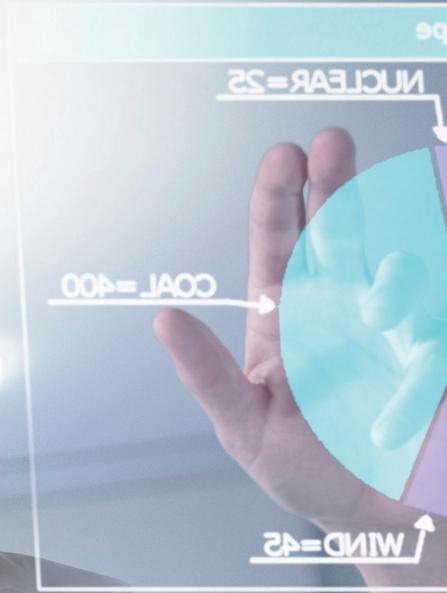


Deloitte.

Business traveler management
and tax compliance

Data analytics can lighten
the load



Use of data analytics is growing, but it can be hard to prioritize where to apply it. Could management of business traveler populations be a particularly ripe opportunity?

Deloitte Tax LLP "Deloitte Tax" hosted a "Dbriefs" webcast to discuss how workforce analytics may help manage business traveler populations and related tax obligations proactively. Presenters provided an overview of workforce analytics and where businesses can potentially leverage it. They also discussed common tax-related challenges of business travel and how analytics may help identify, track, and manage tax compliance requirements. More than 2,000 participants offered their own views through polling topics and posed questions to the presenters.

Workforce analytics: An overview

Whether we are talking about business travel, tax, or another discipline, the challenges and requirements for leveraging analytics are the same. Approaching the application of data analytics as a continuous improvement cycle may help in realizing its power, immediately and over time. Exhibit 1 illustrates the four key components of this cycle: issues, facts, understanding, and actions. All add value, but step four is critical: Even the leading data analytics produce nothing good, unless they drive decisions and actions that improve business performance. This is where analysis becomes power.

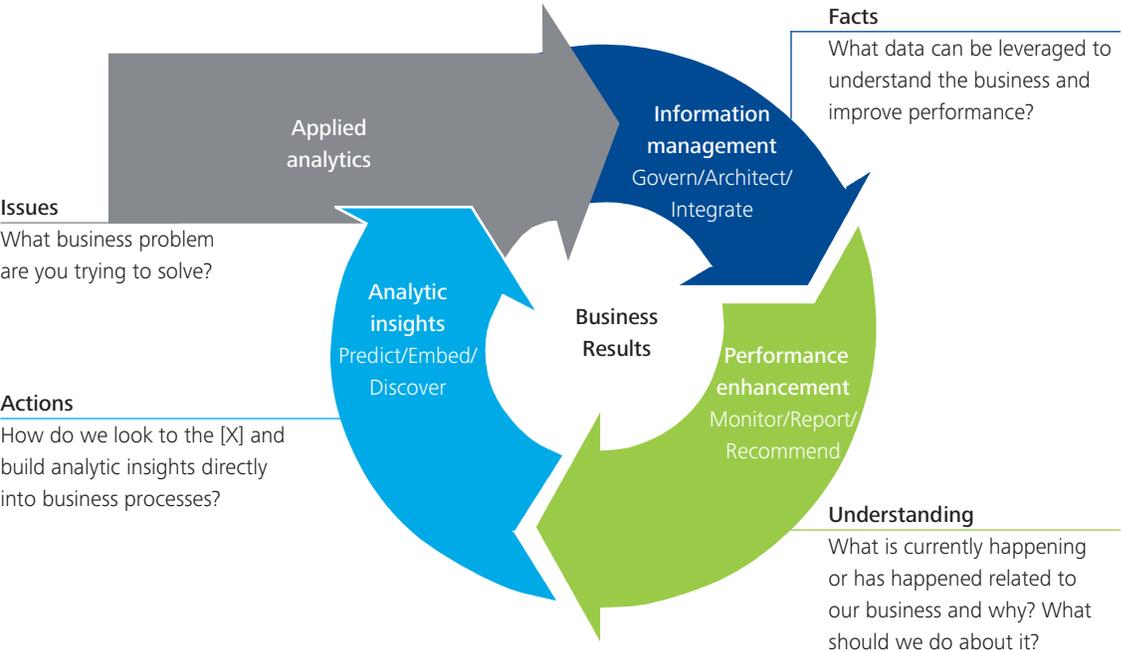


Exhibit 1: Data analytics as a continuous improvement cycle

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There are many possibilities for applying workforce analytics—for example:

- Workforce planning: What types of talent do you need across your businesses and geographies? And where are demographic shifts creating gaps in your supply-demand forecast?
- Recruiting: As you focus on near-term needs and future generations, what are your most effective strategies for attracting critical talent?
- Retention risk: Which categories of employees and which specific employees are flight risks? Why?
- Organizational design: What organization structures can help you manage growth in the “new normal”?
- Leadership development: Who will replace your current leaders and when? What is their probability of success?
- Workforce safety: How can you anticipate workplace accidents before they happen to improve compliance, increase productivity, and lower costs?
- Workforce transitions: How can you make more effective workplace deployment decisions related to mergers, acquisitions, realignments, market opportunities, and competitive threats?
- Workforce mobility: How will you manage the shifting trends in the workforce to support a global and dynamic employee base?
- Health and productivity: How can you more effectively correlate benefits and related investments in wellness with productivity?

In any of these cases, applying data analytics enables visualization—showing a business something it cannot already see. It also creates new insights, things the organization may not know today and is probably not exploring, but should be in order to drive value. Finally, data analytics may produce foresight that drives better business decisions—in effect, showcasing the “art of the possible” of data and what the organization can accomplish with it. In the process, use of data analytics enables greater control over and understanding of an organization’s data ecosystem and democratizes access to that data.

Business travelers and evolving risk

One area that is particularly ripe for use of data analytics is in managing business travelers and the related tax compliance requirements.

“Business travelers” are individuals who travel to visit suppliers or customers, work on projects, or attend meetings for periods of varying length, but, unlike expatriates or assignees tracked by Human Resources, they frequently are not on the “radar screen.” Typically, business travelers:

- Receive compensation from the home employer, which may include per diems and/or expense reimbursement for items, such as travel, accommodation, meals, incidentals
- Do not cease residency in their home country or state jurisdiction and, in most cases, family members do not travel with them
- Are not covered under a short-term relocation or assignment policy and there may or may not be a cross charge to the locality

Why the concern? In most cases, the physical location where services are performed is the jurisdiction that has first right to tax income earned while providing those services. Accordingly, employers are required, in most jurisdictions, to allocate the income related to that travel and to report and withhold accordingly. If the travel involves locations where the company has not previously performed services before, there could be potential corporate tax issues related to permanent establishment for international travel or nexus for US domestic travel. Employees, in turn, may face income tax obligations and potentially immigration concerns if they do not have proper work authorization.

Noncompliance with statutory reporting, visa, and relevant tax requirements raises a variety of risks, including potential fines and penalties, business interruptions, and reputational risk. These risks apply to both US domestic and international business travel. Exhibit 2 highlights just a few of the things that may happen, and have happened, to companies that have not exercised sufficient care and focus around business traveler management and tax compliance.



Exhibit 2: Potential implications of inaction

Many US states and international jurisdictions are looking to close budget gaps and one way they are doing so is by identifying the source of revenue and trying to collect from the nonresidents traveling there for business. In the United States, there are different rules in every state and most states do not have a threshold, meaning that even one day of travel triggers responsibility for reporting, withholding, and paying taxes in that location. There are some exceptions, e.g., Illinois does not tax nonresident business travelers. In Connecticut and New York, there is a 14-day de minimis with respect to employer reporting requirements; however, that does not eliminate the employee obligation to pay taxes in that location even if the employer has not reported it.

Internationally, the existence of a treaty and whether or not it applies are factors, but there are other rules that may apply to reporting and withholding. Sometimes, the treaty might apply and there will still be a reporting and withholding obligation even though there ultimately

may not be any tax owed. For example, in Canada if one does not have a business visitor exemption in place, the employer must withhold taxes and the employee must file a tax return to get back the amounts withheld. Canada is also aggressive in finding ways to detect noncompliant employers, such as using intercompany corporate tax withholding refunds to gather information about business travelers and to assess penalties for failure to withhold and report.

The United Kingdom also has strict rules for wage reporting and withholding requirements. There is a business traveler exemption, but companies must comply with all of the rules, including registering and providing a list of all travelers in advance, to avoid the withholding and reporting obligation. China is seeking advance approval and documentation to allow treaty claims for business travelers. Brazil, on the other hand, looks to the type of visa and assesses tax for business travelers under certain visas.

All of this underscores the importance of understanding the environment and requirements in jurisdictions where employees travel, as well as the wide range of considerations for both employers and employees (Exhibit 3).

Employer considerations	Employee considerations
<p>Payroll and state income tax</p> <ul style="list-style-type: none"> • Additional state payroll withholding account registrations • Withholding compliance obligations (deposits, reconciliations, and reporting) • Incremental employee income tax (gross-up) costs • Corporate tax—nexus risks • Compliance with additional state reciprocal agreements 	<p>Income tax</p> <ul style="list-style-type: none"> • Incremental income tax costs • Equalization and tax reconciliations
<p>Reputation</p> <ul style="list-style-type: none"> • What would be the impact on the Company's reputation if noncompliance was made public? • How would the Company's relationship with the tax authority be affected? 	<p>Tax filings</p> <ul style="list-style-type: none"> • Additional individual income tax return filing requirements
<p>Commercial</p> <ul style="list-style-type: none"> • Where the costs of business travel accurately estimated for budgeting purposes? • Does the company enter into agreements that require attestation of state tax filing compliance? 	<p>After-tax pay</p> <ul style="list-style-type: none"> • Equalization • Responsible for own taxes
<p>Labor law</p> <ul style="list-style-type: none"> • Does the presence of business travelers in another state expose the company to different wage and hour laws? 	<p>Employee experience</p> <ul style="list-style-type: none"> • Positive or negative experiences of new processes and reporting requirements • Willingness to travel

Exhibit 3: Considerations for employers and employees

With the costs of noncompliance significant and increasing, doing nothing is no longer an option. Companies are becoming more sophisticated in their use of data analytics, but so, too, are tax authorities, which are using similar types of tools and techniques to aid discovery. For example, some countries transfer information from passport scans directly to tax authorities. This is a global issue for companies and it requires action beyond just tracking travelers.

Taking action

We see a spectrum of approaches in the market. At one end, passive companies more or less ignore the issue. Some may be concerned or interested to the point of exploring withholding obligations or quantifying exposure. Companies in the middle actively address the issue by identifying employee populations for which action may be reasonable. They may have quantified exposure and/or developed some sort of plan and are in the process of implementing limited steps, including basic processes for employee tracking and withholding. At the opposite end of the spectrum are proactive companies that are trying understand travel needs and manage travel to prevent taxation. Through established processes, they are able to see when someone is about to trigger a filing requirement and make informed decisions about the travel beforehand.

Exhibit 4 illustrates a practical approach for taking action to address business traveler management and tax compliance.

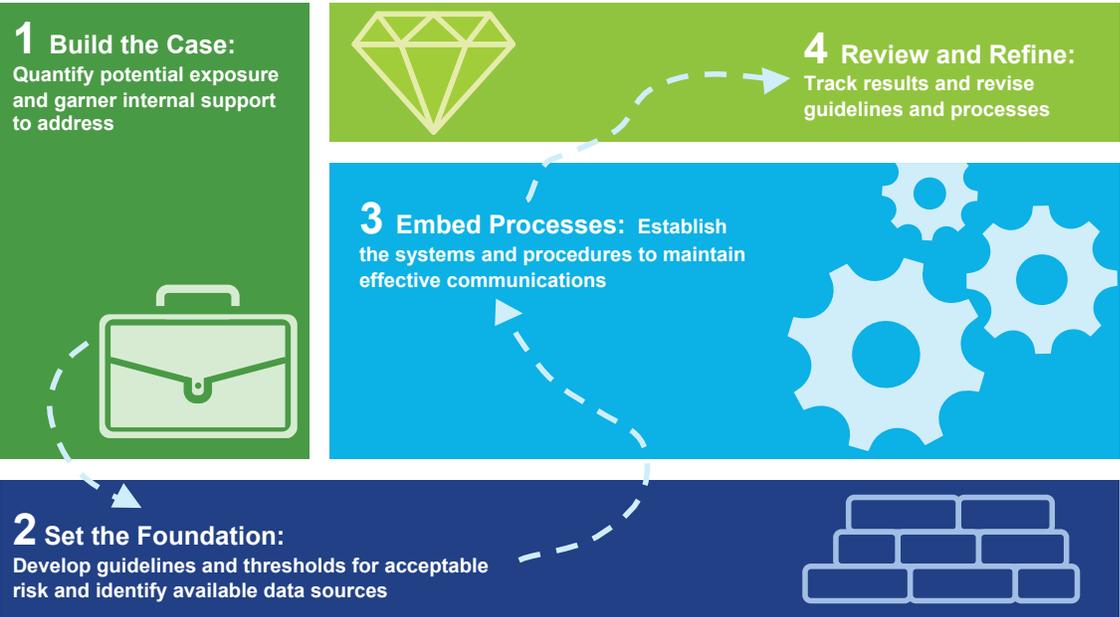


Exhibit 4: Taking action

Build the case. If your organization has done nothing to address business travel previously, your first step should be to build a business case. Identify business travelers and determine the countries and states into which they are traveling. From this information, you can study population samples to quantify exposure, prioritize actions, and develop support for change.

Establish the foundation. It is almost impossible to go from zero to 100-percent compliance on day one, so start by developing guidelines and thresholds for acceptable risk that address the highest-risk populations—a foundation that you can then evolve to improve compliance and involve larger parts of the business traveler population over time. This will help you identify relevant data sources, evaluate data quality, define the processes for obtaining the data, and then document requirements and rules.

Embed processes. Once you have set some guidelines and determined policies, then you can establish a regular cycle for obtaining the data and implement the technology and processes for pulling and analyzing data, as well as for processing the compliance, reporting, and withholding requirements. Do not overlook the importance of a communication plan to inform affected employees so that they understand what they need to do.

Track and refine actively. Once all of that is in place, make sure to track results and revise guidelines and processes continuously so that you reach a point of acceptable compliance. Given the evolving environment, you will need a way to constantly monitor new jurisdictional requirements, assess evolving risks, and adjust your original guidelines accordingly. It is also important to review compliance and employee satisfaction regularly to be sure that the systems are providing you with the information you need, but in a way that is not burdensome or culturally inappropriate.

Managing data complexity

Achieving business traveler compliance goals requires a data foundation with three key elements:

- Broad-based and accurate travel and employee location data
- Amounts and types of compensation involved
- Vesting and earning periods

One of the key challenges is understanding where employees have traveled.

Exhibit 5 depicts many potential data sources to aid companies in identifying where employees have traveled and for how long. How many of these data sources do you really need to understand traveler location and draw sound conclusions? Typically, these efforts center on a few data sources: historical or booked travel, expense reports, employee demographics, or time-keeping information. Required data sets may vary by company, and they could differ within an organization by regions, businesses, and/or systems.



Exhibit 5: Understanding the business travel data ecosystem

Although, you may have many potential sources of data, initial focus should center on satisfying the three elements of the data foundation noted above. Creating a primary data set, therefore, should involve some “exploratory analysis” to understand the richness and quality of available data.

Across the different data sources, there will be variances in quality, completeness, and timeliness. Typically, historical travel data is a high-quality and complete source and usually available quickly for analysis. But that can vary; for example, if people book travel directly and not through the corporate travel service. Mobile applications may also provide high-quality data, but involve other concerns, such as privacy or consistent deployment throughout the company.

In addition, some of the required data may be structured; things you can query from fields with defined data, such as date, country, city, or zip code. Other information may come from unstructured data sources—for example, free form fields that hold value information, such as project name on an expense claim or reason for travel. The quality and completeness of unstructured data can be variable, so it is important to confirm that the complete set of data sources is balanced in terms of these two factors, as well as timeliness, availability, consistency, privacy considerations, and other critical attributes.

No single data source has all the attributes of a perfect data set, but combining multiple sources may provide a more broad-based approach producing the information you require (Exhibit 6).

	General quality of the data	Completeness of the data	Timeliness of data availability
Booked travel	Fair	Good	Excellent
Historical travel	Good	Good	Excellent
Time administration	Excellent	Good	Moderate
Expense management	Excellent	Excellent	Poor
Security badge [X]	Excellent	Moderate	Excellent
Corporate jets	Moderate	Good	Excellent
Corporate network login	Very good	Moderate	Excellent
Mobile application	Excellent	Moderate	Excellent
Corporate security	Fair	Good	Excellent

The quality, completeness, and timeliness related to the data will vary by organization and analysis is required to identify optimal fit

Exhibit 6: Analysis of different data sources

Once you understand the available data, you can establish methods for employees to validate accuracy by granting them access, control, and editing capabilities—but balance this with administrative requirements and cultural fit to confirm that employees do not perceive it as a burden.

An evolutionary approach

While the ultimate goal is to manage costs proactively, the initial priority should be to keep your company out of trouble. The more practical way to achieve this is through an evolutionary approach, outlined in Exhibit 7. The key, if you have not done so, is to get started. Figure out the size of the issue and prioritize your compliance objectives. Then, implement something you can manage—a simple, but scalable compliance process that leverages existing data sources, begins to shape your approach, and provides a foundation for future business value creation.

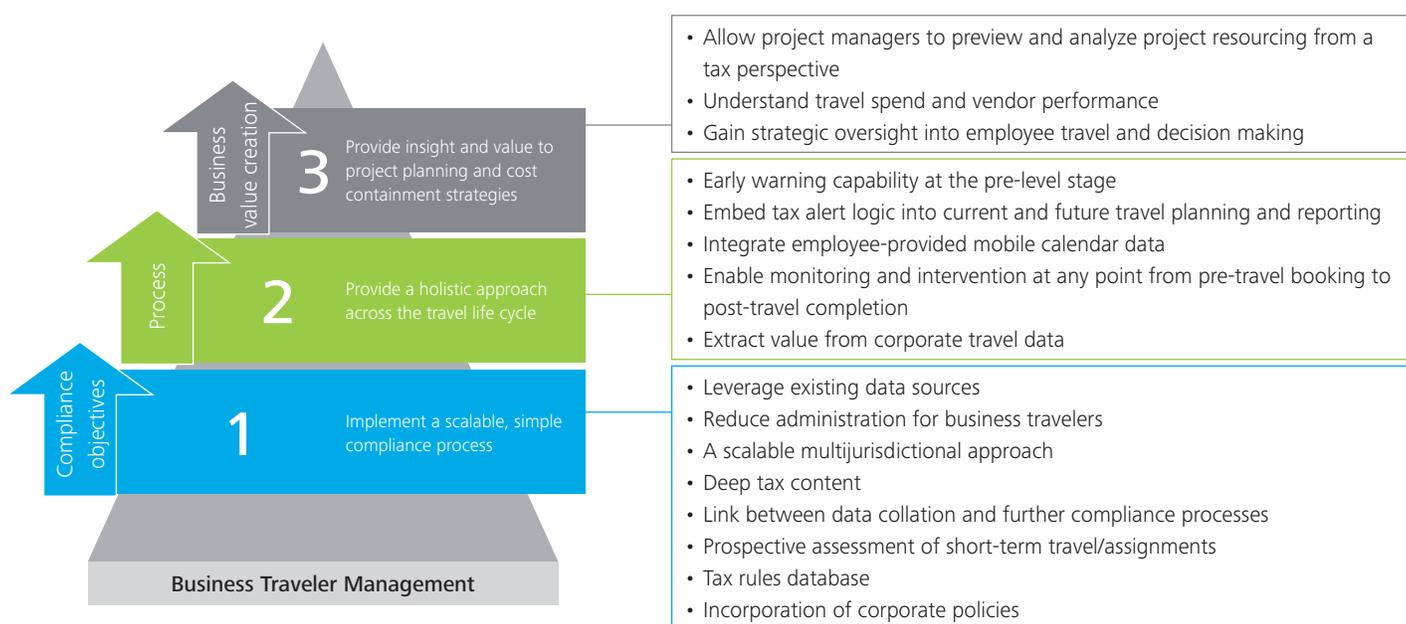


Exhibit 7: Taking an evolutionary approach

Tax executives' perspectives

In the "Dbriefs" webcast on May 12, 2014, Deloitte Tax professionals discussed how workforce analytics may help manage business traveler populations and related tax obligations proactively. More than 2,000 participants offered their own views through polling topics and posed questions to the presenters.

Tax jurisdictions in the United States and internationally increasingly are enforcing reporting and withholding requirements related to business travelers, but webcast participants, on the whole, are yet to experience the effects of increased enforcement. Forty-seven percent reported that their organizations have not been audited,

while only 13 percent said they have been audited or have incurred a penalty in the United States and/or internationally.

Most companies still perceive barriers to applying data analytics effectively. More than two-thirds (37 percent) of webcast participants said their most significant barrier is lack of resources, including people, capabilities, and infrastructure. Others reported that they struggle most with clear definitions—either for the application of analytics (12 percent) or the business issues to be addressed (10 percent). Only 8 percent said their organization is barrier-free and well on its way to applying data analytics.

Proactive organizations can position themselves well to mitigate the various risks and impacts of business travel, yet webcast participants said their organizations tend to be more reactive (27 percent). Some (15 percent) reported that they address business travel effectively for specific employee categories and another 11 percent said they address it effectively for specific countries or states. About 12 percent said their companies have not begun to address business travel at this point.

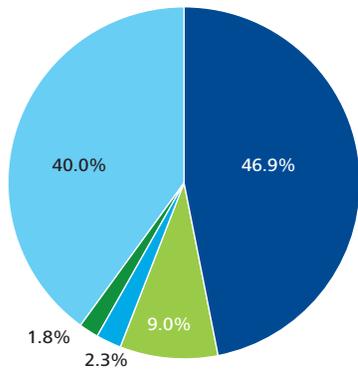
Despite the potential exposure, only 7 percent of webcast participants said their companies are actively addressing business traveler management today. Another 11 percent said it is an issue that needs to be addressed, but that their companies are focusing on how to address it. Just under a quarter (24 percent) said they believe it needs to be addressed, but is not currently a primary focus, while a similar number (23 percent) indicated it is not an identified issue at this point.

Participants were nearly evenly split with respect to the factors most limiting their ability to address business traveler challenges. Nearly equal percentages cited establishing controls and systems to address this issue consistently (15 percent) and developing and executing the policies to address thresholds and acceptable risk (14 percent). Thirteen percent chose establishing organizational buy-in of the business issue and an equal number picked obtaining or understanding the data and underlying data complexity. Twelve percent cited effectively monitoring and managing the information and embedding it in core processes.

Data is critical to developing a proactive approach to business traveler management and tax compliance. Few (5 percent) webcast participants, however, reported that their organizations have access to the data necessary to produce insights and drive good decisions. Another 12 percent said they are starting to leverage data. But nearly half struggle with data: One quarter have access to data, but have difficulty accessing or effectively managing it to get results, while 20 percent reported that they do not have the data they need.

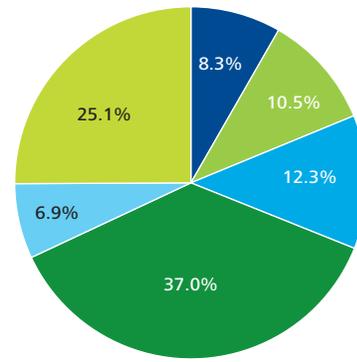


Have you or your company been audited or had a penalty related to business travel?



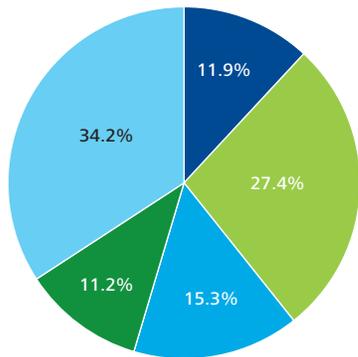
- No, we have not been audited
- Yes, we've been audited or had a penalty in the United States
- Yes, we've been audited or had a penalty internationally
- Yes, we've been audited or had a penalty both in the United States and internationally
- Don't know/not applicable

What do you see as the single most significant barrier to applying data analytics in your organization?



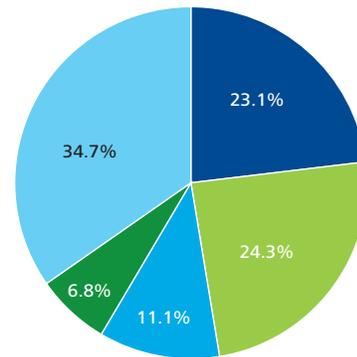
- No issues, we are well on our way
- Business issues not well defined
- Application of analytics not well enough defined
- Lack the necessary resources—people, capabilities, infrastructure—in the organization
- Other
- Don't know/not applicable

Do you feel you are addressing business travel in an effective way?



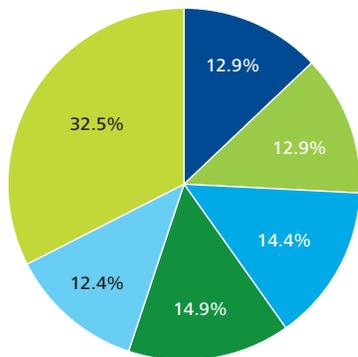
- We haven't started to address it to date
- We react to specific events as needed, but not a proactive focus
- We address this effectively for specific employee categories
- We address this effectively for specific countries or states
- Don't know/not applicable

Do people in your organization feel this is an issue that needs to be addressed?



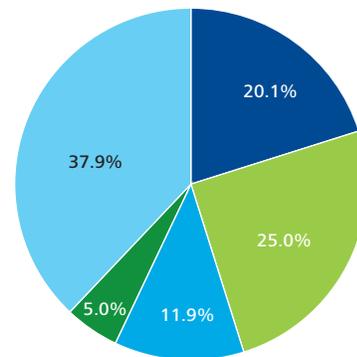
- No, this is not an identified issue to date
- Yes, but is not a primary focus to address
- Yes, we are focusing on how to address this for our organization
- Yes, we are actively addressing this today
- Don't know/not applicable

What are the most limiting factors to addressing the challenges with business travelers?



- Establishing the organizational buy-in of the business issue
- Obtaining or understanding the data and the underlying data complexity
- Developing and executing the policies to address thresholds and acceptable risk
- Establishing the controls and systems to address it consistently
- Effectively monitoring and managing the information and embedding in core processes
- Don't know/not applicable

Do you have access to the data to make good decisions/necessary insights?



- No, we don't have the data we need
- Yes, we have the data, but have difficulty accessing or effectively managing to get results
- Yes, we have the data and have started leveraging for results
- Yes, we proactively leverage the data to satisfy the need
- Don't know/not applicable

