Global Mobility Services

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Globalisation has been on the rise in the past few decades, leading to the convergence and availability of resources from across the world, which in turn has resulted in high pressure for companies to compete effectively for the right people. Further, recruiting and managing international employees have become quintessential elements, including taking care of compensation as well as seeing to their tax and social security risks. Luxembourg, as an international financial hub, has remained at the centre of globalisation and its resulting trends.

- **How do you ensure that all requirements for personal income tax, payroll tax and social security of your international employees are met?**
- **Are you optimising the tax and social security positions of international secondments?**
- **Are you in full control of your international workforce?**

Dealing with international assignments, cross-border commuters or business travelers places greater responsibility on your international human resources team. Managing compensation, tax compliance and global mobility is becoming more costly, complex and time-consuming. KPMG Luxembourg's Global Mobility Services (GMS) practice can help address these challenges.

The GMS workforce of more than 4,000 employees spread over 140 countries supports more than 2,500 organisations. We bring a wealth of tax, technology and mobile administration services to help manage your global workforce in an easier, safer and a more efficient manner.

How can we help you?

Our GMS team in Luxembourg has several years of experience in all aspects of global mobility. We help clients operating in different sectors manage their international workforce effectively. Our services range from tax and social security compliance to complex tax advisory on topics such as the impatriate tax regime, cross-border pensions, equity-based compensation, tax due diligence and cross-border tax planning for executives.

To manage the international workforce, significant investment has been made in the development of our **KPMG LINK Work Force** technology. This technology helps cut through boundaries among you, your employees and your vendors, offering a single solution to make managing your global workforce easy, effective and transparent. Irrespective of the size and nature of your organisation, we can help you navigate through an increasingly mobile and global business environment.

Case study

A GMS client was looking to attract a new executive from outside Luxembourg. The client wanted to offer a competitive remuneration package to the prospective employee in the most tax advantageous manner. By applying the impatriate tax regime and optimising the remuneration package, the client was able to save approximately EUR 75,000 in taxes per year.

Our services

We can collaborate with you to determine the activities that you and your team can conduct yourselves and those that can be outsourced to us. Our services span the full spectrum of employee taxes, for both local Luxembourg employees and cross-border employees of all classifications. These services include, but are not limited to, the following:

Domestic

- Due diligence advisory
- Review and implementation of warrant schemes
- Review and implementation of cafeteria benefit plans
- Support with payroll audits
- Global employment contracts
- Pension tax advisory
- Interest subsidy schemes

International

- Mobility consulting services
- Global equity tax advisory
- International social security advisory
- Expat payroll
- Salary split advisory
- Tax return compliance
- Assignment tax briefings
- Impatriate tax regime advisory

Case study

During a payroll audit / due diligence of a company, which was an acquisition target for one of our clients, we found that several employees were incorrectly excluded from the ambit of Luxembourg's social security. A provision was made and, as a result, a signifiant reduction in the acquisition price was made possible.

Our technology

Our KPMG LINK Work Force suite of global mobility tools, combined with KPMG's services, can help streamline and simplify the management of your global mobility programme. Our web-based, integrated and user-friendly tools can be tailored to be in sync with your assignment programme and can be used in multiple languages. With our technology, you can exchange information with KPMG firms securely and conveniently, access data collected for both home and host country tax returns, and view the status of a tax return and tax equalisation settlement calculation. Additional tools are available upon gaining a license. All tools can be accessed from the same portal, securely and conveniently.

KPMG LINK Work Force

- Dashboard and status report center
- Taxpayer documents
- Online collaboration
- Travel tracker
- Benchmarking center

Licensed technology

- KPMG LINK Cost Projector
- KPMG LINK Enterprise Assignment Manager
- KPMG LINK Global Equity Tracker
- KPMG LINK Business Traveler

We are happy to demonstrate the tools to you and discuss how our technology can help you manage your global mobility programme.

How will you benefit?

KPMG can help you save time and costs, as well as minimise non-compliance risks related to your global mobility programme by relieving you and your employees of a substantial portion of the administrative burden.

Case study

With the implementation of a cafeteria benefit plan, an employer was able to offer tax optimised benefits to their employees at no additional tax cost to the employer. Employees were able to select the benefits that were most relevant to their situation, which increased employee satisfaction rating.

Why choose KPMG Global Mobility Services Luxembourg?

Our fully dedicated GMS specialists have broad experience in rendering professional tax services to cross-border employees and their employers. Our team represents seven nationalities, speaks eight languages and has work experience in six countries. Through our global network, we offer integrated solutions to your needs in over 140 countries. We leverage our technology to offer effective, efficient and competitive services to manage your global workforce.

Drawing on the experience of our people and multi-disciplinary approach, we can help you think beyond the present, see beyond borders and achieve long-lasting success.

Contact

Xavier Martinez
Associate Partner
Tel: +352 22 51 51 5345
xavier.martinez@kpmg.lu

Marisa Hosnar
Senior Manager
Tel: +352 22 51 51 5425
marisa.hosnar@kpmg.lu

André Kayser
Manager, Tax
Tel: +352 22 51 51 5562
andre.kayser@kpmg.lu

Maikel Wijsbek
Senior Manager
Tel: +352 22 51 51 5636
maikel.wijsbek@kpmg.lu

KPMG Luxembourg, Société coopérative
39, Avenue John F. Kennedy - L-1855 Luxembourg
Tel: +352 22 51 51 1

www.kpmg.lu

Carried interest

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Carried interest is the share of profits that employees and managers of investment funds receive for their performance on managing funds. This is irrespective of their contribution to the fund. Generally, such income is considered miscellaneous and is taxable at the individual's marginal tax rate (up to 47.18% for 2017).

However, for employees of alternative investment funds, subject to certain conditions and for a limited period of time, such income could qualify as 'extraordinary income' and be taxable at 25% of the individual's global tax rate.

What are the criteria for receiving carried interest?

The beneficiaries of carried interest are employees who:

- became tax residents in Luxembourg in 2013 or in the five subsequent years (year 2018 included),
- have not been Luxembourg tax residents, nor taxed on professional income in Luxembourg anytime in the five years preceding 2013 in Luxembourg,
- did not receive any prepayment for their carried interest.

What are the benefits?

Payment of carried interest, excluding the carried interest received upon the sale of shares or units representing it, may be taxed as extraordinary income at 25% of the global tax rate, i.e., 12.845% for 2017 (11.445% + 1.4% dependence insurance).

The provisions apply only to income realised within 10 years of the individual beginning his/her function in Luxembourg.

Carried interest realised upon sale of units, shares or securities covered by the new law is treated as a capital gain, and taxed accordingly at the level of the Luxembourg resident individual. In other words, it is tax free, except in cases where the individual holds, or has held, a substantial share, i.e. a shareholding of more than 10% at any time during the 5-year period preceding the sale or redemption.

How can KPMG Global Mobility Services help?

KPMG has extensive experience in the fund industry, with multi-disciplinary teams serving varied client needs. Our Global Mobility Services team can help you review, design and implement remuneration policies and processes in a tax efficient manner while being fully compliant with the relevant tax laws. We strive to work with you in partnership to achieve the best possible outcome customised to your needs. Please contact one of our specialists to discuss how we can help.

Contact

Xavier Martinez
Associate Partner

Tel: +352 22 51 51 5345
xavier.martinez@kpmg.lu

Marisa Hosnar
Senior Manager

Tel: +352 22 51 51 5425
marisa.hosnar@kpmg.lu

André Kayser
Manager, Tax

Tel: +352 22 51 51 5562
andre.kayser@kpmg.lu

KPMG Luxembourg, Société coopérative
39, Avenue John F. Kennedy - L-1855 Luxembourg
Tel: +352 22 51 51 1

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Impatriate tax regime Luxembourg

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To attract highly skilled specialists from across the globe, Luxembourg offers a favourable tax regime for impatriates. The impatriates who meet specific criteria can benefit from a significant tax break. In case of net salary agreements (e.g. tax equalisation), the tax savings benefit the employer.

What are the benefits?

Based on Tax Circular n°95/2 LIR dated 27 January 2014, eligible impatriates can be provided with certain tax-free benefits and allowances.

The duration of the tax incentives can be for a period of maximum six years (the year of arrival and the five subsequent years). Some benefits are capped, but the average tax savings can amount to EUR 50,000 per year and more in the years of arrival and departure. In cases of net agreements, such as tax equalisation, the savings for the employer can be substantial as a result of a gross-up.

Qualifying expenses

Expenses that may qualify for an exemption under the impatriate tax regime can be classified into recurring and non-recurring expenses. Qualifying non-recurring expenses, for example, may include expenses arising from relocating to Luxembourg from one's homeland.

Recurring expenses that qualify for an exemption may include rent (and utilities) of the accommodation in Luxembourg and annual home leave. These so-called expatriation expenses can be reimbursed tax free up to less than 30% of the total annual fixed remuneration of the impatriate, or EUR 50,000 (EUR 80,000 for joint filers) per year.

Optimisation opportunities

Often, tax savings can be optimised even further by restructuring the benefits package. For example, a taxable spousal assistance can be exchanged for a (higher) tax-free cost of living allowance, or a taxable relocation allowance can be broken down into specific tax-free allowances for flights, shipping and travel.

Case study

For one of our clients, we restructured an assignment package that originally included a relocation allowance of EUR 30,000, a spousal assistance allowance of EUR 12,000 and an expatriation allowance of EUR 36,000. This resulted in an annual tax saving of approximately EUR 75,000.

Once the assignment begins, no further changes can be made to the assignment package for leveraging the impatriate tax regime. Therefore, we highly recommend reviewing the benefits package prior to the beginning of the assignment in Luxembourg, and we can support you in the process.

How KPMG Global Mobility Services can help

We can help with the initial assessment to establish whether the conditions of the regime are met for the individual employee. We can also make recommendations on how to meet the conditions and optimise the benefits package to maximise tax savings.

Further, we can assist with the correct reporting of the payroll to ensure compliance with the payroll taxes. Finally, we can prepare the annual reporting to the tax authorities, including the check and the confirmation for continuing fulfilment of conditions.

Contact

Xavier Martinez
Associate Partner
Tel: +352 22 51 51 5345
xavier.martinez@kpmg.lu

Marisa Hosnar
Senior Manager
Tel: +352 22 51 51 5425
marisa.hosnar@kpmg.lu

André Kayser
Manager, Tax
Tel: +352 22 51 51 5562
andre.kayser@kpmg.lu

KPMG Luxembourg, Société coopérative
39, Avenue John F. Kennedy - L-1855 Luxembourg
Tel: +352 22 51 51 1

www.kpmg.lu

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Interest subsidy scheme

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Under Luxembourg income tax law, interest paid by an individual towards loans on principal private residence and/or certain other personal loans can be subsidised by the employer, free of individual income tax and social security (subject to limits).

What are the benefits?

Usually, employees with one or more loans make the interest payments from their after-tax income. However, such interest may also be reimbursed tax free by the employer. Under the interest subsidy scheme, an employee can exchange (a part of) his/her annual discretionary bonus for a tax-free reimbursement of qualifying interest payments. This can result in direct savings on income tax and, potentially, savings on social security contributions for both employee and employer.

What are the conditions?

The employer can only reimburse its employees for the interest payments made on loans issued in their or their spouses' names. The following types of loans can qualify for the scheme:

1. Mortgage on principal residence (this can include the purchase of a first building plot and construction/renovation costs)
2. Other personal loans

The interest subsidy can only be utilised once; the spouse may not benefit from this tax-free reimbursement from another employer. The savings will depend on the specific circumstances of the employee (e.g. tax class, income level), but the maximum annual exemptions allowed are EUR 6,000 for mortgages and EUR 1,000 for other types of personal loans.

The savings for the employer will be greater where more employees participate and yet do not reach the maximum social security income. Participation in the interest subsidy scheme does not disqualify the employee from claiming an interest deduction in their personal income return. However, interest that has been reimbursed cannot be claimed as a deduction anymore.

How does it work?

The employer should set up specific rules to govern the operations of the scheme, as well as any limitations on the amount of reimbursement to be compliant with the income tax law. Employees, and potentially their spouses, are typically asked to sign documentation and provide the employer with the details of the interest paid. Such documentation should be well maintained as an evidence for the tax authorities. A key part to the scheme is also to maintain clear communication with the employees.

Case study

One married employee exchanged EUR 7,000 of his performance bonus for a tax-free reimbursement of his mortgage (EUR 6,000) and other (EUR 1,000) interest. He thus reduced his taxable income and base for social security by EUR 7,000. This resulted in a personal tax and social security saving of EUR 2,744.50. Furthermore, the employer also saved EUR 883.70 due to the lower base for social security.

How can KPMG Global Mobility Services help?

KPMG has extensive experience helping employers implement and manage interest subsidy schemes. We can draft/review relevant scheme documentation, draft employee communications, as well as advise on the payroll implementation of the scheme. Our approach has always been to work with you in partnership, understand your needs and tailor our services to provide the best possible outcome for you and your employees.

Contact

Xavier Martinez
Associate Partner
Tel: +352 22 51 51 5345
xavier.martinez@kpmg.lu

Marisa Hosnar
Senior Manager
Tel: +352 22 51 51 5425
marisa.hosnar@kpmg.lu

KPMG Luxembourg, Société coopérative
39, Avenue John F. Kennedy - L-1855 Luxembourg
Tel: +352 22 51 51 1

www.kpmg.lu

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Luxembourg state pension

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Navigating through the complexity of the state pension system

Retirement planning is becoming an increasingly important question for employees of all age groups.

With an increasing mixture of foreign nationals, cross-border commuters, and international assignees working in Luxembourg, it is of great importance for organisations to keep their employees informed on how the pension system works, and in particular the Luxembourg state pension (also known as the ‘1st pillar’ pension).

Commonly asked questions may include:

- Who can contribute to the Luxembourg state pension system?
- What is the minimum qualifying period for obtaining a Luxembourg state pension?
- Under what conditions am I entitled to the Luxembourg state pension?
- How much state pension am I potentially entitled to receive upon retirement?
- Is there a minimum pension amount?
- How do my contributions to non-Luxembourg systems affect my Luxembourg state pension entitlement?
- Where is my Luxembourg state pension taxed if I am living abroad after retirement?
- What could be the potential impact of Brexit on my state pension?

KPMG has the expertise to help your employees navigate through the Luxembourg state pension system, provide practical guidance as to how the system works in different situations, and keep them informed on the latest updates. Leveraging on our well connected KPMG network, we can act 'glocally': we can address your employees' international issues locally based on our global network capability.

There are different ways that we can help your organisation, and we believe that it is important to work with you in partnership to ensure that the solution is best suited for you and your employees.

Below are a few examples of our services:

- We can prepare a memo or Frequently Asked Questions document to be shared with employees.
- We can provide presentations or workshops to answer and discuss employees' questions.
- We can set up a telephone and/or email helpline to assist employees with their queries.

Contact

Xavier Martinez
Associate Partner
Tel: +352 22 51 51 5345
xavier.martinez@kpmg.lu

Marisa Hosnar
Senior Manager
Tel: +352 22 51 51 5425
marisa.hosnar@kpmg.lu

André Kayser
Manager, Tax
Tel: +352 22 51 51 5562
andre.kayser@kpmg.lu

KPMG Luxembourg, Société coopérative
39, Avenue John F. Kennedy - L-1855 Luxembourg
Tel: +352 22 51 51 1

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Payroll health check

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New challenge in a changing environment

With the increasing scrutiny on employers by tax authorities under rising international pressure for more tax transparency, it is important for organisations to review their payroll operations to ensure full compliance with the relevant requirements, especially those that recently came into force.

- Employment contract ▶ Split/assignment contracts, multiple employers
- Social security affiliation ▶ Dependent workers, exemptions (CoC/A1/S1)
- Remuneration package ▶ Interest subsidy, pension & incentives scheme
- (Non-)/Executive directors,employees & assignees ▶ Residents, non-residents, dual residents

- Automatic exchange of information
- Cross-border workers tracking / taxation
- Deferred compensation scheme notification and reporting

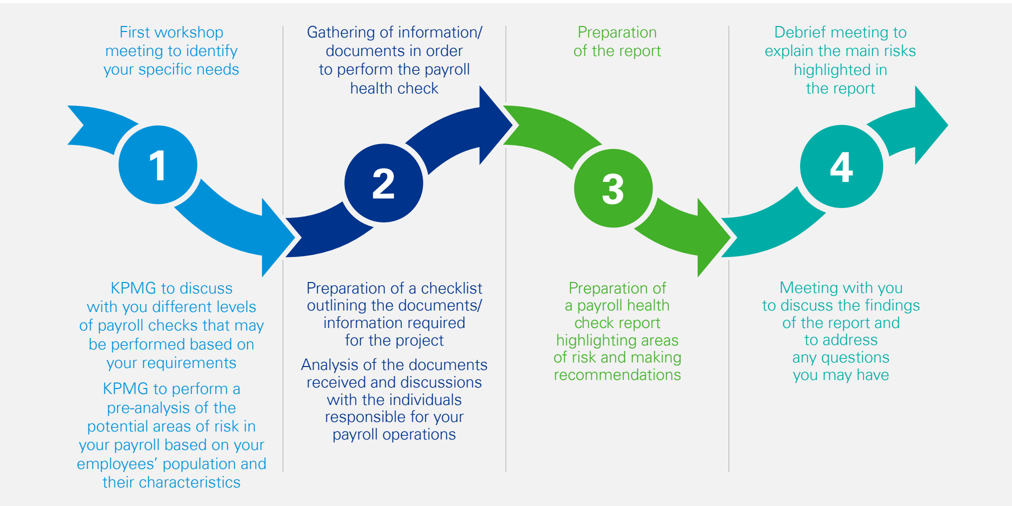
The introduction of the EU automatic exchange of information mechanism means that tax information can be shared amongst tax authorities within the EU. This will have a particular impact on cross-border employees, or those who carry out business trips in various jurisdictions who may have tax liabilities in multiple locations. Employers' payroll management/ obligations are therefore increasingly important for these employees.

Additional complexities arise with the new notification and electronic reporting requirements of deferred compensation schemes, which apply to both new plans and old plans with beneficiaries taxable in Luxembourg. The rules also apply to non-Luxembourg plans with beneficiaries subject to Luxembourg taxation (e.g. international assignees in Luxembourg receiving share awards from another country).

How we can help you

We can conduct a payroll tax health check to identify potential weaknesses in your system and make subsequent recommendations. Typically, the work includes a review of payroll processes/ policies, discussions with key responsible personnel, and the review of a sample of documents (e.g. payslips, year-end forms etc.).

In addition, we can advise further on the new deferred compensation requirements. The exact scope can be tailored to your organisation's needs to ensure the efforts and work are spent on the key areas.



Contact

Xavier Martinez
Associate Partner
Tel: +352 22 51 51 5345
xavier.martinez@kpmg.lu

Marisa Hosnar
Senior Manager
Tel: +352 22 51 51 5425
marisa.hosnar@kpmg.lu

André Kayser
Manager, Tax
Tel: +352 22 51 51 5562
andre.kayser@kpmg.lu

KPMG Luxembourg, Société coopérative
39, Avenue John F. Kennedy - L-1855 Luxembourg
Tel: +352 22 51 51 1

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Shadow payroll services

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Assignees often continue to receive their salaries from their home country payrolls. However, certain benefits are provided locally, such as housing and transportation. Certain benefits that are common in the home country may have a different tax treatment in Luxembourg. Some benefits have trailing liabilities even after the assignment has ended, such as performance bonuses and equity-based compensation. How do you manage these complexities in your shadow payroll? Do you capture all the relevant items? How should they be taxed and processed?

The shadow payroll process consists of four major steps detailed below.

1. Collection
2. Classification
3. Calculation
4. Processing

Collection of information

Information that is relevant for payroll purposes can come from different sources. Typically, home country payroll provides data, expenses are reimbursed by the Finance department (of the home or host country) and invoices are generated from third-party providers, such as the relocation provider. It is imperative to have an overview of all relevant information.

Classification of information

Next, all relevant information should be classified in accordance with Luxembourg tax regulations. In case of the impatriate tax regime, certain benefits may be tax exempt. Home country benefits may have a different tax treatment in Luxembourg. The classifications in the tax rules of the home country and that of the host country may vary significantly.

Calculation

Now, the taxable income and the payroll tax for Luxembourg payroll purposes have to be calculated. The calculation depends on who is responsible for paying the Luxembourg tax (e.g. tax equalised or not), whether part of the taxable income is sourced to another country (e.g. equity based compensation that was granted prior to the assignment).

Processing

When you have all the information, all elements have been classified and both the taxable income and taxes due have been calculated, what's next? The next step is processing all this information in the (shadow) payroll. Reporting the respective benefits against the correct payroll codes and making sure the correct taxable income and taxes due are properly reported. Each month the payroll filing has to be submitted to the tax authorities.

How we can help

Our experienced team of payroll specialists can help you at all stages of the process. In collaboration with you, we can assess your needs and assist you where needed. We can help you set up the process and you manage from there, or you can outsource the entire process to us. We have the expertise and the experience to collect and classify the relevant information, calculate the taxable income and Luxembourg taxes and, finally, process all this information correctly. We can guide you through the maze of shadow payroll complexities and help you avoid penalties due to incorrect payroll reporting.

Finally, we can also help you with the additional reporting obligations around equity-based compensation specific to Luxembourg. This includes the mandatory report two months prior to vesting as well as the detailed reporting after vesting.

Contact

Xavier Martinez
Associate Partner

Tel: +352 22 51 51 5345
xavier.martinez@kpmg.lu

Fabio Cerveira Martins
Assistant Manager

+352 22 51 51 5474
fabio.cerveiramartins@kpmg.lu

KPMG Luxembourg, Société coopérative
39, Avenue John F. Kennedy - L-1855 Luxembourg
Tel: +352 22 51 51 1

www.kpmg.lu

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Equity-based compensation

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Company growth relies on skilled employees, but attracting and retaining talented, innovative and highly dedicated employees is not always simply done. It depends on several factors, including the benefits package, which can make an employer attractive—or not—in the eyes of a candidate, especially when it is delivered in a tax efficient manner. Thus, equity-based incentives are a key element.

There are several types of equity-based compensation entities (e.g., stock options, warrants, RSUs and restricted stock). Although they are similar in nature, the minor differences between them can result in completely different tax treatments. Often, equity-based compensation is used to align management's interests with shareholders' interests. In some jurisdictions, such as Luxembourg, favourable tax treatment is available for specific types of equity-based compensation.

Do you offer your employees equity-based compensation? Is your equity compensation plan optimized for tax purposes? How do you communicate the conditions, benefits and tax implications to your employees?

How are your processes around reporting, payroll and otherwise, set up and managed? In what tax jurisdictions is tax owed, and how much? How will the current political discussion on equity-based compensation impact your employees?

How can we help?

KPMG can help you through every step of implementing the equity-based compensation process. Owing to our vast experience in this area, we can help you design and implement tax efficient processes. We pay special attention to your cross-border population, considering the increased scrutiny by tax authorities worldwide. Moreover, we can help you train your staff, develop other communications to be shared with your employees and assist with reporting requirements, such as payroll and additional reporting.

Our services

We provide practical and pragmatic consultancy and compliance services in Luxembourg, as well as in other countries where KPMG operates. In collaboration with our colleagues from the corporate tax and VAT departments, we can offer advice on the implications of individual income tax, payroll tax, social security, corporate income tax and VAT. With our advisory colleagues from People and Change, we can help you optimise your total rewards strategy to include tax-optimised equity-based compensation.

Case study

A company wanted to tax-optimise its performance bonus plan. After assessing its total rewards strategy, we designed and implemented a stock option scheme. We provided training sessions to the HR, Payroll and Finance staff, and prepared the communications explaining the pros and cons of the scheme to the employees. Now 95% of the eligible employees participate in the stock option scheme and save on average EUR 10,000 per year in personal income tax per person.

How will you benefit?

We help your company save time and money. Our holistic approach helps you align your business strategy with your total rewards strategy and ensure compliance in all areas.

Why KPMG?

The KPMG team is well positioned to quickly evaluate your current position, envisage your future position and pave the way to help you get there. Our holistic approach provides you with an integrated solution that is compliant with the tax regulations in Luxembourg. Together with the KPMG professionals in our global network, we can support you in over 140 countries.

Contact

Xavier Martinez
Associate Partner
Tel: +352 22 51 51 5345
xavier.martinez@kpmg.lu

Marisa Hosnar
Senior Manager
Tel: +352 22 51 51 5425
marisa.hosnar@kpmg.lu

André Kayser
Manager, Tax
Tel: +352 22 51 51 5562
andre.kayser@kpmg.lu

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Tel: +352 22 51 51 1

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