

Update on Mobile Employee Taxation

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Current Global Compliance Environment

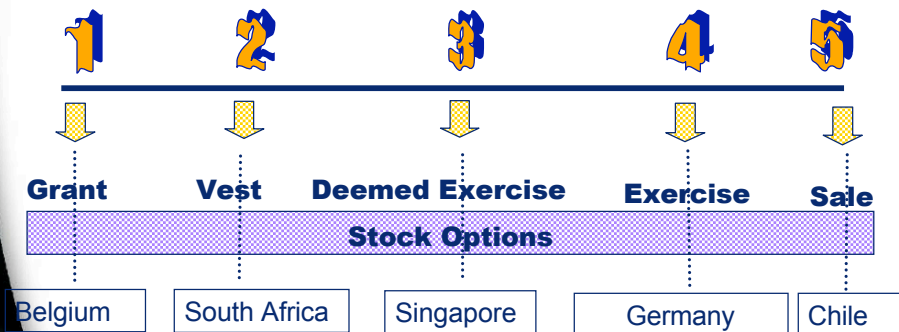
- A growing number of countries are enacting specific legislation to address cross border equity taxation
- Over the past year there have been more than 80 Deloitte Global Equity Updates related to the changing taxation of equity compensation in foreign locations
- In September 2006, The OECD (Organization for Economic Co-operation and Development) hosted a Forum on Tax Administration where over 30 countries were represented to work together on ways to improve tax administration and the growing problem of international non-compliance
- Increased regulatory activity is evidenced by:
 - Corporate Governance
 - Legislative Changes
 - Informational Filings
 - Departure and Exit Taxes

Who Are Globally Mobile Employees?

- Individuals traveling for periods of varying lengths between multiple countries and tax jurisdictions
- Business travelers
- Short-term transfers (60–120 days)
 - Remain on home country payroll
 - Do not cease home country residency
- Formal expatriate assignees (1-5 years)
 - Remain on home country payroll
 - Covered under company International Assignment Policy
- Permanent transfers
 - Local country payroll
 - Employee of local company
 - Not covered under company International Assignment Policy

Globally Mobile Employees: A Perfect Storm?

- An employee may be granted an equity award in one country, vest in that award in a second country, exercise in a third country, and ultimately sell the shares in a fourth country
- There could be employer reporting and withholding as well as individual tax implications in each jurisdiction



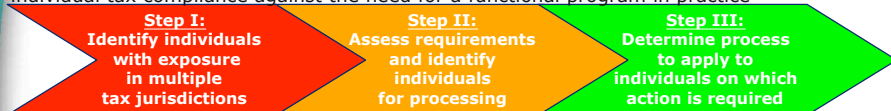
Specific Issues – Cross Border Compliance

- Timing of taxation varies between countries
- Amount subject to tax varies between countries
- Sourcing rules vary
 - According to location at grant
 - Belgium, Canada, Switzerland (Geneva), UK (this is changing)
 - According to location during vesting period (OECD model)
 - Australia, China, Germany, Hong Kong, Netherlands, and U.S.
 - According to location between grant and exercise
 - Austria, Brazil, France, Japan, and Switzerland
- Treaty Implications
- Recharge Implications



Cross Border Tax Compliance Issues

Goal: To develop a policy that balances the company's desire to ensure full corporate and individual tax compliance against the need for a functional program in practice



Step I: Identify potentially impacted individuals

- Self disclosure via broker
- Pre vest/exercise email
- Expat tax provider's records
- Other separately maintained database

Step II: Identify subset where action will be taken

- Country specific factors:
 - Countries with specific legislation
 - Countries in which costs are recharged
 - Countries where large concentrations of employees and sophisticated infrastructure
 - Countries in which large grants are being made
 - Countries in which company is required to report and withhold on income
- Individual specific factors:
 - Length of time in jurisdiction
 - Is allocable gain less than personal exemption amount?
 - Is allocable gain or tax payable less than a company determined threshold amount?

Step III: Determine action to take

- Tax equalization or tax protection
- Tax preparation services
- Hand calculation apportionment of income vs. system purchase



Dow Jones & Company: A Practical Approach

- Step I: Identify Individuals with multi-jurisdiction tax exposure.
 - Queried HR database for employee work locations at the time of grant and vest.
 - Identified expats, etc.
- Step II: Assess Requirements
 - Worked with Deloitte to review relevant tax and sourcing rules in approx 20 locations for residents and non-residents.
 - Sorted and categorized population from least complicated (US domestic) to most complicated (globally mobile).

Dow Jones & Company: A Practical Approach

- Step III: Determine Process
 - Company determined tax withholding rates for most employees.
 - Worked with non-US payroll departments to determine individual withholding rates
 - Auditor sign-off of processes (maintain equity accounting of RSUs, de minimis exceptions, etc.)
 - Deloitte calculated income allocations and tax withholding rates for the most complicated scenarios.

Dow Jones & Company: A Practical Approach

- Lessons Learned:
 - Communications with employees
 - Communications with regional HR and payroll
 - Coordination with Equity Plan Administrator



***Manual Solutions* vs. Automated Solutions**

- Lower implementation costs
- Scalable for smaller populations
- Based on general country tax regulations
- Ability to adopt client positions
- Turnaround time in days
- Useful for VIPs/complicated scenarios
- Reduced client participation



Manual Solutions vs. *Automated Solutions*

- Higher implementation costs
- Ability to process high volume of transactions
- In-depth review of local regulations
- Customisation of client positions in each country
- Turnaround time in seconds
- Cost effective for local and mobile employee populations
- Involvement of client, tax provider, and share plan administrator required
- Modelling calculations can be performed

Recent Legislative Updates

- UK – Non-UK Resident Exercise Taxation
- India – Fringe Benefits Tax
- Philippines – Fringe Benefits Tax
- Norway – Exit Tax
- Sweden – Exit Tax
- New Zealand – Transitional Resident Rules
- Germany – Sourcing Period
- Greece – Impact of Recharge on Employer Compliance
- Ireland – Adoption of OECD Guidelines
- USA – Sourcing for NY Non-Residents

Cross Border Compliance - Practical Guidelines

- Employee involvement
 - Pro-active orientation process
 - Data collection and tracking post repatriation
- Tax planning and cost savings opportunities
- Help ensure compliance
- Raise issues to management
- Involve all relevant functions (HR, Tax, Payroll, Treasury)
- Balance practicality with risk management
- Communicate frequently



Questions?

Thank you for your participation

