding on cash reimbursement to Parent Company



20

Evaluating Impact of Re-Charge and Corporate Tax Deduction (cont.)

Examples of countries where re-charge or corporate tax deduction triggers uncapped employer social tax which would otherwise not apply

Country	Uncapped Employer Social Tax Rate	Maximum Corporate Tax Rate
Algeria	25.5%	30%
Austria	8%	25%
Belgium	34.5%	33.99%
Bolivia	13.71%	35%
Brazil	37.3%	34%
Czech Republic	35%	34.93%
Cameroon	1.75%-5%	38.5%
Guatemala	12.67%	31%
Kazakhstan	7%-20%	30%
Lebanon	8.5%	15%
Morocco	9.1%	35%
Paraguay	17%	35%
Slovak Republic	0.3%-2.1%	19%
Tunisia	16%	35%
Uruguay	31.875%	35%

21

Evaluating Impact of Re-Charge and Corporate Tax Deduction (cont.)

Quantify Net Corporate Income Tax Benefit to Subsidiary

Brazil

Maximum Corporate Income Tax Rate		34.00%
Maximum Employer Social Tax Rate		37.3 0% *
Less: Corporate Income Tax Benefit:		
Maximum Employer Social Tax Rate	37.3 0%	
Maximum Corporate Income Tax Rate	x 34.00%	
		12.68%
Less: Employer Social Tax Net of Corporate Income Tax Benefit		24.62%
Net Corporate Income Tax Benefit		9.38%

* Includes FGTS at rate of 8.5%.

22

Evaluating Impact of Re-Charge and Corporate Tax Deduction (cont.)

Examples of countries where re-charge or corporate tax deduction impacts taxation to employees

Country	Impact to Employees		
	Triggers Tax on the Award	Timing of Taxation	Character of Income
Bolivia	II	II	II
Egypt		II	II
El Salvador	II	II	II
Gabon	II	II	II
Guatemala	II	II	II
Lebanon		II	II
Jordan		II	II
Morocco		II	II
Tunisia		II	II

23

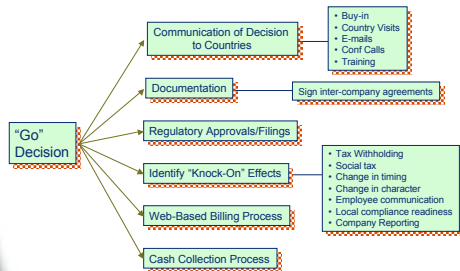
Evaluating Impact of Re-Charge and Corporate Tax Deduction (cont.)

Examples of countries where re-charge or corporate tax deduction impacts company reporting and tax withholding requirements

Algeria	Greece	Philippines
Austria	Guatemala	Poland
Bahamas (social tax)	Indonesia	Senegal
Bolivia (social tax)	Jordan	Slovak Republic
Bulgaria	Kazakhstan	Taiwan
Cameroon	Lebanon	Tunisia
Egypt	Morocco	Turkey
El Salvador	Paraguay (social tax)	Uruguay
Gabon	Peru	

24

Implementation Process



25

Questions?

Thank you for your participation

26

Contact Information

Robert Klein, Citigroup Inc.
kleinrb@citigroup.com

Vishal Khosla, Citigroup Inc.
vishal.khosla@citigroup.com

Lucy Tavella, Citigroup Inc.
tavellal@citigroup.com

Michael Bussa, Ernst & Young
michael.bussa@ey.com



27
