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Impact of Tax Reform on Global Mobility

H.R. 1:

“Tax Cuts and Jobs Act”



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Effective Date & Expiration of Provisions

Effective Date:	Generally effective as of January 1, 2018 unless otherwise noted.
Expiration Date:	<p>Most individual tax proposals are temporary and would expire after December 31, 2025.</p> <p>Beginning in tax year 2026, modified or suspended provisions would revert to 2017 law, as adjusted for inflation.</p> <p>For most items that are adjusted for inflation, method changed to “chained CPI”</p>



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Ordinary Income Tax Rates

Prior Law	Tax Cuts and Jobs Act
Seven tax brackets: 10%; 15%; 25%; 28%; 33%; 35%; 39.6%	Retains seven bracket structure with modifications to rates: 10%; 12%; 22%; 24%; 32%; 35%; 37% Significantly raises income level for top tax bracket.

**See next slides for comparison chart*



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Individual Tax Rates – Single

Prior Law		Tax Cuts and Jobs Act	
Tax Rate	If taxable income is:	Tax Rate	If taxable income is:
10%	\$0 to \$9,525	10%	\$0 to \$9,525
15%	\$9,526 to \$38,700	12%	\$9,526 to \$38,700
25%	\$38,701 to \$93,700	22%	\$38,701 to \$82,500
28%	\$93,701 to \$195,450	24%	\$82,501 to \$157,500
33%	\$195,451 to \$424,950	32%	\$157,501 to \$200,000
35%	\$424,951 to \$426,700	35%	\$200,001 to \$500,000
39.6%	\$426,701 or more	37%	\$500,001 or more

Supplemental wage withholding rate will be 22%.

Rate for supplemental wages >\$1 million: 37%.



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Individual Tax Rates – Married Filing Joint

Prior Law		Tax Cuts and Jobs Act	
Tax Rate	If taxable income is:	Tax Rate	If taxable income is:
10%	\$0 to \$19,050	10%	\$0 to \$19,050
15%	\$19,051 to \$77,400	12%	\$19,051 to \$77,400
25%	\$77,401 to \$156,150	22%	\$77,401 to \$165,000
28%	\$156,151 to \$237,950	24%	\$165,001 to \$315,000
33%	\$237,951 to \$424,950	32%	\$315,001 to \$400,000
35%	\$424,951 to \$480,050	35%	\$400,001 to \$600,000
39.6%	\$480,051 or more	37%	\$600,001 or more

In 2026, the tax rates and bracket amounts will revert to their 2017 levels (as adjusted for inflation in intervening years).



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Capital Gains and Investment Income

	Prior Law	Tax Cuts and Jobs Act
Long-term capital gain/qualified dividend rate	<ul style="list-style-type: none"> 0% rate applies to those in the 10% and 15% tax brackets 15% rate applies to others, except those in top bracket, for whom the rate is 20% 	<ul style="list-style-type: none"> Current rates retained. Breakpoints for the 15% and 20% rates would be the same as current law, adjusted for inflation after 2017
3.8% Net Investment Income Tax	Retained	Retained

Long-term capital gain and qualified dividend rate

Taxable income up to \$77,200 for MFJ, \$38,600 for single	0%
Taxable income \$77,201 to \$479,000 for MFJ, \$38,601 to \$425,800 for single	15%
Taxable income \$479,001 and over for MFJ, \$425,801 and over for single	20%

Net Investment Income Tax of 3.8% on unearned income was retained.



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Standard Deduction and Personal Exemptions

	Prior Law	Tax Cuts and Jobs Act
Standard Deduction	\$13,000 MFJ \$6,500 Single & MFS \$9,550 HOH Additional standard deduction for blind or elderly – \$1,300, or \$1,600 if unmarried and not a surviving spouse.	\$24,000 MFJ \$12,000 Single & MFS \$18,000 HOH Additional standard deduction for blind and elderly retained. Reverts to current law in 2026
Personal Exemption	\$4,150 each for taxpayer, spouse, and each dependent	Suspended until 2026

The standard deduction is taken by those who do not claim itemized deductions. Since additional limitations are being placed on itemized deductions, many more people are expected to claim the standard deduction. Although it is being doubled, that benefit may be largely offset by the loss of personal exemptions, which are a flat amount allowed to be deducted by each taxpayer and dependent.



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Child Tax Credit

Prior Law	Tax Cuts and Jobs Act
<ul style="list-style-type: none">• A credit of \$1,000 is allowed for each dependent child under age 17• The credit is phased out for those with adjusted gross income of \$110,000 MFJ/ \$75,000 single	<ul style="list-style-type: none">• Increases the credit to \$2,000 per child (\$1,400 refundable)• Raises income limit phase-out to \$400,000 MFJ / \$200,000 single• SSN required for each qualifying dependent• Adds a \$500 nonrefundable credit for other dependents

For many taxpayers, the larger child tax credit will compensate for the loss of personal exemptions. However, the requirement to supply a Social Security Number for each child means that the children of many resident aliens will not be able to claim this credit (however they may still qualify for the \$500 “non-child credit”).



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State and Local Tax Deduction

Prior Law	Tax Cuts and Jobs Act
<ul style="list-style-type: none">• State and local <u>income</u> tax paid during year is fully deductible• Deduction for state and local <u>sales</u> tax allowed in lieu of deduction for income tax• Deduction for <u>foreign income</u> tax allowed in lieu of foreign tax credit• State, local and foreign <u>property</u> tax on <u>real</u> property• State and local <u>property</u> tax on <u>other</u> property	<ul style="list-style-type: none">• No deduction for foreign property tax• Deduction for state and local income taxes (or sales tax in lieu of income tax) and property taxes together cannot exceed \$10,000

Taxes paid relating to 2018 will not be deductible if prepaid in 2017



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Home Mortgage Interest

Prior Law	Tax Cuts and Jobs Act
<ul style="list-style-type: none">• Interest deductible on acquisition debt of up to \$1 million• Interest deductible on home equity debt of up to \$100,000• Deduction allowed for mortgages on primary residence and one other home<ul style="list-style-type: none">▪ Dollar limitations remain the same whether one or two homes	<ul style="list-style-type: none">• Deduction for acquisition debt limited to debt of \$750,000• Acquisition debt incurred on or before December 15, 2017 is grandfathered (i.e. still subject to \$1 million limitation)• Deduction for home equity debt suspended unless proceeds use for improvements to primary residence



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Exclusion of Gain on Sale of Residence

Prior Law	Tax Cuts and Jobs Act
<ul style="list-style-type: none">Exclude \$500,000 of gain (MFJ); \$250,000 (Single or MFS)Ownership and use requirement is 2 out of 5 yearsAvailable once every 2 years.No phase-out	Retained

The House and the Senate proposed changing the Ownership & Use requirement from 2 out of 5 years to 5 out of 8 years. The House also proposed a phase-out so higher income earners would not benefit from the exclusion.

Surprisingly, the Conference Agreement makes no change to the current rules.

The proposed changes would have had significant implications for global mobility programs. Under the House proposal, a taxpayer whose AGI has been increased due to assignment allowances might not have been able to take advantage of the home sale exclusion, or may have the benefit reduced due to the phase-out provision.

The longer home use requirement may have also resulted in more home sales being taxable (due to a lower prorated exclusion) which, if equalized, would have been the employer's responsibility.



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Itemized Deductions

	Prior Law	Tax Cuts and Jobs Act
Charitable Contribution Limit	Deduction cannot exceed 50% of AGI	Deduction limit increased to 60% of AGI instead of 50% for cash contributions.
Medical Expense Deduction	Must exceed 10% of AGI to be deductible	Lowers threshold for deduction from 10% of AGI to 7.5% of AGI for 2017-2018 only
Other Itemized Deductions	Miscellaneous (to the extent they exceed 2% of AGI): <ul style="list-style-type: none"> • employee business expenses, • tax preparation expenses • Investment expenses Casualty and theft loss (to the extent they exceed 10% of AGI)	Suspends miscellaneous deductions Suspends casualty loss except if related to federally-declared disasters.
Limitation on Itemized Deductions	Benefit of itemized deductions is phased out for married couples with adjusted gross income over \$320,000 or \$266,700 for single taxpayers	Limitation is suspended until 2026.



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Other Deductions

	Prior Law	Tax Cuts and Jobs Act
Alimony	Alimony is deductible to the payor and taxable to the recipient	Repealed beginning 2019 (applicable to divorce or separation instruments executed after 12/31/2018)
Educator expense deduction	\$250 above the line deduction allowed	Retained
Student Loan Interest Deduction	A deduction of up to \$2,500 is permitted	Retained



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Other Provisions

	Prior Law	Tax Cuts and Jobs Act
Education Credits	American Opportunity Credit and Lifetime Learning Credit	Retained
Section 529 savings accounts	Tax-free savings to be used for higher education costs	<ul style="list-style-type: none"> Expanded to include public, private, and religious elementary and secondary schools \$10,000 per student per year distribution limit unless used for post-secondary school expenses Not subject to sunset in 2025
Alternative Minimum Tax (AMT)	Special tax with lower rates but fewer deductions	Retained with higher exemption amount



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Affordable Care Act Individual Mandate

Prior Law	Tax Cuts and Jobs Act
<p>A “shared responsibility payment” must be made by anyone who does not purchase minimum essential health insurance and doesn’t qualify for an exception</p> <p>Greater of ...</p> <ul style="list-style-type: none">• \$695 per person/\$2,085 per family, or• 2.5% of income over filing threshold<ul style="list-style-type: none">• But no more than \$2,676 per person per year (up to 5 people in family; 2017 amount)	<p>Lowers the amount of the shared responsibility payment to zero, effectively nullifying the “individual mandate” of the Affordable Care Act.</p> <p>Effective in tax year 2019.</p> <p>Repeal would be permanent (not subject to the sunset provision).</p>



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Moving Expenses

	Prior Law	Tax Cuts and Jobs Act
Exclusion for Employer Provided Moving Expense Reimbursement (other than military)	Qualified moving expenses reimbursed by the employer are not included in compensation	Suspended until 2026 – reimbursements thereby taxable
Moving Expense Deduction (other than military)	Qualified moving expenses paid by the taxpayer are allowed to be deducted even if the taxpayer doesn't itemize	Suspended until 2026 – expenses not deductible

The change could have significant implications for assignment costs. Elimination of the tax deduction for moving expenses may result in these costs being grossed up. Given the cost of international moves, this additional tax expense could be quite significant.

On the other hand, lack of a tax deduction could simplify administration for employers – it may be feasible to simply provide employees with a moving allowance and forego the requirement that assignees account for their moving expenses.

The foreign earned income exclusion and foreign housing exclusion were retained.



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Fringe Benefits: Taxable

The following fringe benefits would be taxable income:

- Bicycle commuting reimbursements from 2018 through 2025.
- Employee achievement awards when there are gift cards, vacations, meals, lodging, tickets to theater or sporting events, stocks, bonds, other securities, and/or other similar items awarded.



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Fringe Benefits with Limited Deductions

The following fringe benefits would no longer be considered deductible:

- Entertainment, amusement, and recreation activities as well as related facilities, even when directly related to a trade or business.
- Membership dues with respect to any club organized for business, pleasure, recreation or other social purposes
- Meals provided for the convenience of the employer or through an employer-operated eating facility that qualified as a de minimis fringe benefit limited to 50% and then non-deductible after 2025.
- Qualified transportation fringe (except for safety of employee)

The deduction for housing provided for the convenience of the employer and on the employer's premises was retained. In the context of global mobility this affects employers who provide "camp housing" as well as those on remote sites such as drilling platforms.



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Examples



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MFJ \$150k SALARY IN NYC, 2 KIDS

	Prior Law	Current Law
Income (AGI)	\$152,000	\$152,000
Itemized Deductions		
State and Local Income Taxes	\$12,444	\$2,000*
Real Property Taxes	\$8,000	\$8,000*
Mortgage Interest	\$15,000	\$15,000
Charitable Contributions	\$3,000	\$3,000
Investment Expenses Subject to 2% Floor	\$750	Repealed
Tax Preparation Fees Subject to 2% Floor	\$500	Repealed
Less 2% AGI Floor (\$152,000 * 2% = \$3,040)	<u>(\$1,250)</u>	<u>Repealed</u>
Itemized Deductions	\$38,444	\$28,000
Less Phase out Limitation	<u>\$0</u>	<u>Repealed</u>
Total Itemized Deductions	\$38,444	\$28,000
Standard Deduction, if greater than itemized deductions	\$12,700	\$24,000
Personal Exemptions	\$16,200	Repealed
Taxable Income	\$97,356	\$124,000

	Prior Law	Current Law
Regular Tax	\$15,717	\$19,089
Alternative Minimum Tax	\$0	\$0
Additional Medicare Tax (0.9%)	\$0	\$0
Net Investment Income Tax (3.8%)	\$0	\$0
Tax Before Credits	\$15,717	\$19,089
Child Tax Credit	\$0	(\$4,000)
Total Tax	\$15,717	\$15,089
Dollar change in tax liability – increase/(decrease)		(\$628)



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SAME FACTS WITH MOVING EXPENSES

	Prior Law	Current Law
Income (AGI)	\$152,000	\$152,000
Taxable Moving Expenses	\$0	\$30,000
Updated AGI	\$152,000	\$182,000
Itemized Deductions		
State and Local Income Taxes	\$12,444	\$2,000*
Real Property Taxes	\$8,000	\$8,000*
Mortgage Interest	\$15,000	\$15,000
Charitable Contributions	\$3,000	\$3,000
Itemized Deductions	\$38,444	\$28,000
Less Phase out Limitation	<u>\$0</u>	<u>Repealed</u>
Total Itemized Deductions	\$38,444	\$28,000
Standard Deduction, if greater than itemized deductions	\$12,700	\$24,000
Personal Exemptions	\$16,200	Repealed
Taxable Income	\$97,356	\$154,000

	Prior Law	Current Law
Regular Tax	\$15,717	\$25,689
Alternative Minimum Tax	\$0	\$0
Additional Medicare Tax (0.9%)	\$0	\$0
Net Investment Income Tax (3.8%)	<u>\$0</u>	<u>\$0</u>
Tax Before Credits	\$15,717	\$25,689
Child Tax Credit	\$0	(\$4,000)
Total Tax	\$15,717	\$21,689
Dollar change in tax liability – increase/(decrease)		\$5,972



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SINGLE INDIVIDUAL WITH \$350K SALARY

	Prior Law \$350k Single	Current Law \$350k Single
Taxable Income	\$292,778	\$324,000
Regular Tax	\$79,965	\$88,890
Alternative Minimum Tax	\$9,426	\$0
Additional Medicare Tax (0.9%)	\$1,350	\$1,350
Net Investment Income Tax (3.8%)	<u>\$69</u>	<u>\$76</u>
Tax Before Credits	\$90,810	\$90,316
Child Tax Credit	<u>\$0</u>	<u>\$0</u>
Total Tax	\$90,810	\$90,316
Dollar change in tax liability – increase/(decrease)		(\$495)



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Effect on Global Mobility Programs

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Assignment Cost Estimating

- Changes to the individual income tax rates and tax deductions will likely affect the overall cost of international assignments, but the impact on a global mobility program will depend upon the program's assignee population.
 - Lower rates could result in U.S. outbound assignments becoming more expensive, as the U.S. hypothetical tax offset would be lower.
 - Conversely, lower rates could result in U.S. inbound assignments becoming less expensive, as the actual U.S. tax cost for an employer would be lower.
 - Arrival and departure year taxes may be higher due to fewer itemized deductions.
- Repeal (suspension) of moving expense exclusion/deduction could increase costs of inbound and outbound assignments.
- Adjust cost projections and accruals for assignment costs and communicate with other stakeholders.



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Policy & Communications

Global Tax Policy Updates

- Tax equalization policies reference hypothetical itemized deductions and personal exemptions.
 - Policies will need to be reviewed and hypothetical withholding adjusted.
- Repeal (suspension) of personal exemption may require more nonresident aliens to file U.S. tax returns (e.g., short-term business visitors)

Employee Communications



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Survey Results of Changes as a Result of Tax Reform

- Continue fully-managed relocation support services for international assignees
 - Gross up moving expenses for household goods (HHG) shipments, HHG's storage and final move travel expenses
- For those that are making changes:
 - Restrictions on HHG's shipments (e.g., consideration for furniture rental in the host country location vs. HHG's shipment).
 - Gross up relocation expenses at the new supplemental rates with new marginal rates being the second most common choice.
- Just over a third of respondents are planning to perform a review of assignment cost projections.



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Questions and Thank You!



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