

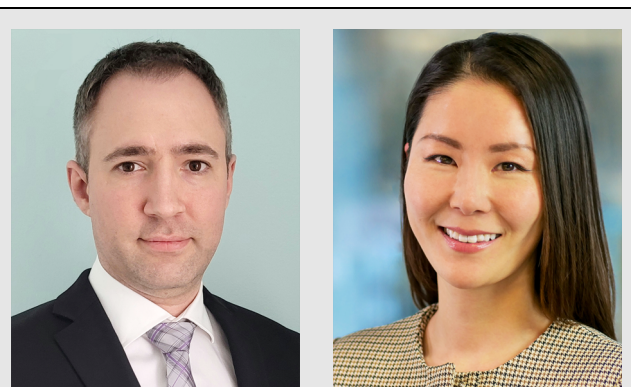
How Digital Refunds Affect Global Mobility Programs

by Alex Strebel and Yoori Sohn

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Alex Strebel

Yoori Sohn

Alex Strebel is a senior manager and Yoori Sohn is a tax manager in the Washington National Tax global mobility services group at KPMG LLP.

In this article, Strebel and Sohn examine the repercussions of President Trump's executive order mandating the end of paper refund checks and the digitization of all federal disbursements, particularly for multinationals with tax-equalized foreign nationals on international assignments in the United States, and they offer potential workarounds to reduce the risk of uncollected repayments.

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Certain employers with cross-border assignees may be unprepared for the impending digitization of tax refund payments by the IRS, which President Trump has ordered to go into effect on September 30. This change especially affects employers that receive tax refund checks on behalf of their employees as part of a tax equalization process. The shift to digitization may pose a collection risk for employers that rely on paper checks to ensure the timely collection of tax refunds belonging to them under a tax equalization policy.

This article examines current industry practice, the challenges posed by the digitization of IRS refund payments, and potential workarounds to reduce the risk of uncollected repayments from employees under tax equalization programs.

I. Introduction

On March 25 Trump signed Executive Order 14247, "Modernizing Payments to and From America's Bank Account," which instructs the Treasury secretary to cease issuing paper checks for all federal disbursements, including tax refunds, effective September 30. The stated rationale for digitizing all federal payments is to reduce unnecessary costs, delays, and the risk of fraud.¹

The EO permits the Treasury secretary to provide exceptions if the use of electronic payments is not feasible, including for individuals who do not have access to banking services or electronic payment systems.² In situations in which those exceptions apply, alternative payment options will be provided.³ The secretary is to coordinate with other agencies to develop and implement a comprehensive public awareness campaign to inform federal payment recipients of the upcoming digitization.⁴ Further, the secretary is to work with financial institutions to address access for those without bank accounts.⁵ An implementation report is due to the president within 180 days of the EO.⁶

¹Executive Order 14247, section 1 (Mar. 25, 2025).

²*Id.* at section 4(a).

³*Id.* at section 4(b).

⁴*Id.* at section 5(a).

⁵*Id.* at section 5(c).

⁶*Id.* at section 6(b).

At first glance, the EO, with its target date of September 30, does not seem to affect a significant number of IRS refund payments because the 2024 federal income tax return due date was April 15. However, considering that many taxpayers file their federal income tax returns by the extended deadline of October 15, any refunds due on those returns would not be processed until well after September 30. The processing time for IRS refunds may also be prolonged because of the Trump administration's initiatives to downsize the agency's workforce, so some refunds may not be disbursed before September 30. It remains unclear how the IRS will handle refund payments for tax returns submitted before September 30.

II. Background

Multinational employers often have tax equalization programs to neutralize the tax effects faced by employees on international assignments to the United States. Those programs are intended to make sure that the tax liability of international assignees remains predictable while they work in the United States, treating them as if they were working in their home countries.

Under a typical tax equalization policy, an employer is responsible for the difference between an employee's hypothetical tax and actual U.S. tax due. A hypothetical tax is an approximation of what the employee's overall tax liability would be in their home country and serves as a baseline. If U.S. taxes are higher, the employer pays the excess; if U.S. taxes are lower, the employer retains the tax benefit. The employer may also provide tax gross-ups as part of its tax equalization policy, which are additional amounts paid to offset the increase in the employee's U.S. tax liability for receiving cash benefits (for example, a relocation reimbursement or temporary housing).

If the IRS issues a refund because of an overpayment of federal tax, part or all of that refund may belong to the employer. In that case, the employee with a U.S. bank account would receive the refund as a direct deposit and repay the amount allocated to the employer. However, if an employee is ineligible to open a U.S. bank account or has closed an account because of repatriation or terminated employment, the employer receives the refund check endorsed by

the employee and deposits it into the employer's U.S. bank account. Any balance owed to the employee would be settled by the employer. This method of collection is typical for employers with an international assignee population ineligible to open U.S. bank accounts.

III. IRS Refunds and Requirements to Open a U.S. Bank Account

Under the IRS refund system, a refund is generally issued by direct deposit or paper check.⁷ Direct deposit is limited to U.S. banks (members of the Federal Reserve System) or to corresponding banks that maintain an account at a Federal Reserve bank. The deposit must be made to an account bearing the taxpayer's name.⁸ If a taxpayer does not have a U.S. bank account or chooses to receive a refund by check, the IRS will mail the refund check to the address provided on the taxpayer's federal income tax return.⁹

Many short-term business travelers choose to receive their IRS refunds by paper check because they are ineligible to open U.S. bank accounts. While particulars vary from state to state, documentation requirements at U.S. banks often prevent foreign individuals from opening an account, which is necessary to receive IRS direct deposits. The requirements generally include:

- contact information (including a U.S. address);
- at least two forms of government-issued ID, such as a valid driver's license or passport;
- a Social Security number or individual taxpayer identification number; and
- proof of U.S. address (usually in the form of a utility or credit card bill).

Individuals who cannot meet these requirements and thus can't receive refunds in their own accounts would endorse or assign refund checks to their employers to settle balances under a tax equalization policy.

⁷ IRS, "Helpful Tips for Effectively Receiving a Tax Refund for Taxpayers Living Abroad" (last updated Oct. 15, 2024).

⁸ IRS, "Direct Deposit Limits" (last updated Dec. 5, 2024).

⁹ IRS, *supra* note 7.

IV. Potential Preparation Strategies

Employers receiving IRS refund checks on behalf of assignees under tax equalization programs will need to adjust their processes as the IRS moves to digital tax refund payments. Employers might consider the following strategies to prepare for the upcoming changes, each of which has its advantages and disadvantages.

A. Exception for Taxpayers Lacking Banking Access

The EO permits exceptions to be promulgated for individuals lacking banking access, and inbound international assignees could seek such an exception. But it is unclear whether this exception would be available to non-U.S. taxpayers and thus whether it could be used by short-term business travelers with few ties to the United States.

Assuming the exception applies to any taxpayer without a U.S. bank account, simply not having a U.S. bank account would give those taxpayers access to an alternative method of payment for IRS refunds. If paper refund checks are available as an alternative payment option, changes to existing tax equalization policies may not be necessary.¹⁰

However, considering that the main purpose of the EO is to overhaul the federal disbursement system by eliminating the use of paper checks whenever possible, it's uncertain whether the IRS will provide paper refund checks as an alternative to accommodate non-U.S. individuals who are unable to open U.S. bank accounts.

B. Settlement Services for Tax-Related Refunds

Employers could also consider using settlement services for tax-related refunds. These are like the products used by some professional return preparers to collect their fees from tax refunds.¹¹ This service is typically provided by a bank (sometimes referred to as a settlement bank),

which sets up a temporary special-purpose account for each employee after obtaining the necessary authorizations and consent. The account is listed on the employee's tax return, and any IRS refund owed to them would be directly deposited by the IRS. The bank would be authorized to deduct and transfer the refund amount owed to the employer, and any remaining balance owed to the employee would be released to them. The temporary account would be closed once the transaction was complete.

Before adopting this approach, several considerations must be addressed. The fees associated with settlement services can vary based on the provider and the volume of transactions, so it is essential to understand the cost implications for both the employer and the employee. Employers also need to comply with the relevant regulations and should consider the potential risks and liabilities associated with settlement services in an employment relationship.

Moreover, this solution may be perceived negatively by employees, as some might be uncomfortable with a third party opening bank accounts in their name, raising concerns about privacy and security. Addressing these concerns and ensuring transparency to maintain the assignees' trust should be a priority if this option is considered. Engaging with legal and tax advisers is prudent to navigate these complexities and understand all the requirements and risks involved.

C. Employee-Managed Refunds

A simpler option would be to have employees manage their own tax refunds, making them responsible for receiving the refunds and repaying the amount owed to their employers. This approach places the onus on employees to maintain U.S. bank accounts, track their refunds, and provide timely remittance back to the company. If an employee does not have a U.S. bank account or is unable to open one, they will be responsible for remitting the refund to the employer. However, this solution comes with significant drawbacks, primarily concerning employee experience and dissatisfaction.

Employees, particularly those on short-term assignments to the United States, may find it

¹⁰ IRS direct deposit is limited to U.S. banks (members of the Federal Reserve System) and corresponding banks (foreign or international) that maintain an account at a Federal Reserve bank.

¹¹ See Treasury Office of the Comptroller of the Currency, "Tax Refund-Related Products: Risk Management Guidance," OCC Bulletin 2015-36 (Aug. 4, 2015).

burdensome to maintain a U.S. bank account solely for federal tax compliance purposes. If they are unable to open U.S. bank accounts, a digital IRS refund would cause further complications, requiring them to find workarounds involving non-U.S. bank accounts. These challenges would be compounded by the administrative task of tracking and remitting refunds, which can be cumbersome and unwelcome. This could increase the employer's collection risk, especially when employees separate from the company following their assignment, because their willingness or ability to repay the refunds may be compromised.

Employee-managed refunds appear simple in theory, but in practice, this approach could lead to employee dissatisfaction and risks of financial loss for the employer from its inability to collect from employees.

D. Adjustments to Hypothetical Tax and Gross-Up Calculations

As an alternative to the approaches discussed above, employers could adjust U.S. tax gross-ups in the current year and reduce the overpayment of taxes, thus reducing the amount of refunds. This approach would minimize the risk of financial loss from employers being unable to collect refunds owed to them. It would also ensure a smoother, more efficient tax equalization process for their assignee populations by proactively managing tax liabilities and minimizing the need for refund collections.

Conversely, if tax gross-ups are insufficient and taxes are owed, employers could pay any outstanding tax liabilities and eliminate the need to collect refunds as repayments of the gross-ups from the employees entirely. However, this approach could create additional problems in that the underpayment of estimated taxes could lead to an imposition of penalties, and the payment of tax, interest, or penalties by employers on behalf of employees gives rise to compensation income in the year of payment.¹² The risk of underpayment penalties highlights the need for accurate hypothetical tax and tax gross-up calculations. The risk exposure of underpayment penalties may be mitigated by performing a

midyear recalculation of hypothetical tax and a year-end tax gross-up reconciliation calculation. These calculations can account for changes to an employee's compensation (for example, bonuses, equity awards), make sure that a sufficient amount of hypothetical tax is withheld throughout the year, and limit the potential for the significant underpayment or overpayment of federal taxes.

This method requires working with a competent tax service provider and may be the most efficient tax equalization process. The cost associated with midyear and year-end calculations would be offset by avoiding underpayment penalties and eliminating the risk of financial loss from forgone employee repayments. This may be particularly true for companies with large populations of employees on international assignments.

V. Conclusion

EO 14247 mandates the discontinuation of Treasury's issuance of paper checks by September 30, affecting tax returns filed in 2026 and beyond. As a result, federal tax gross-ups included in 2025 compensation may lead to tax refunds that may not be issued via paper check. This change would likely affect 2024 tax refunds disbursed after September 30 unless they are eligible to be grandfathered. Therefore, employers that rely on paper checks should consider implementing alternative solutions as soon as possible.

Reducing refunds while avoiding penalties may be the most effective strategy for employers seeking to mitigate collection risk. It's important to arrange things so that tax gross-ups do not result in large tax refunds or balances due, and that hypothetical tax calculations do not lead to significant payments from or to employees. This approach not only minimizes collection risks and potential penalties but also improves employee satisfaction by streamlining the tax equalization process. If internal processes cannot support accurate tax gross-up and hypothetical tax calculations, employers with global mobility programs should consider seeking external assistance from a tax services provider. ■

¹² See section 6654.