KPMG

GMS Flash Alert

2019-007 | January 17, 2019

United States - Iceland Social Security Agreement to Enter into Force March 1

A new Social Security Totalization Agreement (SSTA) between the United States and Iceland will enter into force on March 1, 2019. This agreement, the United States' thirtieth, was signed on September 27, 2016, and was previously discussed in GMS *Flash Alert* 2016-124 (November 3, 2016). The text of the agreement, together with its accompanying administrative agreement, has recently been made available on the United States Social Security Administration website.[1]

WHY THIS MATTERS

One of the primary purposes of a SSTA is to prevent double taxation of social security taxes on employees on international assignments. Where an employee is assigned temporarily to a host country, her home country retains exclusive right to impose social security tax. Paying social security tax in only one country can help lower employers' international assignment costs.

In addition, such agreements provide social security protection for international assignees by coordinating contributions periods and benefits, so that the assignees do not lose their social security benefits entitlement in their home country when they go to work in the other country. This could positively affect an employee's decision whether to take an assignment to Iceland or the United States, assured in the knowledge that the period she is working on assignment abroad will be added for purposes of determining entitlement to future benefits.

Moreover, the agreement serves to simplify the administration of assignments from Iceland to the United States and vice versa, thereby making it easier for international companies to deploy their employees to the other country.

Rules on Detached Workers and Transition

Social Security Totalization Agreements serve to prevent double social security tax by providing rules to determine which country has jurisdiction to tax. In general, compensation is taxed in the country where the service is provided, but, as with most other U.S. SSTAs, a special rule applies to "detached workers," allowing certain assignees to remain covered by their home country tax while working in the host country for up to five years. Special transition rules allow that workers already in the host country will be eligible for up to five years of exclusion from host country social security tax, beginning on March 1, regardless of how long they have already been present in the host country.

KPMG NOTE

Where a detached worker qualifies for exemption from the host country social security tax, the employer should apply for a Certificate of Coverage from the home country authorities to validate the exemption. The U.S. Social Security Administration Office of International Programs will accept applications via post, fax, or online. The online application[2] should become available around March 1, 2019.

FOOTNOTES:

1 For the U.S.-Iceland social security agreement on the SSA website, click here.

2 For the online Certificate of Coverage Service on the SSA website, click here.

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Updated 2019 *U.S. Taxation of Americans Abroad* and *U.S. Taxation of Foreign Citizens* Now Available

We invite you to check out the newly updated and published ***U.S. Taxation of Americans Abroad*** and ***U.S. Taxation of Foreign Citizens***, in .pdf format. Updated for U.S. tax law in effect as of November 30, 2018, these booklets are designed to help U.S. citizens and resident aliens who live or work abroad to understand their U.S. income tax obligations and assist foreign citizens and nationals who work or live in the United States to understand U.S. tax law as it applies to them.

The above information is not intended to be "written advice concerning one or more Federal tax matters" subject to the requirements of section 10.37(a)(2) of Treasury Department Circular 230 as the content of this document is issued for general informational purposes only.

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