# CORONAVIRUS: TAX & RELOCATION IMPLICATIONS FOR THE MOBILE WORKFORCE

The novel coronavirus that causes the disease COVID-19 has become a global issue. Since the virus was declared a pandemic by the World Health Organization (WHO), we have seen more border entry restrictions, quarantines and travel bans implemented to stop the virus' spread. The evolving situation has made managing a mobile workforce more challenging.

To keep clients informed, Weichert Workforce Mobility has issued a number of advisories and continues to update **their website** with practical advice for addressing the virus' impact on talent mobility. BDO's **dedicated COVID-19 web page** provides real-time updates on changes in legislation and implications for taxpayers and corporate clients. In this article, we provide recommendations from both perspectives.

## MANAGING MOBILE TALENT

As the global pandemic accelerates worldwide, so does anxiety among mobile employees and their families who are "away" from home – on assignment, recently relocated or repatriating. While recommendations depend on the stage of the assignment or relocation and local situations (e.g., mandatory shelter in place, etc.), these observations can inform decisions you may be struggling with.

### Pause/Fast Forward Button

In the face of travel restrictions and shelter in place orders, an increasing number of our clients (41%) are deferring new initiations. The situation is very fluid, but many have cited a three-week pause. **Mercer** research indicates 32% of companies have implemented hiring freezes and as a result, new hire initiations will be the first to decrease. Further, many intern programs are on hold. That said, there are also companies that are rapidly ramping up and reorganizing, pushing the fast-forward button but with intense concern over long term costs.

### (Stealth) Repatriations

Among our client base, repatriations have been limited (11%) as travel bans and quarantines have made it more difficult to mobilize returns or find a safe haven. Stealth repatriations seem to be spiking, creating significant permanent establishment (PE) issues and challenges tracking and staying in touch with employees. Global mobility may be the last to learn of stealth repatriations, when the employee or manager surfaces compensation issues or questions about expenses, which obviously creates more tax and compliance risks now and down-stream.

### Managing Mobility

#### New Initiations

Moves that are essential or critical are proceeding with the understanding that services may vary based on local regulations (i.e., virtual inventory of household goods (HHG), "drive by" valuation, virtual destination tour, etc.).

#### Moves In-Process

- Moves in-process are continuing on a case-by-case basis depending on the stage of the move and local restrictions. Keeping costly home sales together to control costs, delivering household goods where and if permitted, funding "quarantine expenses" and covering extended temporary living and storage, etc.
- Assignees may get a "hardship" allowance or a "shelter in place" per diem.

#### Destination In-Process

Using virtual solutions, home finding in some locations is continuing. A comprehensive phone-based needs assessment allows the counselor to collect and curate listings/information.

#### Exceptions

Managing an increasing number and variety of exceptions is creating an incredible burden on global mobility, but with tax, visa and business/budget implications it will be vital to detail circumstances for all future reporting and analysis.

## MANAGING THE TAX IMPLICATIONS

We continue to closely monitor the tax landscape for global mobility programs and have identified unanticipated compliance risks for expats as a result of this global pandemic. Global mobility program managers should consider whether these risks apply to their expats and whether prudent action is needed to minimize the exposure created.

- **Shadow Payroll Reporting:** Companies are repatriating their expats temporarily to address challenges in the host jurisdiction with the virus. In doing so, this may have an impact on the shadow payroll reporting in the host jurisdiction; we recommend that you review the shadow payroll calculations and modify the level of income reported and income and social tax withholdings to account for the absence.
- **Hypothetical Tax Withholding:** If an expat is repatriated temporarily to his or her home country and is tax equalized and deducting a hypothetical tax, it may be prudent to suspend his or her hypothetical tax withholding and switch back to actual income tax (and potentially social tax) withholdings.
- **State Tax Residency:** For U.S. outbound expats, repatriating back to the U.S. temporarily may create a tax residency issue in their state of residence. This may require turning on actual state tax withholding or addressing a potential underfunding of state tax withholdings from previous pay periods when the intent had been to break state tax residency.
- **Permanent Establishment Risk:** When the initial reporting on the virus broke, several expats were relocated to a neighboring country or another country in the region instead of their home country with the expectation of a short timeframe and which allowed the expat to continue to work from the same region. This creates the potential for corporate tax exposure in that country. We recommend that you review such expats' job responsibilities and assess the exposure with your corporate tax department.
- **Income Tax Treaty Relief:** Many expats are currently quarantined in their host country and are unable to repatriate back to their home country or even a neighboring country due to travel restrictions. These travel restrictions could lead to short term expatriates exceeding the 183-day threshold prevalent in many income tax treaties. This could give rise unexpectedly to tax residency and income taxation in the host country. You should closely monitor the anticipated day counts in the host country and identify any employees that are close to exceeding the 183-day threshold.
- **Unbudgeted Tax Costs:** Incremental costs to evacuate employees and their families and house them temporarily while they are unable to work in their assignment country could be a taxable benefit in kind. Company policies should be reviewed to determine if these costs are tax protected and budgets and accruals should be reviewed to account for these added costs.
- **Tax Filing and Tax Payment Deadlines Extended:** Several countries have already announced extended filing and payment deadlines, including the U.S., Canada, and Japan. This will impact the timing of tax filings, tax equalization settlements, and home and host country tax payments. Companies should monitor these updated deadlines to manage cash flows optimally and inform their business leaders accordingly.
- **Foreign Earned Income Exclusion:** If a temporary repatriation jeopardizes a U.S. outbound expat's ability to meet the bona fide residence or physical presence tests to qualify for the foreign earned income exclusion, the foreign tax credit is usually a viable fallback position to minimize potential double taxation provided taxes are being paid in the host country. For U.S. state tax purposes, if the state does not allow a credit for foreign taxes paid, there could be an unexpected increase in actual state tax costs.

For the latest updates on preparing for the business impacts of COVID-19, consult these BDO and Weichert resources:

- Preparing for the Business Impacts of COVID-19
- Coronavirus and Your Mobile Workforce: Latest Updates

## ABOUT WEICHERT WORKFORCE MOBILITY

Weichert Workforce Mobility is one of the world's leading global workforce mobility companies, making it faster, easier and more cost-effective for clients to relocate key talent and transfer critical skills. Leveraging over 50 years of unmatched flexibility, seasoned insight and deep advisory expertise, we ensure that our clients' mobility programs advance their business goals and talent management strategies, anywhere in the world.

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