



# Your assignment abroad

**The 50 most common concerns**





# Table of contents

|   |           |
|---|-----------|
| <b>Introduction</b>   | <b>1</b>  |
| <b>General compensation and benefits</b>                            | <b>2</b>  |
| <b>Cost-of-living allowance or goods and services differentials</b> | <b>5</b>  |
| <b>Housing allowances and norms</b>                                 | <b>7</b>  |
| <b>Tax reimbursement</b>  | <b>11</b> |
| <b>Tax compliance and planning</b>                                  | <b>14</b> |
| <b>Immigration</b>  | <b>16</b> |
| <b>Assignment preparation and relocation</b>                        | <b>17</b> |
| <b>Children's education assistance</b>                              | <b>20</b> |
| <b>Home leave</b>   | <b>21</b> |
| <b>End of assignment</b>  | <b>23</b> |
| <b>Other considerations</b>   | <b>24</b> |

# Introduction

## Congratulations!

If you are reading this publication, it means you have an exciting opportunity to improve your career while expanding your personal horizons. In addition, if you have an accompanying spouse/partner and/or children, they too are about to embark on an exciting adventure during which they will meet new people and explore new cultures.

However, even though this is a tremendous opportunity, you probably have a number of concerns. Moving to a new location, especially a new country, requires attention to many details, both personal and professional, and your move is so much more than just the physical shipment of your household goods.

Therefore, if your employer extends an international assignment offer, you should evaluate the opportunity from various perspectives, including:

- What lasting impact will the assignment have on your career?
- What personal adjustments must be made by you and your family?
- What is the financial impact to you and your family?

This booklet addresses employees' many commonly asked questions regarding international assignments. Since no two international assignment programs are alike, these questions and answers are by necessity very general in nature. Specific queries regarding your specific individual situation should be directed to those responsible for your company's international assignment program administration.

When making the decision to take an international assignment, the personal adjustments you will face can seem overwhelming. These can most effectively be addressed on a face-to-face basis with advisers who specialize in cultural adjustment and counselors who deal with relocation. Current and former international assignees and your employer's international assignment program administrator can all address many of your questions. In addition, there are a myriad of materials available online or in print.

The potential impact of an international assignment on your career is ultimately dependent upon your employer's culture and business needs. You should meet with both line management and human resources representatives to identify the potential long-term effects of your international assignment on your organization and the plans for future utilization of an experienced 'internationalist' (which you will become).

The material in this booklet is a general guide, is not country specific, and is intended for use by international assignees from any country. However, for the benefit of US outbound employees who will continue to have a US tax filing requirement, we have included some general US information in the tax section.

# General compensation and benefits

## 1. What are some of the financial factors I should examine prior to accepting the assignment?

You should evaluate both the current and long-term potential financial impacts of the assignment.

On a current basis, some of the major items to review are your expenditures for relocation, goods and services, housing, taxes, transportation, and education. Evaluate how the assignment and your employer's compensation package will help you:

- meet your financial obligations
- maintain your standard of living, and
- continue to meet your financial and 'life' goals.

Determine to what extent you might be required to incur duplicate costs at your home location as well as the assignment site and consider steps that can be taken to reduce the occurrence of such duplicate costs.

From a long-term perspective, you should review the impact, if any, on your ultimate retirement benefits (private, company-provided, and Social Security), and, if possible, assess the potential for increased compensation once you have gained international experience.

## 2. Will my expatriate compensation package be significantly different from my current compensation package?

Employees who work in a home (domestic) location are generally compensated differently than employees who are sent on international assignment, for reasons described below.

- Employers have utilized a number of different approaches for compensating international assignees. The three most common approaches are:
  1. home-based – based on compensation and living standard of home country peers
  2. host-based – based on compensation and living standard of host country peers
  3. headquarters – based on compensation and living standards of the organization's headquarters, regardless of whether the employee has lived or worked in the headquarters location.

Organizations create policies based on various factors, such as, but not limited to, length of assignment, host locations, demographics, type of assignment (developmental, training), and employee requested. Generally speaking, no single approach is better than the other. However, as the home-based approach is the most commonly used, this booklet focuses particularly on the elements of the home-based package.

Regardless of the compensation approach underlying your assignment package, it is important to recognize that due to factors such as fluctuating rates of exchange, different tax systems, and different costs-of-living, almost every international compensation approach differs, often in substantive ways, from how employees are compensated domestically. In short, because of these factors, your compensation will be different.

### **3. What is the balance sheet approach?**

The balance sheet approach to expatriate compensation is the most commonly used methodology among multinational employers and is most often affiliated with the home-based compensation approach described above (though it is used for the headquarters approach as well). The balance sheet is based on the assumption that you will spend most of your base salary on three major categories of expenditures: taxes, housing, and goods and services. The assumed allocation of your available funds among these categories is dependent upon your family size and salary level. The remainder of your salary (discretionary income) is not allocated among expenditures, but is assumed to be saved, invested, or used for any other purpose. This discretionary income is normally paid in the home country and seldom remitted to the assignment location. However, it is important to understand that the way the balance sheet is implemented varies from one company to another.

If you are on a host-based package, the balance sheet does not apply, as you are being compensated with your host country peers and not your home country peers. Therefore, there is no home country versus host country comparison.

### **4. Is it true that expatriates are able to save and invest a considerable portion of their assignment compensation?**

Generally, compensation policies are designed to ensure the employee does not significantly gain or lose compensation during the assignment.

Nevertheless, some employers may pay 'incentives' such as foreign service or mobility premiums and location-specific hardship premiums to encourage employees to accept certain international assignments, especially assignments to countries with harsh climates, or those that are underdeveloped or potentially dangerous.

### **5. My company has equity compensation as part of my compensation package. How will that be affected?**

Your company will inform you of the changes, if any, to your equity compensation package. However, you should understand the impact your assignment may have on the taxation of your equity compensation (current and future). As countries differ in their tax treatment of equity compensation (e.g., some tax at grant, vest, and/or sale), to ensure proper consideration of the tax ramifications, companies typically recommend that assignees contact their tax service provider before taking any action with regard to their equity compensation.

### **6. How will my health insurance be impacted?**

Healthcare benefits may require supplemental coverage. Many organizations have a global plan. Generally, you may continue contributing to your company's health insurance plan, and, depending on its terms and conditions, it should 'travel' with you. Your global mobility manager should explain to you what kind of medical coverage you (and your family members who travel with you) will have in the host location and any costs entailed, as well as provide you with a listing of doctors in your host location you may wish to consider. In cases where you are not covered in the host country by your existing plan, coverage under an international or 'expatriate' health plan may be available. Also, in some cases, you may be covered under the host country's state-run health system.

### **7. How will my retirement plan be affected?**

Retirement benefits are very organization-specific, so depending on how your assignment and your organization's plans are structured, you may or may not be able to stay in your current retirement plan. You should discuss your options with your employer, who may, where applicable, offer alternative mechanisms so that you can continue to contribute to your retirement.



# Cost-of-living allowance or goods and services differentials

## 8. What is a goods and services differential (or cost-of-living allowance)?

A goods and services differential (GSD) — also known as a cost-of-living allowance (COLA) — is intended to reimburse you for the difference between the cost of goods and services at the host location and at home. The amount of the differential depends on your salary level, your family size, and the cost-of-living standards in your host location in comparison to your home location.

Typically, more than a dozen different categories of expenditures representative of the market 'basket' of items are considered in setting the differential. Various portions of your spendable income are allocated to these categories, based upon normal spending patterns.

The differential will be adjusted to incorporate foreign exchange fluctuations whenever they exceed pre-established parameters.

Please note, if you are on a host-based package, a COLA does not apply. This is because there is no home/host comparison, as you are being compensated according to host location, so your salary factors in the cost of goods from a host perspective.

## 9. How is the COLA determined?

Generally, an independent consulting firm initially calculates the differential and will develop an index that measures relative costs. Prices and the rate of exchange are compared between locations at regular intervals. The home location is assigned an index of 100. If the host location index is more than 100, costs are higher than at the home location.

The balance sheet approach can help protect your purchasing power so that you neither gain nor lose by accepting an assignment abroad. To do so, the index is applied to your home country spendable income. Spendable income is the base salary that is normally devoted to the purchase of goods and services (such as food, clothing, entertainment, medical care, etc.). The amount is not a fixed percent of base salary; rather it varies according to nationality, income level, and family size. Applying the index to the home country spendable income results in the amount needed to maintain the home country expenditure patterns in the host country.

## **10. My COLA is significantly different from that received by my neighbor (also an assignee, but from a different company) who earns a comparable salary. How can these allowances be different if they are both intended to make the recipient whole?**

Some companies account for certain elements of the goods and services index in other ways, either through direct reimbursements or delivery of benefits-in-kind, such as reimbursement of certain travel or living expenses. The advisers, in order to account for these different approaches, will adjust the indices.

Although companies' total assignment compensation packages are typically very competitive within their peer groups, employers may vary the components to satisfy industry demands and their internal corporate cultures. For these reasons, it is extremely difficult to compare specific elements of one package to another, especially if the employers are in different industries or peer groups. In addition, it is important to remember your family size and specific point-of-origin (e.g., City A versus City B) can cause COLAs to differ even if your peer in the host location is making a comparable salary.

# Housing allowances and norms

## **11. I have heard that housing in foreign countries is more expensive. Why is that?**

In some locations, in fact, housing may be less expensive than in your home location. But, in cases where the cost is higher, there may be several reasons for the difference. First, it is important to remember that we are addressing expatriate housing. Expatriates normally rent, and rents are generally higher than if one was paying a mortgage to build equity in a home. Also, expatriates have different needs as compared with locals in the same location. Expatriate children often attend international schools. Therefore, housing near the international school tends to be expensive, as there is a demand for the location. Security is also an issue. Depending on the host location, some areas may be considered safer for expatriates. Expatriates from one part of the world moving to another (e.g., United States to Thailand or vice versa) would encounter drastic differences in living situations. Therefore, a limited amount of housing deemed suitable for the expatriate is available depending on his or her country of origin. Along these lines, it is not unusual, especially for expatriates who are not fluent in the host country language, to gravitate towards areas/communities that are also home to expatriates who share the same language, culture, etc. Given the desirability and usually limited housing stock in such areas, prices are typically higher.

## **12. How will I be able to afford housing in foreign countries where the costs are so much higher than in my home country?**

As part of the cost equalization process or balance sheet approach, multinational employers generally take the cost of housing into consideration when structuring international assignment compensation packages. Policies are designed to equalize your housing costs while you are abroad. The intent of providing housing assistance, in most cases, is not to transfer the entire cost of host country housing to your employer. Rather, your employer may provide financial assistance in the form of an allowance, furnished or unfurnished company-owned quarters, or accommodation rented in the company name. In a majority of cases, the assistance provided will normally equal the excess of the assignment housing costs above a standardized home location cost.

## **13. How do I identify appropriate housing for my family and myself?**

Locating housing in a foreign country can be a challenge without assistance. Your employer may have in-house relocation professionals to help you. Or you may engage an outside vendor specializing in relocation or destination services. Suitable housing for assignees typically is identified based on a number of factors, including compensation level, proximity to the workplace, safety, access to colleagues and compatriots, and the image that your employer wants you to project at the host location. The input for this decision can come from outside advisers, as mentioned above, assignees already 'on the ground,' and local management at your employer's host country offices.

## **14. Will I be required to sign a lease in the host location?**

There is no global standard addressing whether the assignee or the employer should legally be the tenant and sign the lease. Most decisions are based upon two factors: the local custom and practice, and the significant tax advantages to be derived from a particular lease structure.

In certain jurisdictions, landlords will not rent residential premises to an employer unless a higher rent is charged. In other locations, landlords will not rent to international assignees unless the employer is listed as the tenant. In addition, it is sometimes tax effective for the employer to be the tenant and pay the rent directly to the landlord.

If the policy requires that your employer's legal or human resources group review the lease prior to your signing, make sure before you sign that they have completed their review and you have complied with any recommendations and requirements. Lastly, regardless of who signs the lease, it is a good idea to assess the need for personal liability insurance to protect against unforeseen events, just as you would at home.

## **15. Will I have to bear a significant portion of the housing costs while I am on assignment or is my employer going to provide me with some assistance?**

You will generally be expected to bear the same level of housing costs as your peers at home. Many companies facilitate this process by retaining a home country housing norm from base salary. This norm is unlikely to equal your pre-assignment costs, as it is a statistical blend of the costs of owning (less mortgage principal) and renting across a broad cross-section of the population.

In some cases, if your employer decides not to charge a norm, it will often not provide any type of home country housing support as a result (e.g., property management, storage). Either way, the employer's aim is not to provide free housing to an employee — so, contributing to your housing will come in one form or another.

However, employers may offer some form of housing assistance. This can be delivered in a number of different ways. For example, a housing allowance may be added to your compensation and included in each paycheck. Also, your contribution to housing costs may be subtracted from your paycheck (known as the housing norm/offset/deduction). Other organizations may deliver a 'net' allowance, that is, the housing allowance minus the employee's contribution is delivered.

Another important aspect to delivering housing allowances involves the host country's tax rate on an employer's contribution to housing. In some locations, it is more beneficial for the employer to pay the landlord directly in order to obtain the lowest tax rate on the amount of the housing allowance, as opposed to paying the allowance to the employee and having the employee pay the landlord. In those locations, the employer may pay the rent in full and still deduct a monthly housing norm from the employee's compensation.

## 16. Should I buy a residence in my assignment location?

Policies differ, but generally employees are discouraged from purchasing a home in the host country. From a policy perspective, if an employer provides housing assistance to an employee who rents and to another who owns, the employer is helping the home-owner build equity, while the renter has nothing to show for the rental payments made to his or her landlord. This results in unequal treatment of employees. The intent is for the employer to aid the employee in securing suitable safe housing, not fund investments in real property.

In addition, purchasing a home can trigger tax issues, which, in most tax reimbursement policies, will not be covered by the employer, even if you argue that the house was purchased as a result of the assignment. Domestically, when you sell your home for more than what you paid, that capital gain is taxed (this tax may be mitigated depending on your having fulfilled certain conditions). However, when selling a home in the host country, income can result not only from selling the home for more than what you paid, but there could also be an exchange rate gain or loss depending on what the rate of exchange was at the time of purchase and at the time of sale. Therefore, it is possible to be taxed on two types of gains for the sale of the home.

|      |            |           |                    |                 |      |            |           |              |                |      |            |         |
|------|------------|-----------|--------------------|-----------------|------|------------|-----------|--------------|----------------|------|------------|---------|
| 1718 | 4:22P C2G  | On-Time   | Ketchikan          | Alaska          | 57   | 3:58P D1   | On-Time   | Palm Beach   | Southwest      | 9890 | 2:30P B10  | On-Time |
| 2138 | 9:30P B16C | On-Time   | Las Vegas          | America West    | 833  | 2:58P B9   |           | Palm Springs | Alaska         | 486  | 5:58P D9   | On-Time |
| 150  | 4:15P D8   | On-Time   | Las Vegas          | Delta           | 233  | 3:04P A11  | Boarding  | Panama       | Holiday Air    | 2162 | 3:42P B16C | On-Time |
| 1378 | 5:58P B8   | On-Time   | Las Vegas          | Alaska          | 932  | 3:08P D8   | On-Time   | Panama       | Holiday Air    | 2164 | 5:58P C10  | On-Time |
| 2338 | 6:08P C2G  | On-Time   | Las Vegas          | Southwest       | 1336 | 5:15P B10  | On-Time   | Phoenix      | Southwest      | 229  | 5:15P B14  | On-Time |
| 2434 | 4:08P C2G  | On-Time   | Las Vegas          | America West    | 131  | 5:22P B7   |           | Phoenix      | Alaska         | 754  | 5:58P D2   | On-Time |
| 536  | 2:41P C17  | On-Time   | Las Vegas          | Alaska          | 92   | 5:38P D5   | On-Time   | Phoenix      | Alaska         | 200  | 4:45P C14  | On-Time |
| 1239 | 6:08P B14  | On-Time   | Las Vegas          | Alaska          | 802  | 5:31P B4   | On-Time   | Phoenix      | America West   | 383  | 5:02P B11  |         |
| 2332 | 3:38P C2G  | On-Time   | Las Vegas          | Holiday Air     | 8628 | 5:26P C2G  | On-Time   | Portland     | Holiday Air    | 2399 | 2:30P C24  | On-Time |
| 638  | 1:38P B6   | Delayed   | Las Vegas          | United          | 938  | 1:38P B6   | Delayed   | Portland     | Holiday Air    | 2591 | 3:08P C23  | On-Time |
| 1734 | 2:18P A3   | New 2:45P | Las Vegas-Honolulu | United Airlines | 48   | 5:45P B19  |           | Portland     | Holiday Air    | 2188 | 1:15P C21  | On-Time |
| 151  | 3:12P H7   | New 4:00P | Long Beach         | Alaska          | 336  | 2:07P B11  | New 2:38P | Portland     | Holiday Air    | 2275 | 4:00P C28  | On-Time |
| 439  | 3:14P N15  | New 3:45P | Los Angeles        | United          | 1167 | 2:25P B15  | On-Time   | Portland     | Holiday Air    | 2291 | 4:30P C33  | On-Time |
| 1439 | 3:38P A2   | New 3:45P | Los Angeles        | Alaska          | 829  | 3:47P B16  | On-Time   | Portland     | Holiday Air    | 2293 | 5:08P C26  | On-Time |
| 2320 | 3:18P B3   | On-Time   | Los Angeles        | United          | 1175 | 3:08P B18  | On-Time   | Portland     | Holiday Air    | 2298 | 5:38P C28  | On-Time |
| 2239 | 3:18P B3   | On-Time   | Los Angeles        | Alaska          | 800  | 3:08P B16  | New 3:14P | Portland     | Holiday Air    | 2365 | 5:08P C22  | On-Time |
| 399  | 5:38P A2   | New 5:45P | Los Angeles        | Southwest       | 1029 | 5:00P B14  | On-Time   | Portland     | United         | 6342 | 6:05P M12  | On-Time |
| 1232 | 5:38P A2   | On-Time   | Los Angeles        | Alaska          | 820  | 5:45P B24  | On-Time   | Portland     | United Express | 6343 | 6:05P      |         |
| 662  | 2:38P C26  | On-Time   | Mou Kathoku        | Northwest       | 91   | 2:08P B28  | On-Time   | Portland     | Holiday Air    | 2397 | 5:38P C22  | On-Time |
| 658  | 2:40P B3   | Seattle   | Northwest          | Northwest       | 2350 | 5:08P B165 | On-Time   | Portland     | Holiday Air    | 2398 | 5:38P C22  | On-Time |
| 534  | 3:48P H1   | On-Time   | Minneapolis        | Alaska          | 8817 | 3:08P B8   | On-Time   | Portland     | Holiday Air    | 2388 | 2:30P C28  | On-Time |
| 492  | 3:48P H2   | On-Time   | Minneapolis        | Northwest       | 162  | 4:45P B7   | On-Time   | Portland     | Holiday Air    | 2195 | 3:08P C25  | On-Time |
| 579  | 5:38P C14  | On-Time   | Minneapolis        | United          | 469  | 4:45P H2   | On-Time   | Portland     | Holiday Air    | 2063 | 6:25P C27  | On-Time |
| 1210 | 6:08P H2   | New 6:05P | Minneapolis        | Bon Air Country | 206  | 4:45P A13  |           | Rome         | Holiday Air    | 1398 | 5:15P B10  |         |
| 2111 | 3:28P B1   | On-Time   | Minneapolis        | Northwest       | 172  | 3:28P B8   | On-Time   | Rome         | Holiday Air    | 834  | 5:15P H2   | On-Time |
| 2116 | 3:28P C26  | On-Time   | Minneapolis        | Continental     | 8821 | 3:08P B9   | On-Time   | Rome         | Holiday Air    | 354  | 3:28P B2   | On-Time |
| 2800 | 5:38P C26  | On-Time   | Minneapolis        | Holiday Air     | 2362 | 5:15P C2P  | On-Time   | Seattle      | Holiday Air    | 380  | 5:45P C11  |         |
| 2427 | 5:38P B26  | On-Time   | New York-JFK       | JetBlue Airways | 175  | 5:08P B2   | New 2:45P | Seattle      | Holiday Air    | 2349 | 5:08P B14  | On-Time |
| 2821 | 5:48P C14  | On-Time   | Newark             | Continental     | 1090 | 5:08P B11  | On-Time   | Seattle      | Holiday Air    | 386  | 6:15P D11  | On-Time |
| 637  | 3:48P B26  | New 3:45P | Seattle            | Alaska          | 214  | 3:24P C15  | On-Time   | Seattle      | Holiday Air    | 233  | 3:45P A11  | On-Time |

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# Tax reimbursement

## **17. I have been told that the tax costs incurred during an international assignment can be significantly higher than if I had remained in my home country. Why should my taxes change?**

The actual taxes you incur during an international assignment will differ from the amount you paid during your domestic employment. The change results from three factors. First, the amount of income on which you are taxable, in most cases, will significantly increase while you are abroad. The increase is due to the inclusion of all your allowances and differentials in your reportable income. Second, the tax rates in host jurisdictions in many cases will exceed the home country tax rates. Third, certain income items may continue to generate home-country tax during your international assignment.

Although your actual taxes may increase significantly, your out-of-pocket payments should remain fairly consistent. The majority of multinational employers have adopted tax reimbursement policies to help ensure that international assignees do not bear the incremental tax costs resulting from the above factors.

## **18. My employer has a tax reimbursement policy. What does that mean to me?**

There are two main types of tax reimbursement policies: tax equalization and tax protection.

If your employer has adopted a tax equalization policy, this helps ensure that as an assignee you continue to bear approximately the same tax costs during your international assignment as you would have incurred had you stayed at home. Under tax equalization, assignees pay a hypothetical tax on those compensation items which would have been received at the home location had they not accepted the international assignment (stay-at-home income). Some employers also tax-equalize investment and other outside/personal income. (Outside/personal income generally includes all income received and losses incurred by an assignee, other than compensation received from the assignee's employer. Typical items would include interest, dividends, capital gains and losses, rental income and losses, self-employment income and losses, spouse's compensation, and income and losses from pass-through entities such as partnerships or trusts.)

Under a tax equalization approach, you will bear the same hypothetical tax regardless of whether the actual taxes generated during your assignment are greater or less than that amount. Accordingly, taxes should not be a factor in determining whether to accept an international assignment.

In general terms, your employer would pay all the actual taxes generated by income covered under its policy. Simultaneously, the company would retain hypothetical tax from your stay-at-home compensation. If any tax is generated by your personal/outside income, you may be required initially to pay the actual taxes. After your host and — where applicable — home country tax returns are completed, a tax reconciliation will be prepared to determine your final hypothetical tax, which is your real tax cost under tax equalization. If your payments exceed this amount, you would receive a refund from the company. If this amount exceeds your payments, you would be required to pay the shortfall to your employer.

If your employer has adopted a tax protection policy, then as an assignee you will never bear more tax during the international assignment than would have arisen at the home location. However, if the actual taxes incurred during the assignment happen to be lower than the home country hypothetical tax, you would retain the difference. Because a potential windfall may exist in low-tax jurisdictions, taxes can be a consideration in determining whether to accept one international assignment rather than another under tax protection. From an employer's perspective, the value of an international assignment to your career generally should not be influenced by the financial windfall you might receive.

## **19. What is hypothetical tax? And how does my employer determine how much hypothetical tax to retain from each paycheck?**

Hypothetical tax approximates the income taxes that you would have incurred if you had not accepted an international assignment. Many employers impose not only a hypothetical federal/national tax, but also hypothetical state/province/canton and local/municipal/city taxes.

Typically, there are two elements to hypothetical tax:

1. hypothetical withholding tax is retained as stay-at-home compensation is paid; and
2. final hypothetical tax is determined after your tax returns have been completed and your annual reconciliation is prepared.

In order to determine how much your employer will retain from your paycheck, depending on your employer's tax policy, an estimate of the hypothetical tax on your stay-at-home compensation will be calculated based upon your marital status, family size, salary level, and itemized deductions, hypothetical or actual depending upon your employer's policy.

## **20. Will my employer pay all the foreign taxes that arise during my assignment?**

Under tax equalization, your employer will usually pay all the host country taxes you incur. Depending upon the terms of your employer's policy, you might be responsible for the taxes generated by your outside/personal income.

## **21. What are hypothetical itemized deductions? (For US-outbound assignees only)**

Hypothetical itemized deductions are an estimate of what your itemized deductions would have been on your income tax return had you stayed home. The reason policies address hypothetical deductions is because, as an expatriate, your actual itemized deductions would change, and may be less than those you incurred prior to accepting your assignment. In order to calculate a hypothetical tax that approximates your stay-at-home tax, an assumption must be made as to the level of itemized deductions that would have been incurred at your home location.

How a company calculates hypothetical deductions varies from policy to policy. In some cases the employer, based upon input from independent advisers, determines the amounts. Others could apply a flat percentage of base salary for all expatriates, regardless of what they had prior to the assignment. Another example is a modified hypothetical itemized deduction, which takes into account both actual and hypothetical taxes paid. Variations will depend on numerous factors such as the culture of the employer, demographics of the population, size of the population, administrative abilities, and in-house versus outsourced expertise.

## **22. Why doesn't my hypothetical state tax equal the actual state taxes that I paid prior to my move? (For US-outbound assignees only)**

Once again, each employer varies when it comes to hypothetical state tax. Examples of how your hypothetical state tax may be calculated are as follows:

1. using your home state tax rates
2. applying the state tax rate of the employer's headquarters location; and
3. determining an average 'one-state' rate to be applied to all expatriates.

While there are other variations that organizations may apply, each one will determine which method is most in line with the organization's culture, location of the employee's home state, administration costs, and in-house versus outsourced preparation of the calculations, as well as various other factors.

## **23. Will I be subject to hypothetical tax on outside/personal income as well as my compensation?**

In all probability, yes. The current trend is for employers to impose hypothetical tax on outside/personal income and to pay any actual home and host country taxes generated. However, not all employers treat this income in the same fashion. Some companies put a cap on how much outside income can be equalized. Others exclude specific types of income, such as the capital gain on the sale of a principal residence or a spouse's compensation. In other cases, passive losses generated by rental real estate may be allowed for hypothetical tax purposes on either an actual basis as deducted on the current return or on a hypothetical basis as if only stay-at-home income was reported.

# Tax compliance and planning

## **24. I have never even prepared my own tax returns before moving abroad. How will I prepare an expatriate tax return or foreign tax return?**

Employers typically retain the services of an international accounting firm to prepare and file your home and host tax returns during your assignment. If your employer does not provide such a service, it is recommended that you engage the services of a reputable tax professional or tax services firm.

## **25. How will I know if I am responsible for the balance due to the tax authorities when my return is filed or if I am entitled to any refunds?**

Under both tax equalization and tax protection policies (as discussed above), an annual reconciliation would be prepared after your returns are completed. The reconciliation would be prepared by either an outside accountant engaged by your employer to prepare your tax returns and the reconciliations, or internally by your employer. Your final hypothetical tax liability determined through this process is then compared to any actual tax payments you made during the year, or with the return plus any hypothetical withholding tax retained from your compensation. This process determines if you are entitled to retain any refunds from the government, or receive a refund from your employer — or whether you must make a payment with your return, or to your employer.

## **26. Why didn't I receive the benefit of the expatriate exclusions or foreign tax credits when my hypothetical tax reconciliation was prepared? (For US-outbound assignees only)**

US tax laws provide that you may exclude up to a specified amount of foreign earned income and an additional amount equal to qualified foreign housing costs in excess of an Internal Revenue Service (IRS)-determined base housing amount, if you satisfy either of the two Internal Revenue Service IRS tests for having a tax home in the foreign country (the Bona Fide Resident or Physical Presence test). In addition, your US tax generated by foreign income can be offset by foreign tax credits subject to certain limitations.

Your hypothetical tax is determined as if you had remained in the United States. You would not have qualified for the exclusions nor the foreign tax credits if you had not moved abroad. As a result, neither the exclusions nor the foreign tax credits are taken into account in calculating your hypothetical tax.

## **27. Will I be required to file state income tax returns while I am assigned abroad? (For US-outbound assignees only)**

There is not a simple answer to this question. It depends on numerous factors, including:

- Where were you residing prior to your assignment?
- What contacts have you retained with that state?
- Has your family accompanied you on the assignment?
- Do you expect that you will return to the same state after you complete your assignment?

Many states tax individuals on the basis that they are domiciled or working in that state. In those cases, states commonly assert that an individual has not changed his or her domicile by accepting a temporary assignment overseas, and should continue to pay local taxes. Fortunately, some of these states have passed statutory exceptions stipulating that individuals will not be taxed as residents even if they continue to be domiciled in that state while on international assignment for a sufficiently long period of time. Because the tests for each state are different, it is advisable that you consult your tax adviser prior to departure to determine your state tax status.

Even if you are required to file a state tax return while you are abroad, you might not bear the tax costs. If your employer's tax reimbursement policy imposes a hypothetical state tax, then the company will be responsible for the actual state taxes generated by income covered by the policy. Due to the complexities in this area, it is advisable to review your state tax position with a tax consultant.

## **28. I have completed my assignment and returned to my home country. When will I cease to be covered by the company's tax policy?**

Employers often provide tax return and tax equalization assistance in one form or another as long as you continue to receive any payments, or the company makes payments on your behalf, related to the international assignment. Typical payments made after your repatriation include relocation costs, bonuses, and foreign taxes.

For US-outbound taxpayers, you may be eligible for or even required to use the company's independent accountants for up to 10 years after repatriation in some cases. This assistance would occur only if your employer's policy provides for the tracking of foreign tax credits and recapture of any tax benefit until the credits expire after 10 years.

# Immigration

## **29. Why can't I enter the country and begin my assignment with just my passport and a tourist visa?**

Visas have been categorized specifically to help countries monitor the movement of people across their borders. If you are going to a foreign country to work, you will need a proper visa — in the majority of cases, this must be obtained before you leave your home country. Many visas, such as work-related visas, are limited in the number issued each year. Entering a country under false pretenses is not only illegal, but also may jeopardize your chances of obtaining a work permit. Therefore, it is important to be compliant with immigration laws. Please consult your in-house global mobility and immigration advisers or professional immigration counsel recommended by your employer well in advance of your assignment. Lastly, as each country's immigration application requirements and turnaround time greatly vary, it is important to exercise patience and understand that follow-up may be necessary.

## **30. How do I obtain the necessary visas and work permits?**

Employers, on a fairly standard basis, handle immigration matters relating to the relocation of you and your family, including the procurement of your working papers. Whether you or your employer handles your immigration/visa matters, you should make every attempt to finalize the arrangements before you relocate. Some employers offer assistance for spouses in obtaining visas and work permits. Please consult your in-house global mobility and immigration advisers or professional immigration counsel recommended by your employer well in advance of your assignment.

## **31. I have a domestic partner. Will he or she be able to accompany me on my assignment?**

In general, international assignment policies mirror the organization's domestic policy on benefits to domestic partners whether the partner is of the opposite or same sex. However, even if your company provides assistance, from an immigration perspective, the host country may not allow for nonmarried partners to obtain residency permits. Please consult your in-house global mobility and immigration advisers or professional immigration counsel recommended by your employer well in advance of your assignment.

## **32. Is a medical exam required to obtain a visa and work permit?**

Possibly. Each country has different requirements for obtaining visas and work permits. Countries may require a general physical examination and/or have specific requests, for example, a chest x-ray. Also, depending on the host country, you may be required to visit a physician specified by the host country consulate (in your home country) and others may allow you to see the physician of your choice. Even if it is not required, a medical exam is a good idea to have before moving to the assignment location. (In addition, you should check if any medications you are taking are available in the host location and/or if you can bring them into the country.)

# Assignment preparation and relocation

## **33. How does international relocation differ from domestic relocation?**

When you move domestically, you are staying within the same legal, currency, and tax systems, as well as maintaining a similar type of household. By household, we mean the more practical issues associated with moving your home goods and being able to use them. For example, domestically, you would have the same voltage necessary to use your appliances and it would be compatible with your electronics. Internationally, these items more than likely will not work. In addition, domestic relocations are often a permanent move for an employee's job and household. International assignments are, for the most part, for a limited time.

## **34. How can I and my family members become familiar with our assignment location?**

You and your family should learn as much as you can about your assignment location before you depart. A trip to the host location before the actual move is a good idea to get a taste and feel of that location which is soon to become your new home. Also, consider accessing online research and informational materials on your host country and host city/town. Expatriate clubs and online communities, blogs, and discussion forums can offer opportunities to glean personal insights from people who have experienced living in that location, as well as sources for helpful 'real life' tips on social customs; weather; suitable attire; schools; postal, medical, and banking services; retail, recreational, and transport amenities; etc.

In addition, organizations often include cross-cultural training and destination services in their policies. Cross-cultural training can be provided in many forms from self-study to classes from third-party providers. Destinations service providers, depending on your company's policy, can assist in finding a home or grocery store, or take you to get a driver's license.

If you lack foreign language skills, you should arrange for language training. If English is not the predominant language at the assignment location and foreign language skills will be necessary to enhance your performance and effectiveness, language training may be required for you and your family prior to departure. If continued training is necessary after your arrival, your children might receive it at their school, while you and your spouse could receive private tutoring.

## **35. Are there any common guidelines regarding the shipment of personal property and effects at company expense?**

Company international assignment or global mobility relocation policies should provide specific guidelines regarding shipping and/or storing goods during your assignment. Although the policies vary by company, and sometimes within companies by destination and the availability of furnished accommodations at the destination, there are certain common elements to many policies. Limits on the total weight of the shipment are normally established, often with specified limits for air shipments accompanying the assignee and surface shipments to

follow. Specific items are often excluded, such as cars, boats, pianos, airplanes, antiques, collectibles, guns, and wine/liquor. There is no consistent rule with respect to the shipment of household pets. Where pet transport is concerned, if your employer makes no provision for this in its policy, there are firms that deal with international pet transport which you may wish to investigate. They can help you understand the issues you are likely to face in taking your pet with you to your host country (e.g., possible quarantine).

## **36. Should I sell my automobile or ship it to the foreign location? Will my employer provide an automobile or assistance in acquiring an automobile while I am on assignment?**

Many companies provide automobile assistance and policies are designed to protect you in a 'forced' domestic sale and/or foreign purchase of a personal automobile necessitated by the international assignment. It is usually much more economical to sell your automobile before departure because few employers will reimburse auto shipping charges. It is important to also bear in mind that emission requirements and safety standards differ greatly country-to-country and can be expensive to comply with if you are bringing your automobile to your host location. Furthermore, employers typically do not provide for storage. You should evaluate the impact of long-term storage for your vehicle.

## **37. Will automobiles be significantly more expensive at my assignment location?**

This depends on the country and make of automobile, among other factors. In some countries, the basic cost of an automobile may be low, but when value-added tax is added, and considering the generally higher cost of running the vehicle (e.g., higher petrol/fuel prices in other countries and insurance), it might indeed be more expensive as compared with your home location. And, in many parts of the world, taken together, the purchase price of the automobile and the operating costs could mean acquiring an automobile is considerably more expensive. Your employer may offset some of these costs or your goods and services differential may cover excess operating costs. In some situations, you may be offered a company car, or alternatively, a driver.

Before purchasing an automobile, it is advisable to determine whether one is needed — or even practical — at your location.

## **38. Should I sell my home before I move abroad?**

There are numerous factors to consider before selling your home, including:

- Are you likely to return to the same location after your international assignment?
- If you do return, are you likely to live in the same home or apartment?

- If you sell your home in a depressed real estate market, will your employer provide any protection against loss on the sale of the home?
- If prices rise dramatically while you are abroad, will you be able to re-enter the real estate market upon repatriation?
- If you incur a tax on the sale of your home because you do not meet the occupation requirements governing exclusions of gains on the sale or exchange of a principal residence, will your employer protect you against the tax?

Many employers do not want their employees to sell their homes when they accept international assignments. These assignments are usually considered temporary in nature and the assignee is often expected to return to the same location upon repatriation.

The issue of whether employees should sell their homes should be considered on a case-by-case basis.

## **39. If I rent my home while I am abroad, what will be the potential financial impact to me?**

There are various perspectives on the financial aspects of this transaction. From a cash-flow perspective, you must decide whether the rental stream will cover carrying costs. If not, does your employer's policy provide any assistance to offset rental shortfall, or address specific items such as property management fees? Even if your cash flow is positive, you may still experience a tax loss due to depreciation deductions. You must determine whether you will receive any actual or hypothetical tax benefit from the loss. Only after examining these issues will you have the full financial picture. Finally, if you decide to sell after you have rented the property, the issue becomes even more complicated.

For US taxpayers, any depreciation taken in respect of the rental of your principal residence after 6 May 1997, will be recaptured on the subsequent sale of the property. The gain attributable to the depreciation is subject to a maximum tax rate of 25 percent.

## **40. If I elect to keep my home vacant, what will be the potential financial impact to me?**

If your employer does not provide any assistance, then you may incur double housing costs. Most foreign housing policies provide that a home country housing norm will be withheld from your salary to equalize your costs. Depending upon your reasons for leaving the house vacant, your employer may forgo collecting the housing norm. For US taxpayers, if you do bear the carrying costs without any offset from your employer, you may not receive any additional tax benefit from your mortgage interest and real estate tax payments. This can result if your employer's tax policy provides for a statistically determined hypothetical itemized deduction, in which case actual deductions may only reduce your hypothetical tax if they exceed the statistical deduction.

# Children's education assistance

## **41. How can I be confident that my children will receive education comparable to our home country system?**

Many companies provide education assistance intended to provide adequate elementary and secondary education for your children equivalent to that of public (state-run) education in the home country. A school at your host location is usually considered adequate if a student who has successfully completed a given grade at that school will be accepted in the next higher grade in a public school in the home country. Although most expatriate children attend private schools, many employers will no longer pay the tuition if adequate public schools are available.

## **42. Are higher education costs included in 'dependent education' programs?**

Higher education costs (e.g., college or university) are rarely reimbursed by multinational employers. If you had not accepted an international assignment, in all probability, you would have borne the same higher education costs that now confront you. The only circumstance under which you might receive assistance would be if your dependent is forced to pay increased nonresident tuition rates at state colleges or universities because you lost your resident status when you moved abroad.

In some cases, dependents who are attending a college or university in their home country may be entitled to two company-paid airline tickets per year to visit their parents at their assignment location in lieu of a home-leave ticket.

# Home leave

## **43. Will my company provide my family with visits to our home country?**

Most employers recognize the importance of maintaining and renewing relationships with family, friends, and business colleagues in your home country and generally will provide for one trip per year at company expense for you and your family to return home. Some employees take advantage of these trips home to maintain relationships with colleagues, keep abreast of home-office developments, and network, which ultimately can assist the employee in his or her successful repatriation back to the home office.



# End of assignment

## **44. When my assignment is completed, what provisions will be made for my repatriation?**

To facilitate re-integration into your home organization, you should keep in touch with your human resources department and home country line manager throughout your assignment. Most of the policies that assisted you in relocating abroad will be implemented again to smooth your transition home. Temporary living coverage, travel, moving expense, reimbursement of automobile disposal, reimbursement of settling-in costs, and housing assistance are generally provided.

Your allowances will cease when you return; nonetheless, your purchasing power upon return should be the same as if you had remained in your home country.

## **45. What if I decide I'd like to stay longer?**

Some organizations may extend, or renew, an assignment according to their business needs, but typically not at the request of the assignee. In cases where the organization decided to extend or renew your assignment, depending on the purpose of your international assignment and/or how long your initial assignment was intended for, you may be transitioned to a different international assignment policy (e.g., short-term assignment becomes a long-term assignment). In some instances, your organization could decide to 'localize' you — this can happen for employees who have been on assignment for the maximum length of time, typically three to five years, under their long-term assignment policy and there is a desire to keep the employee in the host country. The process of localizing employees differs from employer to employer. In short, the basic premise is that the expatriate will no longer receive expatriate allowances and his or her home-based base salary will become a host-based salary, as if he or she is now a local hire. Companies may differ in the method they use to change the allowances and benefits. For example, some will phase out expatriate allowances over a specific time frame and others will stop all the allowances at once.

Another way of extending your international assignment is to undertake a sequential assignment to another location.

# Other considerations

## **46. My domestic partner/spouse works. What issues should we consider before making the decision to take the international assignment? (We will use the term 'spouse' to refer to both 'domestic partner' and 'spouse')?**

Before weighing the pros and cons, you should find out if your company provides some form of spousal assistance. Due to the increase in dual-career couples, many organizations have added provisions specifically for the spouse's use. Examples of types of assistance for your spouse are education reimbursement, work permit assistance (so that the spouse can work in the host location), allowances for résumé writing and job search, and other various forms, depending on the company.

After understanding the opportunities the spouse may have in the host location, there are other practical and financial issues that should be considered. For example, how will the loss of the spouse's income impact the household? How does the loss affect retirement benefits? Also, are these losses less of a financial impact in the long run, as the assignment may considerably help the other assignee-spouse's career? Will the spouse be able to re-enter the home country workforce upon repatriation at the same level as he or she was before the assignment? Finally, and most importantly, will the spouse's career interruption impact the spousal relationship and family life? Spouses should reflect on what the pause in their career will mean for them emotionally.

## **47. What if there is an emergency in the host country (i.e., natural disaster or civil unrest)?**

There are third-party providers that specialize in helping organizations in times of crisis in host locations. Most multinational organizations are affiliated with a provider that can assist you and your family should an emergency occur in the form of, for example, a natural disaster, civil unrest, or a medical emergency. This information is generally provided to expatriates during the pre-assignment orientation.

## **48. Will I be moved to a new payroll?**

Possibly. Your payroll may vary due to host country regulations, as well as home organization's practices. During your host country pre-assignment orientation, you should be informed as to how you will be paid, which includes the compensation methodology, as well as delivery mechanism.

Please note that countries vary with regard to how they remit taxes. For example, you might be used to having withholdings retained from each paycheck. However, some countries do not have withholdings. Upon learning about your payroll, please keep this in mind.

## **49. How does the company determine whether I will be eligible for a hardship allowance?**

Employers typically rely on studies from independent advisers and government guidelines in determining which assignment locations merit hardship allowances. Not only do these studies identify the locations, but they also provide recommended hardship allowances as a percentage of salary.

## **50. Will I need to change banks and notify credit card companies?**

Not necessarily. However, in order for you to make this decision, it is important to reflect on what types of payments you will continue to have in the home location, as well as what payments you will need to make in the host location. Then, determine whether you will need to make multiple wire transfers a month to keep up with your bills, how much does each wire transfer cost (some companies will reimburse one per month), and, in doing so, how will exchange rates affect the amount being transferred.

In addition, it is important to contact your credit card companies prior to departure to inform them of your move (and, if you happen to know it, the address for them to send your statements), and that you intend to use the cards in your host location. Ask the card companies about the application of foreign exchange fees and determine if it makes sense to apply for a different credit card from another bank for greater global acceptability.

While this may seem overwhelming, many expatriates maintain home and host banking accounts, credit cards, or change to a larger global banking institution that has specific programs to assist people with responsibilities in multiple countries.



# Contact

## **Marc Burrows**

**Head of Global Mobility Services**

**KPMG International**

**T:** +44 20 7694 5930

**E:** marc.burrows@kpmg.co.uk

## **Ben Garfunkel**

**National Partner in Charge**

**Global Mobility Services**

**KPMG in the US**

**T:** +1 973 912 6433

**E:** bgarfunkel@kpmg.com

## **Achim Mossmann**

**Principal**

**Mobility Consulting Services**

**KPMG in the US**

**T:** +1 212 954 6812

**E:** amossmann@kpmg.com

**kpmg.com**

**kpmg.com/socialmedia**



**kpmg.com/app**



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