Global Reward Services Quarterly Newsletter

December 2024

The KPMG Global Reward Services Quarterly Newsletter brings you compensation and rewards developments, along with KPMG observations from around the world.

Americas

U.S.- Romania Totalization Agreement with Congress

On September 12, 2024, President Joe Biden communicated the provisions of the new U.S.-Romania social security ("totalization") agreement to the United States Congress. Once in force, the agreement will be the 31st such totalization agreement between the United States and another country. The agreement aims to coordinate social security taxes and benefits for workers who spend time in both the U.S. and Romania, preventing double social taxation and allowing partial benefits in both countries. It also simplifies administrative processes for international assignments between the two nations. The agreement was signed on March 23, 2023, after negotiations between U.S. and Romanian officials. It was subsequently ratified by the Romanian Parliament on January 3, 2024. In the U.S., social security agreements follow a specific legislative process to become effective. The President sends the detailed conditions and an analysis of the agreement to Congress, which may disapprove of the agreement within 60 days. If not disapproved, it enters into force on the first day of the fourth month after diplomatic notes are exchanged.

Terms of the U.S./Romania agreement largely mirror those of other similar agreements. Social security coverage is generally determined by the country where the work is performed, with exceptions for temporary transfers and specific job categories. Workers can combine coverage from both countries to qualify for benefits if they have at least six U.S. quarters of coverage. The Social Security Administration (SSA) projects that the agreement could save $88 million in dual social security contributions over its first seven years in effect. The agreement will also enable around 2,300 people to receive $22 million in annual benefits they would not otherwise get.

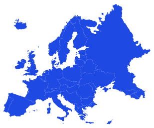
KPMG observations

KPMG does not currently expect any objections from Congress which would prevent the finalization of the agreement. Once approved, this totalization agreement will offer several benefits to individuals, as well as employers with international operations in Romania. Like many similar agreements, it is designed to make global mobility and international assignments more attractive and feasible. The agreement will aim to ensure that that employees working in both the U.S. and Romania are not subject to social security taxes in both countries, significantly reducing total tax burdens on employers and employees, as evidenced by the SSA's estimation of saved social contributions. Additionally, the agreement simplifies compliance and makes it easier for companies to manage international assignments, facilitating smoother deployment of employees between the U.S. and Romania. These advantages make it easier for companies to operate and compete in the global marketplace.

Assuming no unexpected delays or objections, the totalization agreement is expected to take effect in the first half of 2025. Employers with operations in Romania should remain informed regarding social security legislative updates and the impact that totalization may have on their international operations and mobility.

For more information, please refer to our KPMG Flash Alert.

Europe



Taxation of Employee Share and Stock Option Plans Back to Pre-2024 Situation

A new parliamentary proposal in the Czech Republic seeks to amend the Income Tax Act to allow employers to revert to the pre-2024 method of taxing income from employee share and stock option plans. This proposal comes after a year of complications arising from changes in the timing of taxation and social security contributions, which have made administering these plans more complex and raised concerns about double taxation.

The proposed amendment would enable employers to choose whether to defer taxation, provided they notify the Czech tax authority by the 20th of the month following the acquisition of shares or options. If no notification is made, the income will be taxed as it was until the end of 2023, during the month of acquisition or exercise. Additionally, social security and health insurance contributions will be due at the same time as the income tax.

For the year 2024, employers must notify the tax authority within two months of the amendment's effective date to apply the tax deferral. Otherwise, they will be required to retroactively pay tax advances on the employee share or option income received during 2024, without incurring penalties for late payment. This amendment aims to simplify the administration of employee share and stock option plans and address issues stemming from the 2024 changes.

KPMG observations

The proposed amendment to the Czech Income Tax Act is anticipated to pass, owing to a political consensus on this matter. The introduction of a "voluntary" deferral of taxation, along with the option to tax employee income in the manner used prior to 2024, is likely to significantly simplify the administration of employee share and stock option plans. This is particularly beneficial for companies involved in global share and stock option schemes, as it alleviates the complexities associated with tracking the precise taxation moment for each employee, which would otherwise present considerable challenges.

For more information, please refer to our KPMG Flash Alert or contact one of the article authors, Iva Krakorova or Marie Smekalova via email at ikrakorova@kpmg.cz or msmekalova@kpmg.cz

Draft Finance Bill for 2025 May Mean Heavier Taxation on High Earners

The French draft finance bill for 2025 was published on October 10, 2024. It was presented amidst a challenging political and fiscal environment, with no clear majority in the National Assembly and a high public-finance deficit expected to exceed 6% of GDP in 2024. The government aims to reduce the deficit to 5% by 2025 and below 3% by 2029 to meet EU obligations. The strategy includes spending cuts, increased revenues from taxes and fees, and other efficiencies. The French budget introduces a minimum tax on higher incomes to boost tax revenues. This measure may increase costs for international assignments involving individuals under French tax law. Higher earners must calculate if their effective tax rate is below 20% and pay the difference, factoring in various tax benefits and credits. This is crucial for tax-equalized employees, as current policies may not address the additional tax. Employees under French impatriate tax regime is particularly at risk of having an effective tax rate of below 20%. The budget also clarifies that employees not resident in France under a treaty are considered non-resident for domestic tax purposes, necessitating a review of tax positions based on French residency.

KPMG observations

From a compensation tax perspective, the introduction of a temporary minimum effective tax of 20% on high incomes in France, along with other key measures, presents several implications for both employers and employees:

Impact on High-Income Employees:

Increased Tax Liability:

1. High-Income Thresholds: Individuals with household incomes over €250,000 for singles and €500,000 for joint taxpayers may face additional tax liabilities if their effective tax rate is below 20%
2. Effective Tax Rate Calculation: The effective tax rate will include income tax, the contribution on high incomes, and certain withholding taxes. Adjustments for dependents and tax advantages will be considered, potentially increasing the complexity of tax calculations

Additional Contribution:

1. Difference Coverage: An additional contribution will be required to cover the difference between the calculated tax and 20% of the adjusted reference taxable income. This could result in a higher overall tax burden for affected individuals
2. Discount Mechanism: A discount mechanism is in place to mitigate the impact, however, the specifics of how this will be applied need to be understood and factored into tax planning

Impact on Employers:

1. Tax-Equalized Employees:
   - Cost Implications: Employers with tax-equalized employees may face increased costs due to the higher tax liabilities imposed on high-income earners. Companies need to assess the full financial impact and potentially adjust their tax equalization policies
   - Compliance and Administration: Ensuring compliance with the new tax rules will require additional administrative efforts, including recalculating tax equalization settlements and updating payroll systems

2. Impatriate Tax Regime:
   - Review of Policies: Companies should review their impatriate tax policies to understand how the new minimum effective tax rate impacts employees under this regime. Adjustments may be necessary to maintain the attractiveness of assignments to France
3. Corporate Tax Surcharges:
   - Financial Planning: Companies with turnover exceeding €1 billion will face corporate tax surcharges for two years. This requires careful financial planning and budgeting to manage the increased tax expenses
   - Share Buy-Back Tax: The new tax on share buy-backs will affect French resident companies with significant turnover, influencing decisions on capital distribution strategies

The introduction of the temporary minimum effective tax and other measures in France will have significant implications for high-income employees and employers. Companies need to conduct thorough assessments, adjust policies, and engage with tax advisors to navigate the changes effectively. Monitoring the legislative process and staying informed about potential revisions will be key to managing the impact on compensation and tax planning strategies. The legislative timeline includes discussions in the National Assembly and Senate, with final adoption expected by December 21, 2024. Companies should stay informed about any changes to prepare accordingly.

For more information, please refer to our KPMG Flash Alert or contact one of the article authors, Alain Loehr, Ann Atchade or Stuart McGlone via email at alainloehr@kpmgavocats.fr, annatchade@kpmgavocats.fr or stuartmcglone@kpmgavocats.fr

Budget 2025 Measures Announced

On October 1, 2024, the Irish government announced several annual budget items for 2025, which included actions aimed at addressing cost-of-living challenges, reducing individual income tax burdens in Ireland, and improving Ireland's standing as a favorable location for both employers and employees. Specific measures include a rise in the standard-rate income-tax band, increases in various tax credits, and changes to the Universal Social Charge (USC) rates and bands. These actions could result in a minimum tax reduction of €650 per year for higher-income earners. Other important Budget 2025 measures include updates to employment benefits tax exemptions, pension auto-enrolment, and review of treatment of shared-based compensation in Ireland.

Below, we've included details on several significant budget measures:

Income Tax Changes:

- The income threshold for the 20% standard rate band will increase by €2,000 to €44,000 for Single Persons, with proportional increases for other categories of taxpayers, such as Single Parents and Married Couples/Civil Partnerships
- Additionally, various increases to several categories of personal tax credits, such as the Employee PAYE Tax Credit, Earned Income Credit, and childcare credits will allow for additional relief for individuals

Employment Benefits:

- Historically, the Small Benefit Exemption (SBE) allowed for employers to treat the first two minor and irregular non-cash benefits not cumulatively exceeding €1,000 per employee per year, as tax free. The 2025 Budget measures increase the exemption to treat the first five such benefits in the year as tax free, not exceeding €1,500

Universal Social Charge (USC):

- While USC exemption limits remain unchanged, the announced Budget measures included an increase in the 2% rate band income threshold from €25,760 to €27,382, and a reduction in the 4% USC rate band to 3%

Pension Auto-Enrolment for Employees:

- Announced in 2024, the Automatic Enrolment Retirement Savings System (AE) is a government initiative designed to enhance retirement savings for employees who are not already participating in a pension scheme. Budget 2025 confirms that the implementation of this new pension arrangement is anticipated to begin in September 2025. Additionally, it has been announced that employers will receive tax relief for their contributions and growth in the AE funds will be exempt from tax

Review of Share Based Remuneration:

- The Department of Finance released a report reviewing how share-based pay is taxed in Ireland. The report suggests several changes to make Ireland more attractive for both employees and employers. Key recommendations from Finance include aligning tax rules for restricted stock units (RSUs) for internationally mobile employees with international standards, simplifying reporting for share-based pay, and lowering loan rates for employee share repurchases

KPMG observations

In general, these announced 2025 Budget measures are designed to enhance Ireland's appeal to individuals and employers alike.

Employers should make note of the changes to individual income tax and Universal Social Charge rate bands and thresholds and ensure that payroll systems and internal procedures are updated accordingly. Furthermore, the efforts to reduce tax burdens on individuals may increase the appeal of Ireland as a location to transfer or assign employees.

With regards specifically to compensation tax matters, these Budget measures signify efforts to structure Ireland as a progressive and advantageous compensation market. Increases in the Small Benefit Exemptions limit offer more flexibility in rewarding employees with benefits without incurring additional tax liabilities. Employers should review and potentially expand non-cash benefit programs to take advantage of the increased exemption limit. Moreover, the Department of Finance's recommendations to review tax rules for RSUs, simplify reporting of share-based compensation, and lower loan rates for employee share repurchases could make share-based remuneration more attractive and easier for employers to manage in Ireland. This may enhance the ability to attract and retain talent, especially internationally mobile employees.

Employers operating in Ireland should remain proactive and stay informed about legislative changes to ensure compliance, optimize benefits for employees, and potentially enhance their overall compensation and benefits strategy.

For more information, please refer to our KPMG Flash Alert or contact the article authors, Thalia O'Toole or Olive O'Donoghue via email at thalia.otoole@kpmg.ie or olive.odonoghue@kpmg.ie

Ireland – 2024 PAYE Settlement Agreement Deadlines

As the December 31, 2024 deadline for the 2024 PAYE Settlement Agreement (PSA) in Ireland nears, employers should review their records to identify taxable non-cash benefits given to employees or directors that have not had income tax, Universal Social Charge (USC), or social security (PRSI) processed and paid through the PAYE system to Revenue.

The PSA system enables employers to report minor and irregular benefits that are challenging to track in real-time, allowing income tax, USC, and PRSI to be settled outside the PAYE system. Employers must calculate and pay these liabilities on a grossed-up basis. This annual data collation and settlement can offer significant administrative efficiencies, particularly for large employers.

Meeting the December 31, 2024 application deadline for the 2024 tax year is critical for employers. Once approved, PSA filings must be submitted and paid by January 23, 2025. Missing this deadline nullifies the PSA arrangement, requiring liabilities on minor and irregular benefits to be processed through the PAYE system. This will necessitate self-correction or voluntary disclosure of payroll records, potentially leading to interest and penalties for the employer.

Items in a PSA vary by employer but commonly include non-cash gift vouchers (e.g., for food/drink), staff entertainment outside Revenue's exemptions, non-qualifying taxis to/from work, and gym memberships.

Interaction of the PSA and Enhanced Employer Reporting

Enhanced Employer Reporting (EER), effective January 1, 2024, may affect items reportable under a PSA for 2024 and beyond. EER requires employers to file a real-time informational return before paying certain tax-free reportable benefits.

KPMG observations

Although the PSA process remains unchanged for 2024, Revenue PAYE compliance checks have increased, potentially scrutinizing the qualification of minor/irregular benefits under the PSA.

With regards to EER impacts, the new reporting obligation will lead to two key effects:

1. EER will provide Revenue with more information, likely resulting in increased scrutiny and targeted compliance checks on previously unreported items.
2. Employers should review their processes to ensure compliance with reporting requirements, particularly in assessing the taxability of benefits/expenses, which is crucial for EER.

KPMG in Ireland expects this enhanced scrutiny to identify more taxable minor/irregular benefits, prompting more organizations to submit PSAs.

For more information, please refer to our KPMG Flash Alert or contact the article authors, Thalia O'Toole or Olive O'Donoghue via email at thalia.otoole@kpmg.ie or olive.odonoghue@kpmg.ie

New Legislation Aims to Raise Revenue Through Taxation Changes

On October 3, 2024, the Slovak Parliament approved a significant consolidation package aimed at reducing the public finance deficit by approximately €2.7 billion. This package includes several key taxation changes that are expected to have wide-ranging impacts.

Key Taxation Updates:

- Lower Child Bonus: The child bonus will be reduced, affecting families who rely on this support.
- Higher Social Security Contribution Bases: Higher income employees and self-employed individuals will face higher social security contributions, which will likely reduce their net incomes.
- New Tax on Financial Transactions: A new tax will be introduced on financial transactions, which could affect both individuals and businesses.

These measures are anticipated to increase company costs and potentially raise consumer prices due to modifications in VAT rates. The legislation is set to take effect at the beginning of 2025, leaving a brief adjustment period for all affected parties.

KPMG observations

The tax legislation updates included in this approved package are broad and comprehensive.

From a compensation tax perspective, potential changes in the maximum assessment base for Slovak social security contributions could result in increased social tax costs for both employees and employers. A higher cap set for social tax contributions may likely lead to lower net income for employees in Slovakia. Additionally, employers with local employees or international assignees in Slovakia covered under the Slovak social regime may see their employer social tax burdens increase.

There are numerous other relevant proposed taxation updates under the consolidation package, including but not limited to:

- Change in rates of taxation on dividends
- Modifications in the taxation of self-employed individuals
- Changes in the taxation of electric company car benefits

Given the widespread expected impact of these measures on taxation in Slovakia, it is vital that both employees and employers understand the scope of the legislative changes.

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United Kingdom: Autumn Budget 2024

On October 30, 2024, the Chancellor of the Exchequer presented the 2024 Autumn Budget to the U.K. Parliament. This Budget is particularly significant as it is the first under the newly elected Labour government after 14 years of Conservative leadership. It outlines some of the government's financial plans and priorities for the next five years.

There are several key updates as of this new budget which may be relevant to international companies and assignees operating in the United Kingdom, including the forthcoming introduction of the Foreign Income and Gains Regime (FIG) guidelines and adjustments to the Overseas Workday Relief (OWR) rules.

From a global rewards tax perspective, updates regarding Personal Income Tax Rates and Thresholds and National Insurance Contributions (NIC) rates will be of particular significance:

- Personal Income Tax Rates and Thresholds: The previous U.K. government had announced that the current levels for income tax rates and income thresholds would be frozen until 2028. With the Autumn 2024 Budget, the Chancellor has announced that this freeze will not be extended beyond its current end, and thresholds will rise with inflation from 2028-29
- National Insurance Contributions (NIC): While NIC contribution rates for employees will remain frozen until 2028, it was announced that employee NIC thresholds, like income tax thresholds, will increase with inflation from April 2028. However, with effect from 6 April 2025, the employer National Insurance rate will increase by 1.2 percentage points, from 13.8 percent to 15 percent. Additionally, the Annual Threshold for employer NIC on employees' earnings will be lowered from £9,100 to £5,000

Additional actions under the Autumn Budget include:

- An increase in capital gains tax rates for gains not derived from residential property
- Announcement that carried interest will be taxed fully within the income tax regime from April 2026
- Mandatory payrolling of Benefits-in-Kind will be introduced from 6 April 2026.

KPMG observations

The 2024 Autumn Budget marks a significant shift in the U.K.'s fiscal landscape under the new Labor government, with several key changes that will impact international companies and assignees operating in the U.K. The decision to allow income tax thresholds and National Insurance Contributions (NIC) rates to rise with inflation from 2028-29, while maintaining a freeze until then, provides a measure of predictability for financial planning. However, the increase in employer NIC rates and the reduction in the Annual Threshold for employer NIC will likely result in higher employment costs, necessitating a review of compensation strategies.

Additionally, the forthcoming introduction of the Foreign Income and Gains Regime (FIG) guidelines and modification of the Overseas Workday Relief (OWR) rules could affect the tax liabilities of international assignees, making it essential for companies to reassess their global mobility policies. The increase in capital gains tax rates and the new taxation approach for carried interest will also require careful consideration for investment and remuneration planning.

Overall, these updates underscore the importance of proactive tax planning and strategic adjustments to navigate the evolving tax environment effectively. KPMG remains committed to helping clients understand and adapt to these changes, ensuring compliance and optimizing their tax positions in the U.K.

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