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Tax Reform: Human Resources and Global Mobility

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Setting the tax reform stage

Tax reform is a top priority for President Trump and Republican leaders in Congress. Both groups have expressed a strong desire for significant changes to the current tax code and Republican control of both the Executive and Legislative branches of government may make reform a real possibility. In addition, there is a greater sense of urgency among congressional taxwriters given recent developments in the global tax landscape.

Both the Trump administration and House Republicans have put forth proposals for tax reform; although these proposals have important differences and lack a number of technical details, there appears to be quite a bit of agreement around key policy objectives. Specifically, both proposals include reducing corporate and individual tax rates, encouraging the on-shoring of jobs to the US, and repealing and replacing the Affordable Care Act (ACA).

The potential impact of tax reform on US companies is a high priority issue and the impact of tax reform to Human Resources and global mobility programs should not be overlooked.

Top considerations and planning for Human Resources and Global Mobility

Refreshing global mobility strategy

Changes to individual income tax rates could have a direct impact on the cost of global mobility programs for companies that apply a tax equalization policy. Lower US tax rates with no change in foreign tax rates will result in a rebalancing between hypothetical and actual taxes, thereby impacting overall tax reimbursement costs. Whether this change is an overall increase or decrease to a company's costs will depend on the mix of assignments into high-tax or low-tax countries. A holistic review of policies can help to ensure that the structure and costs of global mobility are in-line with the company's business needs.

Analyze impact of reduced tax rates on rewards programs

As corporate tax rates are reduced, deductions become less valuable and companies may realize additional benefit by accelerating deductions to a higher tax year. Employee benefit and rewards plans may present several opportunities to accelerate business deductions; for example, accelerating the accrual of bonus payments, pre-funding of qualified retirement plans and Voluntary Employees Beneficiary Association Plans (VEBAs), and reviewing equity plan arrangements coupled together with new accounting guidance (ASU 2016-09) present opportunities to take deductions in a higher-tax year. Companies should analyze the potential impact of reduced tax rates on their rewards programs and review opportunities to enhance corporate tax deductions.

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

In anticipation of potentially lower individual income tax rates, employees may be motivated to defer income to future tax years through delayed exercise of stock options or greater participation in deferred compensation programs. While the lower tax rates may present a tax planning opportunity for individuals, the increased deferral of income may also delay the corporate tax deductions related to that income, which could impact a company's ability to accelerate compensation deductions into a higher-tax year.

Monitoring changes to the Affordable Care Act

Repeal and replacement of the ACA is widely expected; however, the exact mechanics of any 'repeal and replace' have yet to be determined and it is anticipated that many aspects of the law will remain in place. Additionally, ACA is still the law of the land and employers should continue to assess whether internal processes are adequate to determine the potential risk liability for each month of 2017 reporting.

Next steps

Tax reform is a rapidly-evolving area. Deloitte Tax LLP's Global Employer Services group will continue to publish updates as the legislative process progresses and new developments emerge. In the meantime, companies can begin to conduct impact analyses to assess the potential cost of these changes to their global mobility and rewards programs and analyze potential cash tax savings that could be realized through acceleration of corporate tax deductions related to employee benefit plans.