

HOW TO EFFECTIVELY MANAGE TAX FOR EMPLOYEES WORKING OVERSEAS

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Why is this important?

Today almost 5% of Australians live outside Australia with two thirds relocating for work purposes. Sending an employee overseas to work can be an exciting time for your employee but also a costly experience for you as the employer. Effective tax planning and employee briefings up front can minimise the tax costs of the assignment and avoid unexpected tax liabilities in Australia and/or the host country.

What to do

Seek the services of a tax adviser with specialist experience in dealing with expatriates. The tax rules can be complicated and the adviser needs a reasonable understanding of the interaction of Australian tax rules with those in the foreign country.

The following is a brief checklist of the tax issues that you and your employee should consider when planning the assignment overseas.

1. Tax residency status

This is a key determinant of liability to taxation in Australia and the foreign country. As a general rule, an employee going overseas for less than two years will remain tax resident in Australia and continue to be liable to Australian tax on world-wide income. Where the assignment is for more than two years, it may be possible to cease Australian tax residency such that only Australian source income is subject to Australian tax while a non-resident. The employee may need to take certain actions to provide evidence of non-resident status.

2. Structure of salary package

As a general rule salary income will be taxable in the country in which the services are performed. Therefore it is important to understand the tax rules in that country to take advantage of any special tax concessions available to expatriates working in that country.

3. Existing financial arrangements may no longer be tax effective

For employees who cease to be tax resident, there can be some significant tax savings as certain investment income becomes subject to withholding taxes at lower rates (10% for interest and usually 15% for unfranked dividends while franked dividends are tax-free).

However the following may need to be unwound or amended to avoid unexpected tax consequences:

- a. Geared share investments – will no longer get a tax deduction for the interest expense if become non-resident
- b. Self-managed superannuation fund arrangements – can become noncomplying and subject to penalty tax rates
- c. A family company or discretionary trust -may create significant compliance obligations offshore, especially in the United States.

4. Family home considerations

Many expats chose to rent out the family home while overseas while others decide to sell. Renting can increase costs including increased insurance premiums and maintenance. In addition, the home may become liable to land tax. On the plus side, mortgage interest becomes tax deductible, potentially reducing the urgency to pay off the mortgage.

5. Capital gains tax

Employees who cease tax residency need to consider whether to pay tax on the unrealised gain/loss on all investments (excluding real property) at date of departure from Australia or defer recognition of the gain/loss until actual disposal of each asset.

6. Tax equalisation/protection

Employees generally do not expect to pay more tax as a result of an assignment. Some employers chose to tax equalise or protect their employees to ensure that they pay no more tax on their income than they would have done if they had remained in Australia on the same income. There are various mechanisms to achieve this result and you should seek professional advice if considering this option.

7. Pension contribution planning

In some cases continued Australian superannuation contributions are tax effective. In other cases it may be preferable, or obligatory, to make contributions to a retirement plan in the host country.

8. Other considerations

There are a number of non-tax issues you should also consider for your expatriate employee including:

- a. The additional benefits that you will provide as part of the package
- b. Visa requirements
- c. Insurance cover

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Where to go for help

You should always seek professional advice prior to implementing any tax planning strategy to ensure that it is correctly carried out and is relevant to your particular situation.

Hunt Strategic Advisors

A boutique, Sydney CBD based firm of highly qualified professionals - Accountants, Tax Advisors and Auditors - dedicated to partnering with their clients, understanding their individual needs and tailoring advice accordingly to ensure their future financial success, with a priority of always providing quality client service. To find out more about how Hunt Strategic Advisors can help you, simply call 1300 347 952 and ask for David Hunt.

About David Hunt

David Hunt is a Chartered Accountant and Fellow of the Taxation Institute of Australia. He has a Bachelor of Business degree majoring in accounting and a Master of Taxation degree from Sydney University where he obtained a distinction average.

David commenced his career at Industrial Equity Limited (IEL) in the 1980s and worked in the accounting division of Chase Manhattan Securities in London before completing his undergraduate degree and commencing with Peter H Hunt & Associates (renamed Hunt Professional Group) in December 1992. He became a partner of the firm on 1 July 2000 and acquired majority share of the firm by 2007. David has since gone on to form Hunt Strategic Advisors.

David's significant experience and expertise are in the following areas:

- Tax effective business structures
- Capital gains tax
- Employee share schemes
- International taxation
- Family business advising
- Self-managed super fund gearing
- Superannuation and retirement planning
- Estate planning

Often sought after for press commentary on current taxation matters, David has spoken on numerous occasions as the key note speaker to audiences as private bankers, lawyer associations and member based organisations.

David is advisor and confidante to some of the most senior executives in Australia and is highly regarded by many institutions and small to medium enterprises and associations.

David is happily married with three children. His interests include all sport, particularly rugby, rugby league, golf and tennis.

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