JULY 2017 ISSUE 30
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EXPATRIATE NEWSLETTER

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UNITED KINGDOM

EXTENSION TO SHARE PLAN REPORTING 2016/17 TO 24 AUGUST 2017

The share plan filing deadline for 2016/17 has been extended by HM Revenue & Customs (HMRC) to 24 August 2017 (the default deadline is 6 July).

The extension is due to technical difficulties at the start of the reporting season, however since the announcement of the extension the system is again experiencing difficulties. Best advice is to try and submit returns as early as possible!

This extended deadline is for share plan returns only and does not cover new plans set up in the year which should have been registered by 6 July, this is especially important for tax approved UK plans such as Save As You Earn schemes.

As a reminder, nearly all equity transactions involving employees and directors are reportable to HMRC on the online system. There are automatic penalties for late submission and also the risk of adverse attention from HMRC should the filings be late. We are already seeing HMRC increasingly raise questions based on the data supplied in the annual returns, often linked to corporation tax deductions, payroll compliance and internationally mobile employees.

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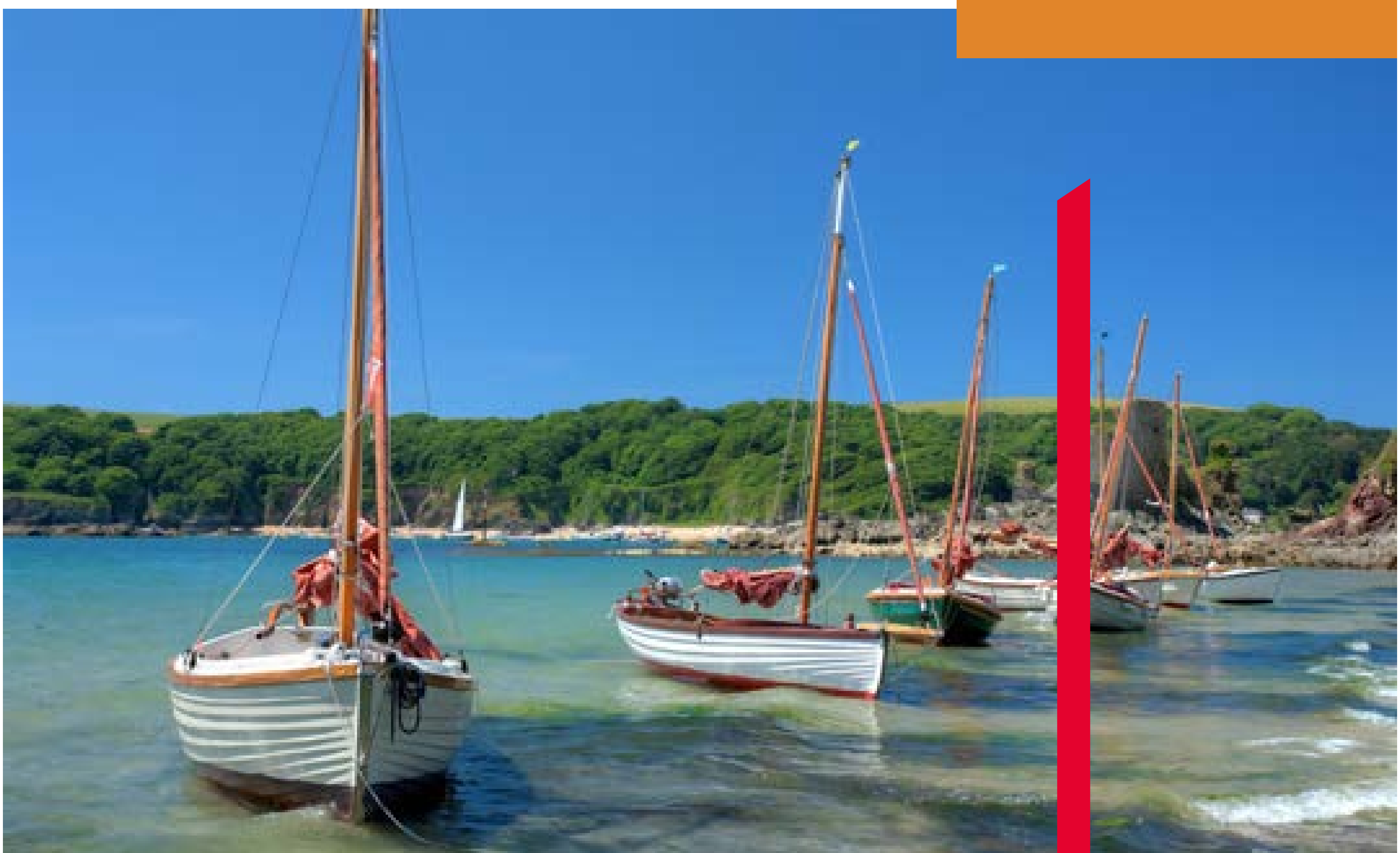

EDITOR'S LETTER

The BDO Expatriate Newsletter provides a brief overview of issues affecting international assignees, predominantly, but not exclusively, from a tax and social security perspective.

This newsletter brings together individual country updates over recent months. As you will appreciate, the wealth of changes across multiple jurisdictions is significant so to provide easily digestible information we have kept it to the key developments that are likely to affect your business and international assignees.

For more detailed information on any of the issues or how BDO can help, please contact me or the country contributors direct.

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New technology

This year for the 2016/17 share plan reporting year BDO has launched:

1. An online questionnaire – this identifies reporting requirements for those that are unsure of their obligation with only seven questions;
2. BDO Equity Reporter – a market leading digital solution to streamline share plan reporting for those companies with hundreds of employees or significant amounts of data to process.

BDO Equity Reporter works by mapping client data to the HMRC format and uses diagnostics to check the original data. It replaces manual data entry and minimises risk. The process and data analytics provide enhanced comfort to the company and HMRC that the underlying payroll process is robust and errors are identified.

Reporting points to remember

As mentioned above nearly all equity transactions involving employees or directors are reportable. Below we clear up some common misunderstandings:

- Profit share and LLC interests are reportable;
- Option awards to non-resident directors are reportable;
- Awards to prospective employees are reportable;
- Option exercise or vest of free shares awards such as RSUs will be reportable if the employee worked in the UK at any point in the relevant vesting period (i.e. period in which shares are 'earned');
- Taxable events occurring when the employee was outside the UK but in respect of awards earned relating to UK workdays will be reportable;
- The acquisition of loan notes by employees or directors is reportable.

BDO comment

The UK equity sourcing rules mean that there will be a UK reporting (and probably payroll) obligation if the employee had any UK workdays during the vesting period for the equity award.

There are many more examples of scenarios where we have discovered non-reporting through a lack of awareness. Non-reporting is often connected to payroll failures hence HMRC interest. If you are unsure if a transaction is reportable please do not hesitate to contact us.

We are also on hand to help with those scenarios involving international mobile employees. BDO has a global equity rewards matrix that has information readily available for how options and free share awards are taxed in 30 countries. For more in depth knowledge we can work with our international colleagues to provide a full global equity service.

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GERMANY

LEGAL CHANGES IN GERMANY AS OF 1 OCTOBER 2016 – ONCE AGAIN, EMPLOYERS ARE WELL ADVISED TO ADJUST THEIR STANDARD EMPLOYMENT CONTRACTS

As of 1 October 2016, further provisions of the 'Law for the Improvement of the Civil Law Enforcement of Consumer Protection Provisions of the Data Protection Law' will become effective. It also includes amendments to the law of the General Terms and Conditions (GTC). Generally, the provisions in the employment contract are regarded as GTC, except for specific cases. Contrary to what might appear to be the case pursuant to the title of the law, the law requires adaptions in widely used standard employment contracts. It is to be noted that when drafting or adjusting provisions of an employment contract a lack of diligence may trigger considerable financial risks for the employer.

What changes will occur in employment law?

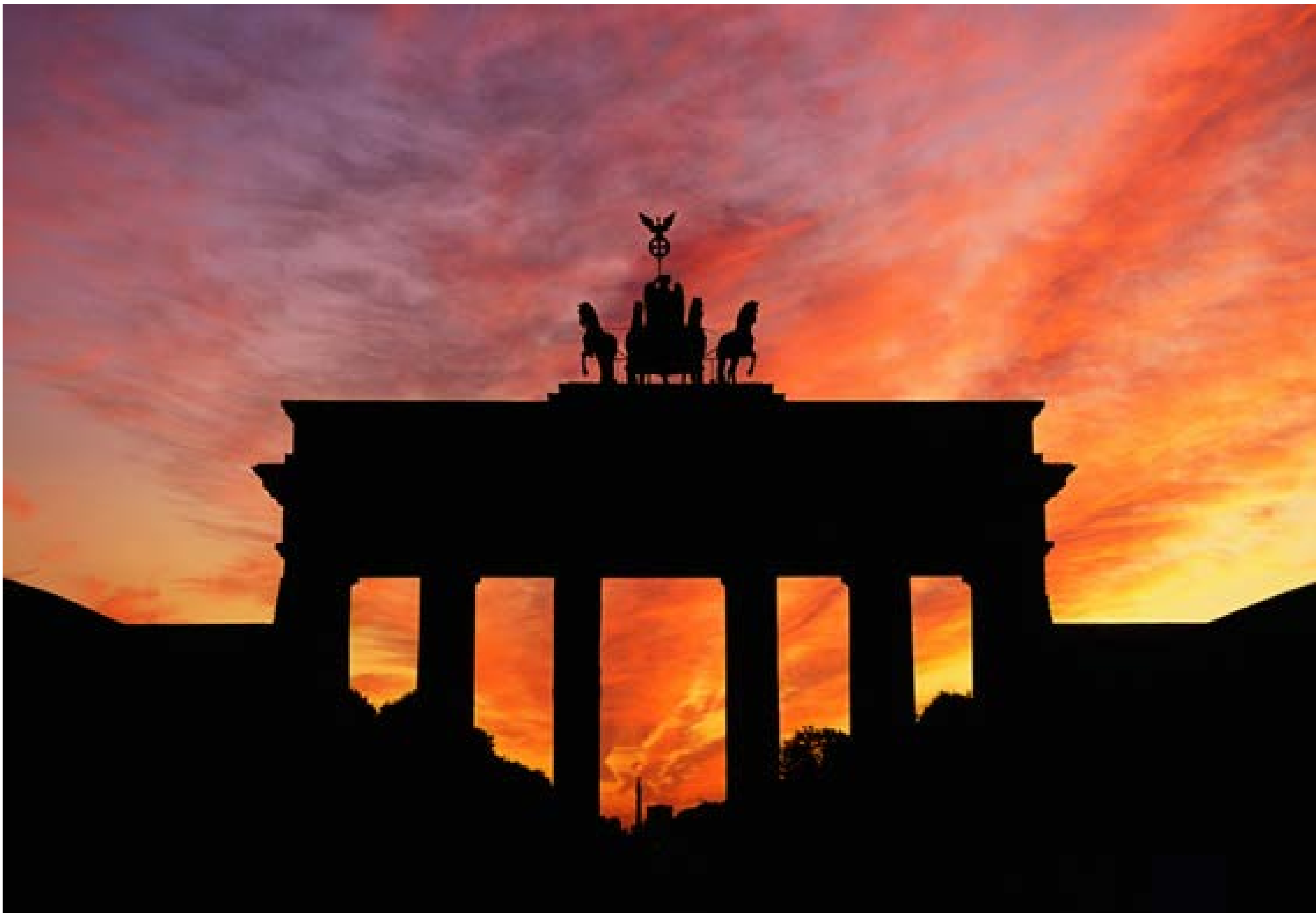
Pursuant to the current § 309 No. 13 German Civil Code (BGB), a provision in GTC is invalid, which stipulates that notices or declarations to be given to a third party are bound to a stricter form than the written form. If the written form is required by law, this in principle requires that the declaration is signed by hand. The personal signature may be replaced by a notarised hand signature or a qualified electronic signature (§§ 126, 126 a BGB). A fax or an e-mail is not sufficient to comply with the statutory written form requirement.

Pursuant to the amended § 309 No. 13 b) BGB, applicable from 1 October 2016, provisions in GTC are invalid, which stipulate that such notices or declarations are bound to a stricter form than the text form. If the law requires the text form, a readable declaration on a permanent medium providing for the name of the declaring person is sufficient. Thus, in order to comply with the text form requirement, a document with a handwritten signature is not necessary; the text form requirement is fulfilled by a computer fax, an e-mail or even by SMS messages.

What are the consequences for new employment contracts?

As a result of the new statute, new requirements for exclusion respecting forfeiture clauses in employment contracts apply with effect from 1 October 2016. The majority of standard employment contracts contain such clauses. Until now, it has been common that they stipulate that claims of the parties arising out of or in connection with the employment relationship shall lapse if they were not asserted in writing within a certain period. From commencement of the new § 309 No. 13 b) BGB on 1 October 2016, such provision in the employment contract becomes ineffective, because with respect to the assertion of claims, it provides for a stricter form than the text form, namely the written form requirement.

At least employment contracts that are entered into from 1 October 2016 onwards must be adapted to the new legal situation with regard to the exclusion respecting forfeiture clauses and should only provide the text form for the assertion of claims.



What applies to existing employment contracts?

The new statutory provision is applicable to employment relationships which were entered into after 30 September 2016 (see Art. 229 § 37 Introductory Law to the German Civil Code (EGBGB)). Regarding employment contracts that were entered into before 1 October 2016 (so-called 'old contracts'), the amended § 309 No. 13 b) BGB does not apply, i.e. written form requirements remain effective, that were agreed before 1 October 2016 in exclusion respecting forfeiture clauses in employment contracts. However, caution is required if old contracts were amended after 30 September 2016. This is because pursuant to the case law of the Federal Labour Court, changes to a contract may transform an 'old contract' into a 'new contract' if the previous contractual content was once more subject to the decision-making within the framework of the amendment of the contract. Therefore, depending on the specific case, changes to an old contract after 30 September 2016 cause the risk that the contract will no longer be considered as an old contract but as a newly formed one ('new contract').

As a result, the exclusion respecting forfeiture clause, which stipulates the written form for the assertion of claims, is invalid. As a matter of precaution, when old contracts were amended after 30 September 2016, an exclusion regarding forfeiture clause in the employment contract shall also be adapted to the text form.

What applies to exclusion periods in collective bargaining agreements and to reference clauses to collective bargaining agreements?

Exclusion periods in collective bargaining agreements are not affected by the new § 309 No. 13 b) BGB. Collective bargaining agreements are exempt from a GTC control (§ 310 para. 4 BGB). This exemption also applies if an employment contract contains a reference clause which refers to an entire relevant collective bargaining agreement that includes an exclusion period. If, however, a reference clause refers to a non-relevant collective bargaining agreement or if it refers to certain parts of a collective bargaining agreement only, these clauses are as well subject to a GTC control. If, therefore, reference clauses in employment contracts refer to a non-relevant collective bargaining agreement or only to certain parts of a collective bargaining agreement, it is recommendable to include an exclusion resp. forfeiture clause in the employment contract itself which complies with § 309 No. 13 b) BGB as amended from 1 October 2016.

What are the consequences for other typical written form requirements in employment contracts?

Traditionally, employment contracts contain further written form requirements. For example, it is common standard to stipulate that:

(i) The employee's side activities require the employer's prior written consent;

(ii) The termination notice is to be given in writing; and

(iii) Changes to the employment contract require the written form.

In addition, the deviation from the written form requirement itself (so-called double written form clause) frequently requires the written form. It is to be noted, however, that not the entire written form requirements stipulated in employment contracts are affected by the new § 309 No. 13 b) BGB.

In light of the legislative objective to improve the level of consumer protection, written declarations of the employer (e.g. the requirement of written consent to a side activity) do not fall under the scope of the new law. Further, the written form requirement concerning termination notices is not covered by the amended § 309 No. 13 b) BGB, because § 623 BGB already stipulates the written form requirement. Because according to its wording the new § 309 No. 13 b) BGB only applies to unilateral declarations and notifications of the contracting party but not to bilateral agreements between the parties, it is doubtful whether the new law affects the validity of (double) written form clauses (while respecting the precedence of the individual agreement, § 305 b BGB).

One can argue that the written form requirement does not refer to declarations that were made in the course of a contractual relationship, but to the contractual provision itself. However, so far, the legal situation has not yet been finally clarified and the further development remains to be seen.

BDO comment

Contrary to what might appear to be the case pursuant to the title of the law, the 'Law for the Improvement of the Civil Law Enforcement of Consumer Protection Provisions of the Data Protection Law' requires amendments of standard employment contracts. Commonly used exclusion resp. forfeiture clauses have to be urgently adapted to the legislation applicable from 1 October 2016. This is because provisions, which have previously been regarded as common standard, will then become (partially) invalid. As a result, employees may assert claims against the employer even after expiry of the period that is defined in the exclusion clause, limited by the statutory limitation period only. The employer, on the other hand, is legally bound to the short exclusion period concerning their claims against the employee, because they cannot rely on the invalid clause which was set by them.

A lack of diligence may trigger considerable financial risks for the employer. Employers are therefore well advised to adjust their standard employment contract templates. In addition, it is recommendable using the current statutory new regulation as means to review the provisions of the current standard employment contracts as a whole as to whether the individual provisions (still) comply with the current legal situation and the current case law of the supreme courts. This is because the requirements for employment contracts are subject to an on-going development based on case law. Thus, what parties effectively agreed a short time ago, may have become legally invalid and ineffective in the meantime.

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THE NETHERLANDS

'EVALUATION OF THE 30%-RULING' PUBLISHED

On 13 June 2017, the results of the report 'Evaluation of the 30%-ruling' were offered to the parliament ('*Tweede Kamer*'). The report concludes that the 30%-ruling is efficient and effective. The 30%-ruling is easy to use for employers and the Dutch tax authorities. In short, the conclusion is that the 30%-ruling should continue, but to a certain extent. In the report the following possible adjustments (not necessarily cumulative) have been suggested:

- Shortening the duration of the 30%-ruling (currently eight years) to five or six years;
- Extend the 150-kilometre limit;
- Reduction of the 30%-ruling at an income above EUR 100,000; and
- Other adjustments (like another percentage than 30%), but these are less obvious.

The parliament should decide whether or not to make any adjustments in the current regime.

Furthermore, please note that almost simultaneously, but independent of this report, the report '*Monitoring Vestigingsklimaat*' of the Netherlands Foreign Investment Agency (NFIA) was published. This report relates to the (positive) impact of the 30%-ruling on the Dutch business climate. The results are similar to the 'evaluation of the 30%-ruling' report. Both reports provide insight into the effects of the 30%-ruling in the Netherlands, confirming that the 30%-ruling is indispensable.

The 30%-ruling in a nutshell

By means of the 30%-ruling, under conditions a tax-free reimbursement amounting to 30% of the income can be paid to certain groups of employees (with a specific expertise) who are seconded to the Netherlands. The 30% reimbursement is intended to cover the extra cost (extra-territorial costs) for working outside the country of origin.

To qualify for the application of the 30%-ruling, the expat should meet the following criteria:

- The expat should be hired from abroad or seconded to a domestic employer in the Netherlands (the expat must be living at least 150 kilometres away from the Dutch borders during two thirds of a 24 month period before the start of the activities in the Netherlands);
- The expat should have specific expertise that is not or scarcely available on the Dutch labour market (Over 30 years of age a gross annual salary of at least EUR 37,000. Younger than 30 years of age and in possession of a Master degree a gross annual salary of at least EUR 28,125);
- The expat must be included in a Dutch payroll, i.e. the salary of the expat must be subject to Dutch wage tax withholding.

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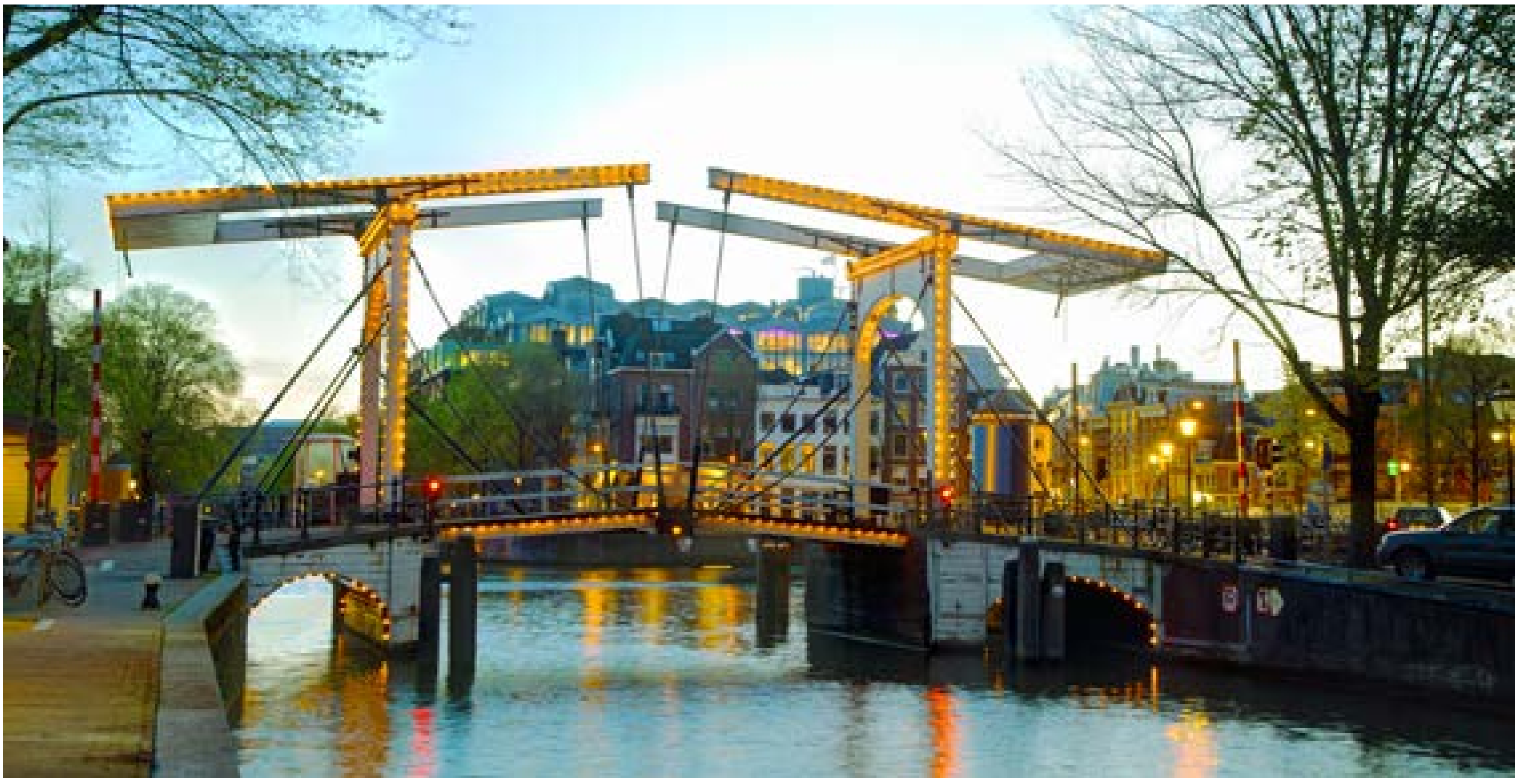

SOUTH AFRICA

FOREIGN REMUNERATION EXEMPTION – WILL NO TAX OR LOW TAX JURISDICTIONS BECOME LESS ATTRACTIVE FOR SOUTH AFRICAN TAX RESIDENTS WORKING ABROAD?

Remuneration derived for services rendered outside South Africa by any person (i.e. tax resident or non-tax resident), may be regarded as exempt from South African tax provided certain criteria are met. The criteria include:

- That the individual spent 61 continuous days; and
- An aggregate of 184 days outside South Africa in any 12 month period; and
- The services must be rendered for and on behalf of an employer outside South Africa.

Services rendered as an independent contractor will not fall qualify for relief.

Individuals employed cross-border are generally liable to tax in the country in which they are regarded as tax resident. An individual may also be liable to tax in the country where the services are rendered. The Double Taxation Agreement between South Africa and that other country assigns taxing right to one country.

The 2017 Budget Speech included a proposal to relook at the foreign remuneration exemption to avoid the scenario where the income is not taxed in either location. Where an individual renders services in a no tax jurisdiction, and meets the exemption criteria detailed above, tax is not paid in South Africa and the other jurisdiction.

The proposal is to amend the existing foreign remuneration exemption to include additional qualifying criteria. If no liability for tax exists in the foreign jurisdiction, the remuneration derived for services rendered in that jurisdiction will not qualify for the exemption.

What does this mean for South African tax residents remunerated by a local employer?

The remuneration derived by an individual who:

- Remains tax resident of South Africa;
- Is paid by an employer in South Africa;
- Meets the days' criteria detailed above; and
- Is subject to tax in the host country, is likely to be exempt from tax in South Africa. The employer may elect not to withhold employees' tax on a monthly basis to avoid double taxation.

If a South African tax resident is not remunerated via an employer in South Africa and meets the days' requirements and the remuneration is not subject to tax in the host country, he or she is required to register as a provisional taxpayer to settle the liability for normal tax in South Africa.

What does this mean for non-tax residents remunerated by a local employer?

Non-tax residents are liable to tax on their South African sourced income and capital gains (subject to certain exclusions). The originating cause of the income and the location of the income, i.e. where the services giving rise to such income will be considered to be the source of the income. If the services are rendered outside South Africa for and on behalf of an employer, the source of the income is located outside South Africa. The remuneration derived by the non-tax resident is not likely to be subject to normal tax in South Africa.

BDO comment

Is this proposal likely to be implemented and will this result in South African outbound expatriates opting to cease South African tax residence status?

A consultation process is likely to follow with National Treasury and other stakeholders given the wider impact of this proposal. Cross border employment and global assignment mobility is likely to decrease. South African tax residents may opt to cease South African tax residence status where employment is concluded with a foreign employer. The implications of ceasing tax residence status requires evaluation.

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SWEDEN

NEWS FROM THE SWEDISH SUPREME ADMINISTRATIVE COURT

In a judgment of 20 June 2017, the Swedish Supreme Administrative Court has confirmed the legal opinion of the Fiscal Board ('*Sw. Skatterättsnämnden*') that Directors' fees shall be taxed as employment income (case # 278/17).

Directors' fees are taxed according to the case law of 1993 as employment income in Sweden. The Swedish Tax Agency has, since 2009, applied an administrative practice where a so called professional Board with at least three board assignments from different companies (without the ownership) have been taxed as a business income and also as corporate income.

When the business of a company is based on personal performance, it may be a flow through income where the remuneration should be taxed with the owner. In Sweden, assignments as a member of the Board of Directors may only be held by a natural person. In exceptional circumstances, fees to the Board of Directors can be considered as business income when the assignment is set up for a limited time period and for special activities.

BDO comment

The payment of Directors' fees that are due from now on should be paid as employment income; the income should be reported on the Swedish annual income statements and the basis for the employer's contributions.

Only in very special situations, would it be possible to invoice your Directors' fees from your private companies.

Please, do not hesitate to get in touch with us if you have any questions regarding the taxation of Directors in Sweden.

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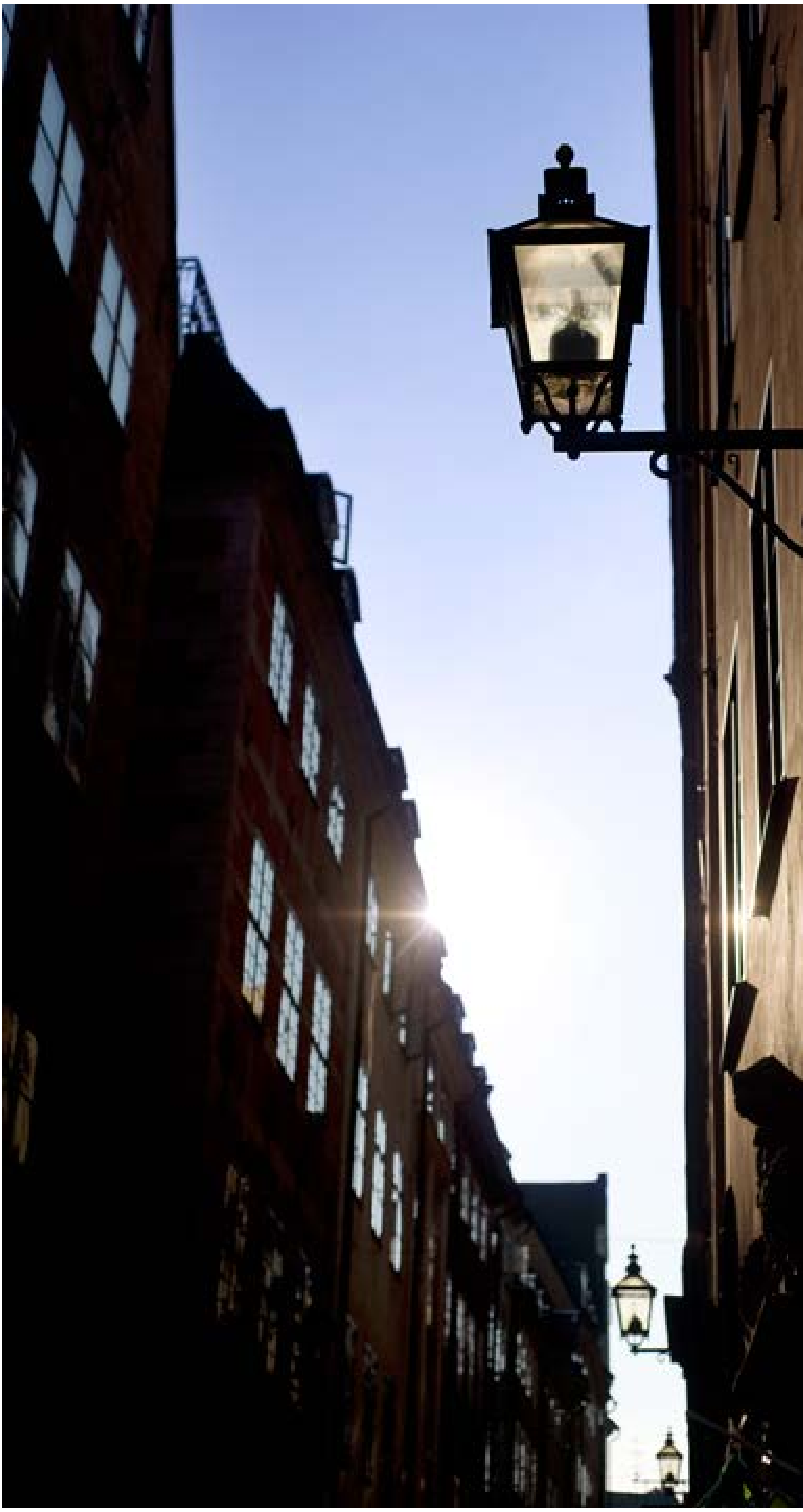

SWITZERLAND

WORK PERMIT ISSUES

Implementation of accompanying measures

The State Secretariat for Economic Affairs (SECO) has presented a report on the implementation of the accompanying measures for the Free Movement of Persons 2016. The accompanying measures protect the work force from salary underpayments, abusive working conditions and ensure fair competition conditions for domestic and foreign companies.

The essentials in brief

- The control intensity relating to the accompanying measures for the Free Movement of Persons (FMP) remained high in 2016. The control bodies audited the wage and working conditions in around 42,000 companies for 164,000 employees in all regions and industries. Thus, approximately 7% of all Swiss workplaces were inspected during the year.
- The review of Swiss companies, done by tripartite commissions (for the sectors without an overall collective labour agreement – CLA), found that 12% of the controlled enterprises were paying under the minimum wage benchmarks. The joint commissions (for branches with CLA) carried out 10,296 inspections in total.
- Some 7,444 inspections (18,432 individuals) of foreign service providers from the EU countries were carried out by the joint commissions. A violation of wage regulations was found in about a quarter of the cases, resulting in more than 1,400 penalties. The tripartite commissions controlled 5,667 deploying companies (13,599 persons). 16% of these controlled companies were found to have abusive wage conditions.

Appeal for the safety clause concerning employees from EU-2 countries (Bulgaria and Romania)

As of 1 June 2016 the full Free Movement of Persons for EU-2 nationals is in force. In the FMP, a safety clause was defined which allows Switzerland to re-introduce quotas for a limited period if a certain threshold is exceeded. Between June 2016 and May 2017, the threshold was significantly exceeded for the granted residence permits B. Due to this fact the residence permits B will now be limited to 996 units during the next 12 months and released quarterly. For the short-term residence permits L the prerequisites of this safety clause are not fulfilled, L-permits can still be applied for without a limitation.

Quota for service providers from EU/EFTA states

Service providers of EU/EFTA countries

The quotas for service providers (assignees) not falling under the free movement of people agreement are released on a quarterly basis. The next release will be effective as of 1 July 2017. Presently there are still quotas left for the 2nd quarter of 2017.

Non-EU/EFTA nationals

Part of the quotas for non-EU/EFTA nationals is distributed to the cantons according to defined criteria. The remainder of the quotas rest within the Federal Reserve and the cantons may apply for further quotas if their initial provision is exhausted. The quotas (L and B) for non-EU/EFTA nationals are fully exhausted for the year 2017. First Federal Reserve quota requests from several cantons have been approved.

Croatian nationals

Additional quotas apply for Croatian nationals during a transitional period until the full Free Movement of Persons will be in force in 2024. The quotas are released quarterly and the total amount shall be increased yearly. The quota for residence permits B is already exhausted for the 2nd quarter of 2017. There are still quotas available for short-term residence permits L.

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UNITED KINGDOM

MAKING TAX DIGITAL – AN UPDATE

HMRC is continuing its drive to digitise the majority of UK tax filings over the next few years. Currently 11 million individuals have a personal tax account of the anticipated 33 million who will need one, and HMRC reports that the repayment process is working well.

The current Making Tax Digital (MTD) focus is on:

- Improvements to the personal tax return area of the HMRC system, for the planned phase out of tax returns;
- The simplification of employer data for uploading into the personal tax account area. The PAYE area, with tax codes, appears to work well already;
- Making the system simpler and more customer focused. The aim is to encourage people to manage their digital accounts, including the operation of PAYE and the collection of underpayments (e.g. by spreading an underpayment over the individual's tax codes for a number of tax years);
- Pre-populating the system with information provided by third parties, in particular by banks and building societies, and advising the customer accordingly. If the taxpayer has a problem with the information provided to HMRC by the third party, this has to be taken up by the individual with the provider directly; and
- Working on 'Proof of Concept' for taxpayers' agents, in terms of including an individual's employment history, pay details, tax payments and PAYE on the system. One Proof of Concept issue is the restriction of an agent's access to the information which they actually need, with a separate private information area for individual access only.

The MTD budget is limited and it is continues to be likely that because of their complexity, expatriate employees will be one of the last groups to move onto the digital system (in circa 12-24 months' time). HMRC is aware of the various expatriate specific issues that will arise, especially agent access (including dealing with individuals who had a personal tax account before going on assignment) and the complexities associated with tax equalised expatriates' grossed up earnings. HMRC accepts that some expatriates will require an identifier other than an NI number, which they do not necessarily require.

The next MTD change is the elimination of self-assessment for individuals with state pension income in excess of the personal tax allowance, who have no PAYE income from which their pension underpayments can be collected. Communications will be issued to individuals, including a simple statement PA302, starting in August 2017. The 2016/17 PA302 statement will show the income tax underpaid on the excess pension, which will generally be due for payment on 31 January 2018.

This change affects circa 27,000 pensioners and is effective for the tax year ended 5 April 2017 onwards. It means that many pensioners will receive an unexpected tax bill. Those already holding a personal tax account will receive an HS302 and they can then manage their payment arrangements online. The communication of this change is direct i.e. HMRC will write directly to those individuals affected, rather than publicising this more widely.

BDO comment

As previously mentioned, Making Tax Digital is a key initiative for HMRC and many tax payers are now experiencing this first hand. Although still a little way off, expatriate employees will fall within the MTD regime and employees, employers and agents need to be ready for this seismic shift in the way personal tax filings are dealt with.

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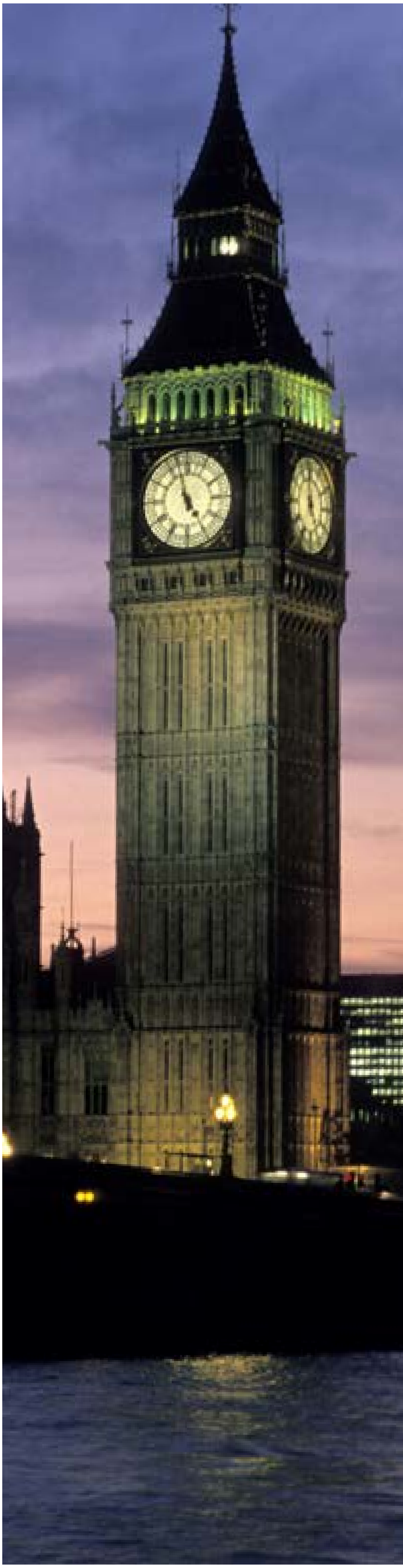

UNITED STATES OF AMERICA

POTENTIAL CHANGES TO US STATE TAX WITHHOLDING REQUIREMENTS

On 20 June 2017 the U.S. House of Representatives passed H.R. 1393 the 'Mobile Workforce State Income Tax Simplification Act of 2017' that prohibits the wages or other remuneration earned by an employee who performs employment duties in more than one state from being subject to income tax in any state other than:

1. The state of the employee's residence; and
2. The state within which the employee is present and performing employment duties for more than 30 days during the calendar year in which the wages or other remuneration is earned.

The bill exempts employers from state income tax withholding and information reporting requirements for employees not subject to income tax in the state under this bill. For the purposes of determining penalties related to an employer's state income tax withholding or reporting requirements, an employer may rely on an employee's annual determination of the time expected to be spent working in a state in the absence of fraud or collusion by such employee. For purposes of this bill, the term 'employee' excludes: professional athletes; professional entertainers; production employees who perform services in connection with certain film, television, or other commercial video productions; and public figures who are persons of prominence who perform services for wages or other remuneration on a per-event basis. The bill does not apply to any tax obligation that accrues before the effective date. The bill takes effect on 1 January of the second calendar year that begins after the enactment of this bill. Companion U.S. Senate Bill S. 540 was introduced in the Senate on 7 March 2017.

This is the third time the House version of the legislation has been cleared and while the Mobile Workforce State Income Tax Simplification Act of 2017 would create a uniform national standard and would significantly simplify compliance with all the different state laws there are those who are opposed to the bill. Several states like New York, Massachusetts, and Illinois have publically stated that they stand to lose revenue if the bill is enacted and the Congressional Budget Office projects that the bill could cost states a combined USD 78 million in 2020. The American Institute of CPAs (AICPA) and organisations representing multistate corporations welcome the bill since currently employees who travel outside their state of residence for business purposes can be subject to onerous administrative burdens to file an income tax return in every state they work in even if they were in a state for only one day. AICPA President and CEO Barry C. Melancon said "This legislation strikes an equitable balance, and we urge Congress to take swift action so the bill can become law and relieve the burden imposed on countless U.S. employers and employees by inconsistent state laws."

BDO comment

While the bill has bipartisan support in the House and Senate, and many lawmakers agree that a ***de minimis*** *threshold is necessary, we will need to wait and see if the Senate passes S. 540 and what changes, if any, they might make to the legislation.*

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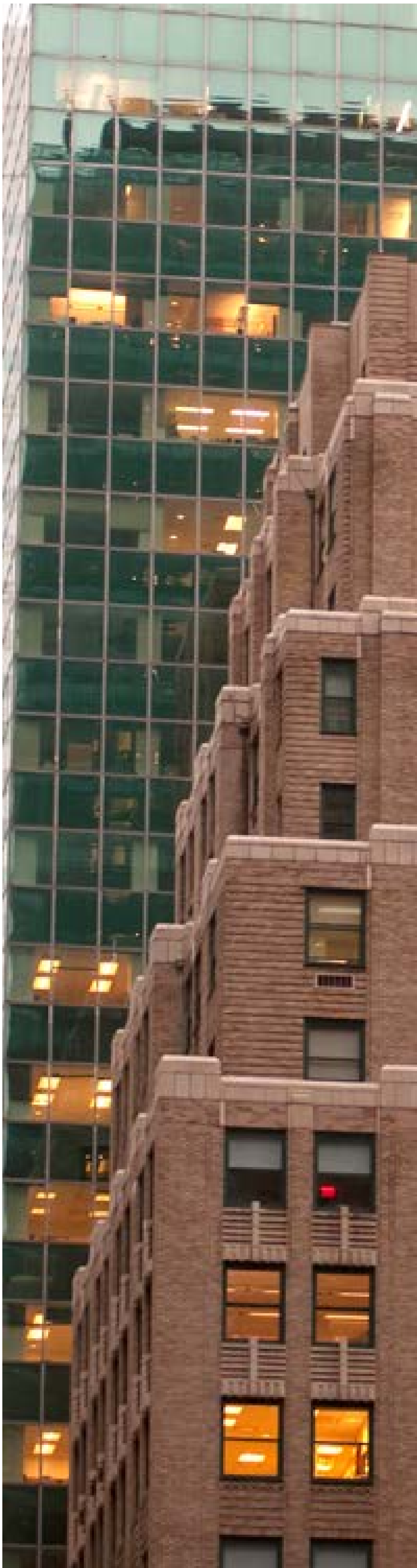

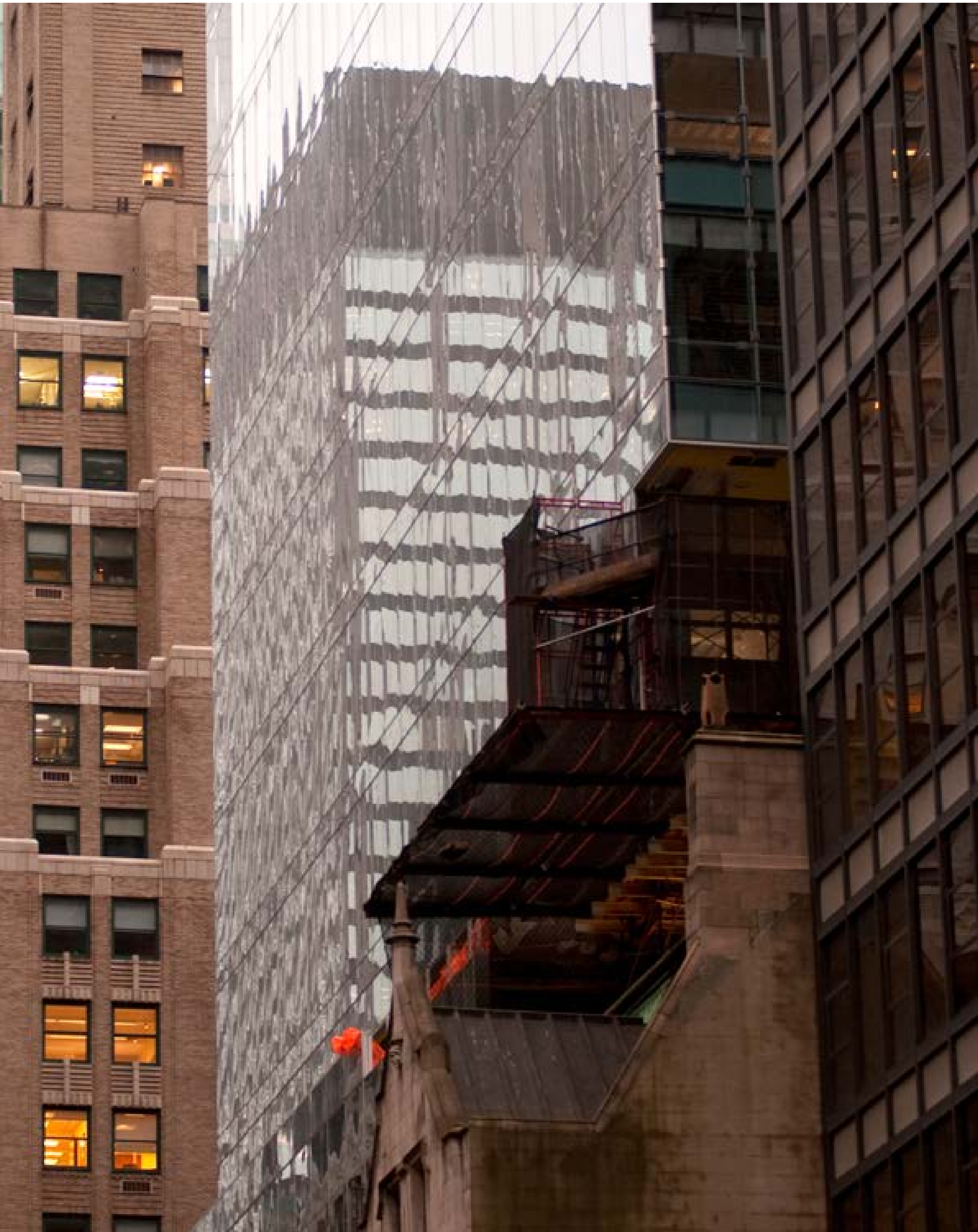

CURRENCY COMPARISON TABLE

The table below shows comparative exchange rates against the euro and the US dollar for the currencies mentioned in this issue, as at 24 July 2017.

Currency unit	Value in euros (EUR)	Value in US dollars (USD)
Euro (EUR)	1.00000	1.10861
US Dollar (USD)	0.81387	1.00000

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