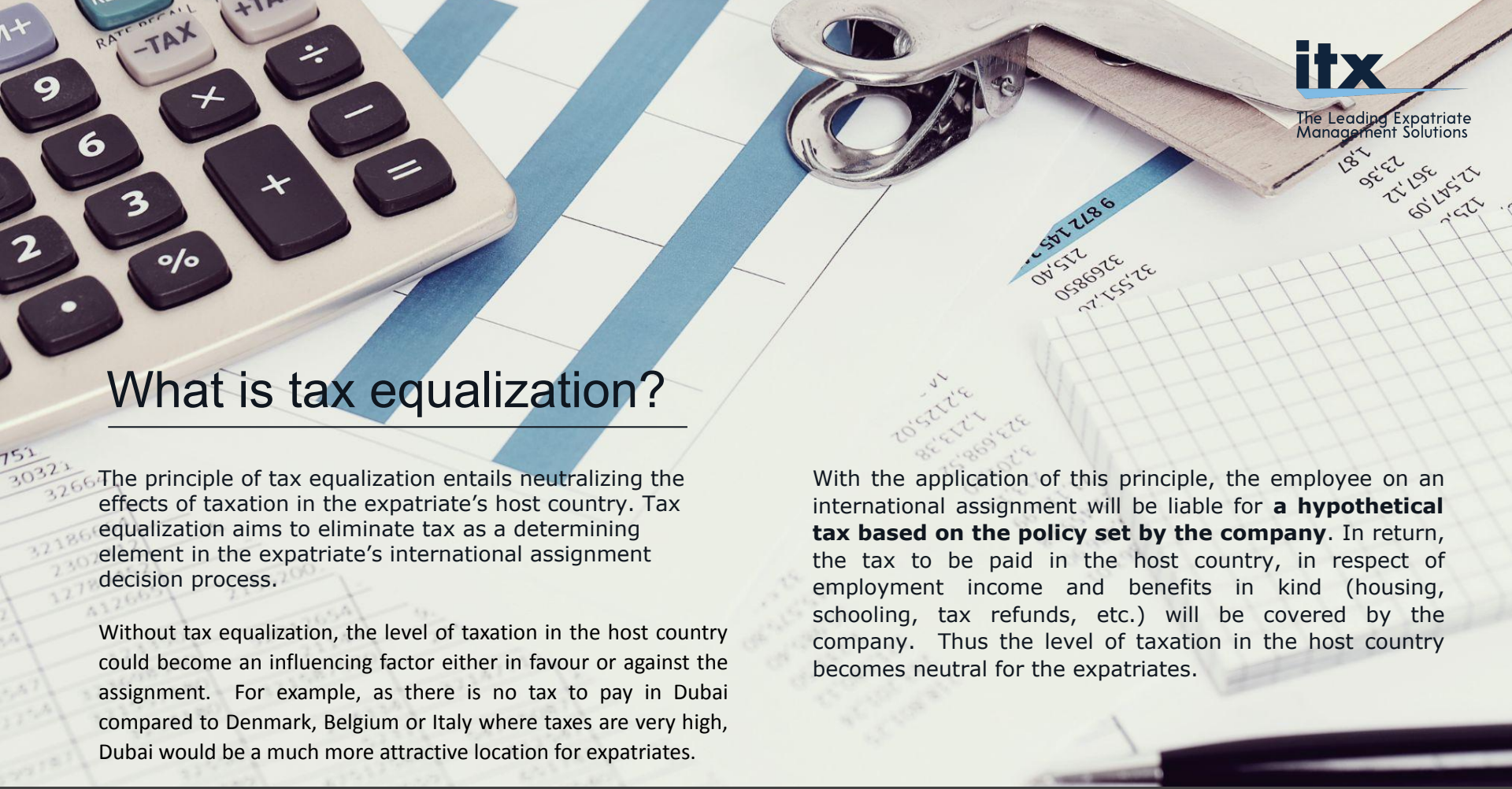
itx
The Leading Expatriate Management Solutions

Tax Equalization



itx
The Leading Expatriate Management Solutions

What is tax equalization?

The principle of tax equalization entails neutralizing the effects of taxation in the expatriate's host country. Tax equalization aims to eliminate tax as a determining element in the expatriate's international assignment decision process.

Without tax equalization, the level of taxation in the host country could become an influencing factor either in favour or against the assignment. For example, as there is no tax to pay in Dubai compared to Denmark, Belgium or Italy where taxes are very high, Dubai would be a much more attractive location for expatriates.

With the application of this principle, the employee on an international assignment will be liable for **a hypothetical tax based on the policy set by the company**. In return, the tax to be paid in the host country, in respect of employment income and benefits in kind (housing, schooling, tax refunds, etc.) will be covered by the company. Thus the level of taxation in the host country becomes neutral for the expatriates.

itx
The Leading Expatriate Management Solutions

How is the hypothetical tax determined in Global Employment Companies?

For Global Employment Companies, there are two main approaches to determine t**he amount of hypothetical tax**. The company can choose to deduct **each month from the employee's payslip**:

- **A hypothetical tax** equal to a **level of taxation similar** to that in **the country of origin** of the expatriates
- **A hypothetical tax** equal to **a level of taxation based on the same tax rate for all the expatriates** (for example the Swiss tax rate for some GEC for their employees under a Swiss employment contract).

The hypothetical tax deducted from the expatriate is not actually paid directly to the home or to the Swiss tax authorities, it is rather an employee contribution to the tax equalization system.

Calculation

The basis for calculating the hypothetical tax is very often only the basic salary and eventually the bonus, while also taking into account the expatriate's **family situation**.

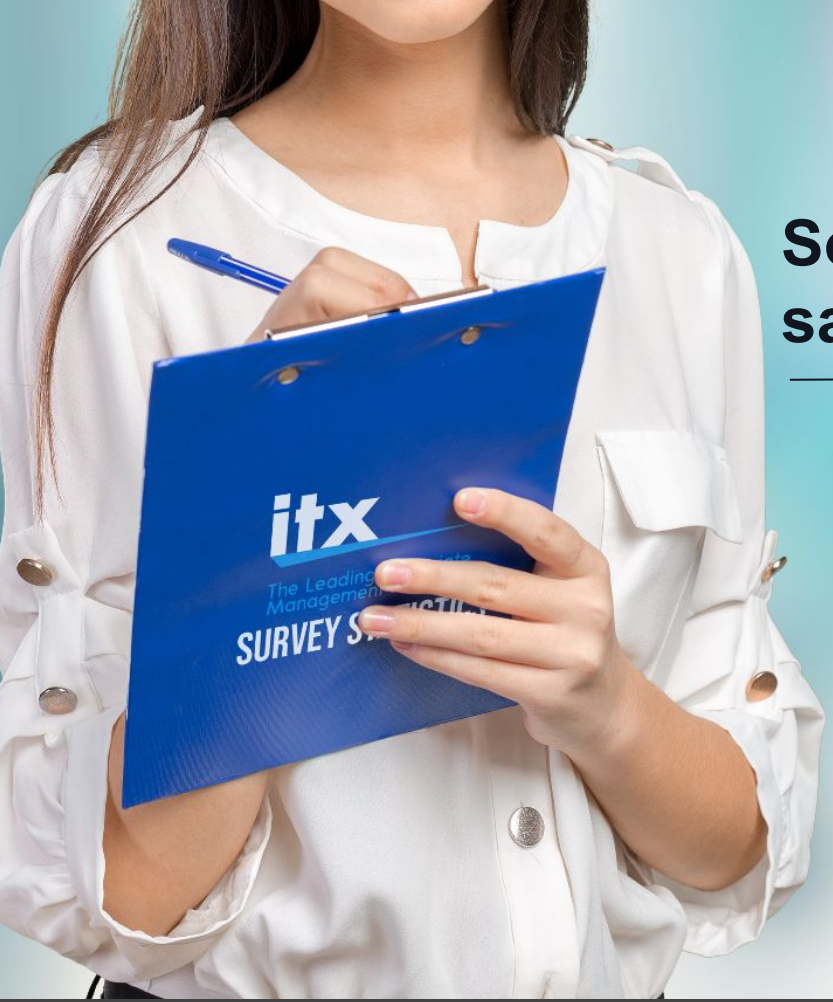
The amount of the hypothetical tax is reviewed every year, and whenever there are changes in the employee's salary, family situation or any other element liable to impact the compensation.

The tax in the host country

The **local tax** on the income and on the various support measures (accommodation, schooling, cost of living differential, etc.) is **paid or reimbursed** by the **Company**.

Generally, all personal income (capital gains, sale of real estate, etc.) is excluded from the tax equalization scope.

Likewise, all other (deferred) income related to employment (capital gains on shares, profit on the sale of company shares, stock options, free shares, performance shares, etc.) is often fully excluded from the tax equalization scope, and the expatriate is directly responsible for any tax thereon.



itx
The Leading Expatriate Management Solutions

Some statistics based on a sample of 20 companies surveyed

In the panel of companies considered, 80% of the companies have implemented tax equalization, among these companies the majority apply the hypothetical tax on the base salary of the country of origin including the bonus.

Depending on the company, either the Home Country taxes scale is applied or the Swiss tax rate for some GEC for their employees under a Swiss employment contract.

Very few companies apply a fixed percentage deduction for hypothetical tax.