A new age of talent mobility: Planning for tax reform and regulatory uncertainty

The Dbriefs Global Mobility, Talent, & Rewards series

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Agenda

• Setting the stage: update on policy proposal considerations and timing

• Key considerations and planning for human resources and global mobility

• Global workforce and mobility strategy: responding to changing policies and environments
Polling question #1

In which part of your company do you work?

- Global Mobility
- Compensation and Benefits
- Talent/Human Resources
- Corporate Tax
- Other/Not applicable
Setting the stage
Update on key proposal considerations and timing
Setting the stage

• Republican control of both the Executive and Legislative branches presents the opportunity for significant policy changes, many of which, if enacted, would impact company mobility programs, HR functions, and reward programs.

• Comprehensive tax reform is a priority of the new administration, which is accompanied by a sense of urgency among congressional taxwriters given recent developments in the global tax landscape.

• Although the Trump administration and House tax reform proposals have some key differences and lack a number of technical details, there appears to be quite a bit of agreement around some key policy objectives.

• Changes in the US should be viewed in light of the global landscape related to mobility and cross-border policy reform, including augmented border entry requirements.

• There are steps that companies can take now to be prepared for when more detailed legislation is released and potentially enacted.
Setting the stage
Timeline of change

Pre-election
- Tax reform proposals from House GOP and Trump campaign
- Campaign discussion around job creation in the US, on-shoring of manufacturing, and enforcement of immigration policy

Post-inauguration
- ACA executive order on January 20
- Immigration executive order on January 27, revised March 6
- Address to joint session of Congress on February 28
- Draft “repeal and replace” ACA legislation from GOP on March 6

Looking ahead
- Repeal and replacement of ACA
- Increased enforcement of immigration laws, augmented border entry requirements
- Comprehensive tax reform
- Actions on trade agreements
## Comparison of Trump administration and House Republican tax plans

<table>
<thead>
<tr>
<th></th>
<th>Current law</th>
<th>Trump administration tax plan</th>
<th>House Republican blueprint</th>
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</thead>
<tbody>
<tr>
<td><strong>Corporate tax rate</strong></td>
<td>35%</td>
<td>15%</td>
<td>20%</td>
</tr>
<tr>
<td><strong>Individual tax rates</strong></td>
<td>Seven brackets: 10%, 15%, 25%, 28%, 33%, 35%, and 39.6%; additional 0.9% Medicare tax for high-income earners</td>
<td>12%, 25%, 33%</td>
<td>12%, 25%, 33%</td>
</tr>
<tr>
<td><strong>Affordable Care Act</strong></td>
<td>• Individual/employer mandates • 0.9% Medicare Hospital Insurance tax and 3.8% net investment income tax on high-income earners</td>
<td>Full repeal, including all related taxes (NII, additional Medicare)</td>
<td>Full repeal, including all related taxes (NII, additional Medicare)</td>
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<tr>
<td><strong>International tax</strong></td>
<td>• Worldwide taxation • Repatriated foreign-source income taxed at full corporate rate with allowance for foreign tax credits</td>
<td>• Worldwide taxation, but 15% corporate rate • One-time deemed repatriation of accumulated deferred foreign income at flat 10% tax rate; no discussion of giving companies multiple years to pay</td>
<td>• Territorial tax system for corporations • One-time deemed repatriation with differential rates for cash (8.75%) and noncash assets (3.5%), payable over eight years at the taxpayer’s election</td>
</tr>
</tbody>
</table>
Key policy objectives

- Reducing both corporate tax and individual tax rates
- US (and global) cross-border policy reform
- Creating jobs in the US
- Repealing and replacing the Affordable Care Act (ACA)
Key considerations and planning for human resources and global mobility
Key planning considerations

**Top considerations for human resources and global mobility**

- Refreshing global mobility strategy as a result of:
  - Potentially increased costs of expatriate assignments due to reduced US individual tax rates and company tax equalization policy
  - Changes in US tax policy relating to offshore manufacturing
  - Talent planning considerations due to augmented border entry requirements

- Analyzing timing around individual income inclusion relating to employee benefit and equity programs

- Enhancing the benefit of corporate tax deductions by accelerating deductions related to employee benefit plans into higher tax rate year

- Reviewing global workforce and human resource strategies as it relates to moving employees into and out of the US

- Monitoring ACA changes to determine impact on corporate health plan and related tax reporting requirements
Polling question #2

If enacted, which action/proposal would most impact your mobility program?

• Immigration, including both enhanced enforcement and tightening of borders
• Lowering tax rates and the resulting impact on tax reimbursement costs
• Repeal/modifications to various trade agreements
• Other/Not applicable
Costs of international assignments

A decrease to individual income tax rates may result in a change in the company costs incurred in relation to tax equalized assignments. Repeal of the Foreign Earned Income Exclusion has not been specifically addressed.

Potential changes include:

• Decrease to US hypothetical tax
• Increase or decrease to tax reimbursement costs, depending on the mix of assignees inbound and outbound to the US and also to high or low-tax countries

There has been a clear and consistent trend in mobility around the increased use of “local” and “local-plus” compensation approaches for assignees, rather than tax equalized assignments.

Companies may wish to undertake cost modeling to understand the impact of proposed tax reform on the cost of current mobility programs.
## Costs of international assignments—Example

Assume the following facts:

- Assignee is a US citizen on a tax equalized assignment to a foreign country
- Tax filing status is married
- Total compensation is $450,000 and hypothetical income is $250,000

<table>
<thead>
<tr>
<th></th>
<th><strong>High tax country</strong></th>
<th></th>
<th><strong>Low tax country</strong></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>45% foreign rate</td>
<td>15% foreign rate</td>
<td></td>
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<tr>
<td>Trump Administration</td>
<td>Trump Administration</td>
<td>House Republican</td>
<td>Trump Administration</td>
<td>House Republican</td>
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<tr>
<td>Proposal</td>
<td>Proposal</td>
<td>Proposal</td>
<td>Proposal</td>
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<tr>
<td>Hypothetical tax</td>
<td>$5,800 decrease</td>
<td>$4,400 decrease</td>
<td>$5,800 decrease</td>
<td>$4,400 decrease</td>
</tr>
<tr>
<td>paid by employee</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Overall tax cost</td>
<td>$10,575 increase</td>
<td>$8,050 increase</td>
<td>$6,175 decrease</td>
<td>$6,275 decrease</td>
</tr>
<tr>
<td>to company</td>
<td></td>
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Deferral of income by individuals

Anticipation of lower individual tax rates may motivate individual employees to defer income to future tax years. This may impact:

- The timing of employee stock option exercises
- Participation in short-term deferral programs

Deferral of income by employees may also delay corporate tax deductions related to that income, which may run counter to company’s desire to accelerate compensation deductions into a higher-tax year.

Companies may wish to implement short-term deferral programs or assess the sufficiency of current programs, especially in relation to top executives.
Accelerated corporate tax deductions

When corporate tax rates are reduced, corporate tax deductions become less impactful and companies may realize benefit by accelerating deductions to a higher tax rate year.

**Bonus payments**
Accrual basis taxpayers who pay bonuses early in following tax year may be able to take corporate action to ensure deductibility in the current tax year.

**Qualified defined benefit plans**
The defined benefit funding rules allow for a deduction for a tax year when a funding contribution is paid after close of tax year, so long as it is made before the extended due date of return. Companies may have the opportunity to claim a deduction “on behalf of” the 2017 tax year even if paid in the 2018 tax year. This treatment may apply to:
- Ordinary, ongoing contributions
- One-off additional contributions to help funding
- One-off contributions to shift nonqualified deferred compensation (SERP) amounts

**VEBAs (Voluntary Employees Beneficiary Association Plans)**
VEBAs are tax-preferred trusts that companies use to pay for certain welfare benefit plans. There may be capacity to pre-fund severance or retiree medical expenses that are expected to be incurred in tax year 2018, thus securing a deduction in tax year 2017.
Bonus payments

• On December 22, 2017, calendar year Company A’s compensation committee adopts a resolution that a specified bonus amount will be paid by March 15, 2018, even if particular recipients are not yet known.

• As a result, the fact of liability is established in 2017 and a deduction of the specified amount can be taken for 2017.

• If we assume that 2017 is a higher rate year in relation to 2018, there is more tax impact to the corporate tax deduction.
Global workforce and mobility strategy
Responding to changing policies and environments
Changing geo-political landscape
Polling question #3

To what extent do you leverage Foreign Nationals to fulfill critical skill sets?

• To a great extent
• To some extent
• To a small extent
• Other/Not applicable
Key talent considerations in the uncertain environment

Three primary external factors will shift how organizations compete for talent:

- **Immigration Uncertainty**
- **Changing Workforce Composition**
- **Shifting Employee Expectations**

Key talent considerations to address impacts spurred by world events:

<table>
<thead>
<tr>
<th>Talent Sourcing &amp; Planning</th>
<th>Global Mobility</th>
<th>Talent Development</th>
<th>Org Design &amp; Op Model</th>
<th>Diversity &amp; Inclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effective planning will consider new talent sources, incorporate contingent workers, and draw from internal pipelines</td>
<td>With immigration policy in flux and Millennials seeking new experiences, it’s critical to enable movement within the organization</td>
<td>Upskilling and programs to strengthen critical skills can help close talent gaps created by generational workforce shifts</td>
<td>Structure can enhance a global, blended workforce, support mobility, and enable real-time access to critical skills</td>
<td>Inclusivity is key to harnessing the value of the shifting workforce and creating a culture and brand to attract top talent</td>
</tr>
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Strengthening these capabilities will help mitigate risk and focus effort and investment:

- **Data and Systems**: Insight into existing talent is increasingly important
- **Communications**: Transparency will be key to successfully managing change
- **Policy**: Anticipating potential policy impacts will direct priorities
Polling question #4

In light of the uncertainties around tax reform and regulatory change, how is your company planning for these changes?

• We are actively modeling and analyzing different scenarios
• We know we should be performing some analysis and will start that soon
• We are going to wait and see what the outcome is before we start taking action
• None of the above
• Other / Not applicable
Next steps

Companies should prepare for tax reform and other regulatory changes by developing an approach to address tax and talent mobility planning objectives. This may include:

- Monitoring legislative processes and developments on an ongoing basis;
- Modeling the change to overall program spend to tax equalized assignments;
- Reviewing global mobility policies in light of potentially reduced tax rates and potential changes in US policy around offshore manufacturing and augmented border entry efforts;
- Preparing a current state analysis of readiness for managing workforce and talent in the current geo-political environment;
- Addressing key organizational priorities and challenges to design talent, workforce, and location strategies;
- Analyzing the potential cash tax savings realized through acceleration of corporate tax deductions related to employee benefit plans;
- Summarizing potential ACA changes and their impact on corporate tax health plans and related tax reporting requirements; and
- Prioritizing implementation plans based on magnitude of planning considerations.
Question and answer
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