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Bridging the Gap: Aligning Global Equity Governance Strategy with Local Tax Compliance



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For US-headquartered multinationals, granting equity, such as restricted stock units (RSUs), employee stock purchase plans (ESPPs), or stock options, to a global workforce has evolved from a progressive talent strategy to an industry standard, a powerful tool for aligning employee incentives with shareholder value across borders.

However, a silent and costly compliance challenge often brews behind the scenes during the tax settlement and reporting phases. US parent companies focus primarily on the design and board approval of global equity plans. These plans are then delivered from corporate headquarters that typically rely heavily on local subsidiary teams to handle the income reporting, tax withholding, and compliance. The local teams are often processing teams that are not necessarily familiar with equity taxation or the nuances associated with share reporting and withholding strategies used by US multinationals.

The core assumption, and frequently an incorrect one, is that local teams can process an RSU vesting or stock option exercise as seamlessly as they process a standard monthly cash salary. In reality, equity compensation is much more complex and nonlinear, with evolving tax rules that vary from country to country. As such, best practice requires a governance framework that includes investment in education at the local level, to push accountability to the local level and free up headquarters to focus on broader initiatives. This includes local payroll and compensation and benefits teams as well as HR and tax compliance teams.

Example:

Company A, a US-headquartered multinational, issued RSUs to employees across 40 jurisdictions, with a key location in Eastern Europe. The RSUs were full value awards, i.e., employees did not pay any purchase cost. Assuming standard vesting-date taxation, the company applied share withholding on the FMV at vest and remitted the taxes to the local authorities.

However, when employees eventually sold their shares, local accountants informed them that they had to report the sale on their personal tax returns and pay capital gains tax on the sale proceeds, because under the local tax law, share-settled awards are taxed at sale (not at vest) as a capital gain, provided the underlying shares are held for at least two years.

This mismatch triggered immediate double taxation for the employees and created an administrative nightmare for the company, which needed to file complex tax refund claims to recover the erroneously remitted funds and make employees whole. Furthermore, because shares were unnecessarily withheld at vest to cover a nonexistent tax liability, the entire purpose of plan participation, i.e., increasing share ownership, diminished since employees lost out on holding a higher number of shares and participating in their associated market growth.

Without proactive global oversight, relying solely on local payroll teams to manage equity tax compliance can expose multinational companies to audit risk, financial penalties, damage to their standing with local tax authorities, and double taxation for their employees.

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Typical disconnect: cash versus equity

To understand why local teams struggle with equity, one must look at how standard payroll systems are built. Payroll platforms are inherently engineered for predictability. They operate on linear, repeating cycles: a fixed monthly or biweekly cash salary is processed, standard local tax brackets are applied, local social security is deducted, and the net cash is deposited into the employee's bank account.

Equity compensation breaks this mold. It is event-driven, noncash, and frequently multijurisdictional. A single equity grant may be subject to different tax rules, tax rates, reporting deadlines, and withholding mechanisms depending on:

- The residency status of the employee over the life of the award
- Whether the corporate entity charges the cost of the equity back to the local subsidiary
- Whether the timing of taxation varies from the standard US timing
- Whether the plan meets specific local statutory requirements to qualify for preferential tax rates
- Local regulations around specific perquisite valuation methodology for income reporting
- The tax withholding method used (sell to cover or net settlement)
- The payment of dividends or dividend equivalents
- Rounding and foreign exchange (FX) conversions.

Local payroll teams rarely have direct visibility into corporate recharge mechanisms, vesting schedules, or country-specific plan nuances. When the US parent sends data at vest or exercise, local teams are left to navigate a maze of complex tax codes without a map or tax support.

There are eight critical areas where standard payroll assumptions do not hold and where governance by US headquarters becomes critical:

01 Taxable event

In the United States, the taxable event for equity is relatively uniform: RSUs are taxed upon transfer of the underlying shares (i.e., on transfer date), and nonqualified stock options are taxed at exercise. US headquartered companies often design their administration platforms around these two milestones.

Globally, however, the timing of taxation is a moving target. Countries may tax equity awards at **grant, vest, exercise,** or even upon the **sale** of the underlying shares. Some examples are provided below:

Country	Primary taxable event (standard plans)	Compliance challenge for local payroll
United States	• RSUs: Transfer • Options: Exercise	Under the Internal Revenue Code's special timing rule, early Federal Insurance Contributions tax (FICA) may apply in certain cases. When early FICA tax applies for special situations such as employees who become retirement eligible, the timing of FICA tax and income tax differs, creating a unique payroll challenge.
Belgium	• Options: Grant (if accepted within 60 days)	Under The Belgian Law of 26 March 1999, options may be taxed at Grant if they are accepted by the employee within 60 days of grant. If local payroll waits for the US exercise event, the tax liability is already overdue, triggering penalties.
Canada	• Restricted stock: Grant	Under the Canadian Income Tax Act, restricted stock awards are taxed at grant/issuance if the employee receives full share ownership right away. Tax is triggered immediately upon grant, regardless of vesting schedules or forfeiture risks.
Serbia	• RSUs: Sale	As per Serbian Personal Income Tax Law for awards settled in shares, tax will be due at sale. As a result, no tax reporting or withholding is required at vest.

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02 Taxable value

When valuing global equity compensation for tax purposes, some countries such as Italy and India apply highly specific statutory valuation rules that diverge from standard fair market value logic. Italy utilizes the concept of "normal value," which mandates that publicly listed shares (any exchange) be valued using the arithmetic average of the official share prices over the 30 calendar days preceding the taxable event. In India, for shares listed on an FX or for unlisted private shares, the rules require the company to obtain a formal valuation report and certificate from a Securities and Exchange Board of India–registered Category-I merchant banker to establish the taxable base. This means multinational employers must implement country-specific valuation processes rather than relying on a single, global plan administration baseline.



03 Social taxes

When processing a cash bonus, local payrolls automatically deduct both employee and employer social security contributions. It is easy to assume that equity compensation follows the same rules. However, the social tax treatment of equity is one of the most fragmented areas of international tax law.

In many jurisdictions, social security is not due on equity awards—or it is only due under very specific corporate structures. If a local payroll team defaults to standard cash treatment, they may overwithhold from the employee, leading to unnecessary payroll costs for both the individual and the local employer. In many countries, social taxes are closely related to labor laws, and incorrect withholding of social taxes may expose the company to broader tax and legal issues. For example, when an employer fails to collect early FICA for retirement-eligible individuals in the United States, there has been case law suggesting the employer might be responsible for the liability (*Davidson v. Henkel Corp* class action complaint).

A few recent examples where the tax rules around social security on stock compensation changed are listed below:

Czechia's new qualified employee stock option regime (2026)

To support eligible smaller businesses and start-ups, Czechia introduced a new regime for qualified employee stock options effective from 1 January 2026. Provided that all statutory conditions are met (including mandatory reporting obligations), income from the exercise of a qualified employee option is treated as "other income" rather than employment income and is therefore not subject to Czechia social security or health insurance contributions. As the regime does not apply to all equity awards, local payroll teams should confirm that the option, the employer and the employee meet all applicable statutory conditions of this preferential tax treatment.

Belgian social security tax ruling precedent

A June 2026 Belgian Supreme Court ruling clarified that foreign-parent equity awards may attract Belgian social security when linked to employee retention, motivation, or performance, even where the Belgian employer does not fund the award. This reinforces the need to assess the purpose and terms of equity awards before payroll compliance is operationalized.

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04 Intercompany recharge trigger

To capture local corporate tax deductions, many US parent companies implement stock-based compensation recharge agreements. Under these agreements, the US parent charges the local subsidiary for the shares issued to the subsidiary's employees.

While a recharge agreement is beneficial for corporate tax optimization, in certain countries it triggers payroll compliance and employer social taxes, which otherwise would not have existed.

In these jurisdictions, the local payroll reporting and withholding obligation for equity *only arises if the cost of the shares is recharged to the local entity.*

Because equity recharge agreements are executed by finance and tax teams at the corporate and local level, it is important that this is communicated to local payroll teams because a failure to notify local payroll can immediately trigger noncompliance. Without timely coordination, the local subsidiary risks missing mandatory wage withholding and reporting requirements on equity transactions governed by local payroll rules.

05 Local qualified plans

Certain countries offer statutory "qualified" or "tax-advantaged" plans designed to encourage employee share ownership. These plans offer tax and social security savings for both the employee and the employer, and sometimes shift the timing of taxation to a later event.

However, the preferential treatment is contingent upon adherence to local rules, holding periods, and reporting. For example:

China's preferential treatment

China recently extended its preferential individual income tax policy for equity compensation. Under this regime, qualified equity income is calculated separately from regular monthly salary, allowing the equity gain to be taxed under its own independent tax bracket. This significantly lowers the marginal tax rate for the employee.

France's qualified plans

French qualified equity plans are regulated, tax-advantaged vehicles that differ from standard, nonqualified plans by offering tax and social security savings for both the employer and the employee. For instance, for employees, taxation is deferred from the vesting date to the eventual sale of the shares, and the resulting gain is taxed at preferential capital gains rates rather than standard, progressive income tax rates.



If local payroll is not explicitly instructed that a plan meets the qualifying criteria, they may apply standard withholding rules. Or if they are more familiar with qualified plans, they may automatically assume a plan is qualified, even if the company did not implement a qualified plan.

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06 Mobility considerations



When an employee relocates internationally during the lifecycle of an award, the tax obligation no longer rests in one country. Both the home and host countries of the employees will need to be evaluated to determine tax and payroll compliance. The company would need to track the "trail of equity," allocating the taxable portion of the vest or exercise across multiple jurisdictions based on the days worked in each country. A local payroll team, seeing only the employee's current local status, cannot perform this allocation without centralized corporate guidance.

07 Impact of conversions – Share rounding and FX

Processing equity compensation across global subsidiaries requires governance over a few operational considerations, such as share rounding and FX conversion. Even minor variances can trigger reconciliation and payroll compliance issues. The US parent company may have established a policy on share rounding to address the issue of fractional shares. But this information must be passed on to local foreign subsidiaries. For example, if the shares withheld for taxes were rounded up, local payroll must report that exact withholding as taxes, rather than allow the system to recalculate the tax; otherwise, there could be discrepancies between the plan administrator's records and local payroll filings.

Similarly, because local tax and social security withholdings must be remitted in the local currency, companies must define a consistent FX conversion methodology to ensure that the parent company's intercompany remittances align with the local payroll tax returns.

08 Dividends and dividend equivalents

The tax treatment of dividends and dividend equivalent units on unvested shares requires establishing clear governance because local tax authorities define ownership differently, which may lead to incorrect payroll withholdings and even double taxation.

For example, in the United States, dividends paid on unvested restricted stock are characterized as ordinary compensation (W-2 wages) rather than true dividends, meaning employers must process them through payroll and subject them to full employment tax withholding (FICA/Federal Unemployment Tax Act). However, if an employee files a Section 83(b) election, those payments are immediately recharacterized as true dividend income, which shifts the employee's tax rate to preferential qualified dividend rates. Such nuances must be identified and documented up front across regions to help ensure accurate reporting and withholding.



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Actionable insight: Developing a governance framework

The global equity landscape is too dynamic for companies to operate on autopilot. What was compliant last year may trigger audit exposures today due to legislative shifts, judicial rulings, or changes in corporate structure.

To protect the organization and preserve the value of global equity programs, US headquarters must establish a global equity governance framework accompanied by periodic reviews. This can be accomplished in two steps outlined below:

Due diligence

The US parent company must institutionalize the rules and policy approach around the above eight critical areas into a centralized, continuously updated "Global Equity Due Diligence Playbook." This can be maintained in the form of a centralized tracking matrix that outlines the exact rules and operating principles for each of the above areas in each local country. This can be delivered to local payroll teams prior to every vesting or exercise event along with education and training, which will ultimately eliminate costly errors (such as the double taxation seen in Serbia) and protect the organization's bottom line and enhance the employee experience.

This playbook must be reviewed at least every two years to help ensure the rules remain current and compliant.

Process mapping

When managing a global equity compensation program, defining responsibilities across multiple internal departments (e.g., HR, Corporate Finance, Global Payroll, Tax, and Legal) and external partners (e.g., the stock plan administrator, brokers, and local payroll operators) is critical. Because the lifecycle of a stock award—from grant and vesting to local tax withholding and intercompany cost recharges—spans so many diverse functional areas, best practice dictates that companies prepare a process map combined with a RACI chart (Responsible, Accountable, Consulted, Informed) to clearly identify functional responsibility and eliminate operational silos. By systematically charting these relationships and mapping the end-to-end data flows, organizations can help ensure that when a taxable event occurs, everyone knows precisely who is pulling the data from the stock plan administrator, who is calculating the local tax, who is running the payroll, and who is reporting the final settlement.

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Conclusion

Establishing this governance framework goes far beyond keeping the program running smoothly on a daily basis. It serves as an auditable trail during local tax authority audits and validates that the company applied consistent, compliant, and legally supported methodologies across all regions.

Furthermore, a well-defined governance structure acts as a safeguard during team transitions and turnover. By documenting processes and roles systematically, the organization might achieve seamless business continuity, accelerate the onboarding of new stakeholders, and prevent critical compliance and reporting deadlines from falling through the cracks during transitions.



Ultimately, this governance model transforms the compliance function from a reactive, indiscriminate cost center into a strategic enabler that protects the organization, safeguards the program's value, and helps ensure a positive, consistent experience for employees worldwide.

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