Individual Tax Reform: Impact on global mobility programs

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Summary of Tax Reform Proposals for Individuals

Tax reform continues to be a high priority in Washington. Both the President and House leadership have recently indicated that tax reform would be their next area of focus. Although the proposed tax changes lack a great deal of detail and face tough challenges, it seems clear that if change is enacted, individual tax rates are likely to decrease. Currently, the maximum federal income tax rate is 39.6%. The proposed maximum marginal tax rate proposed by President Trump and the House GOP is 33%. Further, the seven current income tax brackets would be compressed into three brackets.

These changes could have a significant impact on the costs of managing global mobility programs. Without proper planning, companies may face a surprising increase in tax reimbursement costs even though US tax rates decrease. In an uncertain environment, it is important for US companies to understand how these potential changes could impact their global mobility programs and the costs of international assignments.

Impact on Assignment Costs

For companies that provide tax equalization coverage for their assignees, lower US tax rates could impact multiple parts of a tax equalization settlement, including lower hypothetical taxes, increased overall income, increased foreign tax liabilities, and potential increased US foreign tax credit carryovers. The overall impact may be driven by whether the assignee is in a country with a higher effective tax rate than the US or a lower one.

For US expats in high-tax host countries, the assignment tax costs may increase. With lower US tax rates, the US hypothetical taxes will be lower. In most countries where hypothetical tax is a reduction of foreign taxable income, if the foreign assignment country tax rate remains the same, the foreign tax liability, which is the Company's obligation, will increase.

In addition, the benefit of foreign tax credits will be limited. The foreign tax credit that may be claimed is limited to the US tax on the foreign-sourced income. If US taxes are reduced, the amount of excess foreign tax credits that are carried forward will increase. This means that assignees may need to remain on the global mobility program longer for the Company to recover the foreign taxes paid, which would also be an additional cost to the Company.

As a result of these changes, the overall tax reimbursement costs for a company with assignees in higher tax countries may, in certain circumstances, increase.

Conversely, for US expats in low-tax host countries, the assignment tax costs may decrease as US rates decrease. Where the US is the higher-tax country, the maximum tax rate paid by an individual will decrease with the lower tax rates under President Trump's and the House GOP's proposals. Similarly for foreign nationals who are tax equalized to their home country while on assignment in the US, companies may see an overall decrease in costs, as US taxes will decrease while stay-at-home taxes from the foreign jurisdiction will remain constant.

Next Steps

In advance of potential tax reform, companies should consider the various global mobility implications of their assignee population. Deloitte Tax LLP's Global Employer Services group can assist with directional guidance to demonstrate the change to overall program spend for tax equalized assignments to allow companies to begin to analyze the potential impact. Such analysis may include an entire assignee population or a set of assignees and will factor in the individuals' filing status, compensation, and country combinations to calculate high-level the increase/decrease to the Company's overall tax costs. Deloitte may further assist with preparing more specific cost estimates for certain individuals. Based on the results of the analyses, companies may wish to refresh their global mobility strategy to address the potential changes.