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EXPATRIATE NEWSLETTER

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CANADA

THE IMPACT OF GLOBAL MOBILITY ON PERMANENT ESTABLISHMENT STATUS – RESPONDING TO THE OECD'S BASE EROSION AND PROFIT SHIFTING ACTION PLAN

Globally mobile employees can provide the foundation for multinational companies to be successful, whether employees are foreign secondees, business travellers, project workers or employees with global roles. Understanding the work employees do and where they do it however, is a critical element of determining corporate tax planning, particularly in the wake of the Organisation for Economic Cooperation and Development's (OECD) introduction of a Base Erosion and Profit Shifting (BEPS) Action Plan.

International organisations with globally mobile employees that want to avoid risks associated with tax compliance issues should be aware of Action 7 of the BEPS Action Plan in particular, as this action item is focused on reducing the artificial avoidance of permanent establishment status. By understanding the OECD's position and expected initiatives relating to permanent establishment status, international companies will be better able to develop an effective compliance response.

The OECD's base erosion and profit shifting action plan

Over the past three years, member states of the OECD have been working together in order to reduce base erosion and profit shifting by international companies. BEPS refers to organisations using tax planning strategies that take advantage of gaps in tax rules to shift profits to low or no-tax jurisdictions where there is little or no business activity, resulting in their paying little to no corporate tax.

Over one hundred countries worldwide have agreed to the OECD's fifteen point BEPS Action Plan, recognising that tax avoidance by international companies can create an unfair competitive advantage over companies operating domestically. The use of BEPS also undermines the public's trust in both global and local tax regimes.

The BEPS Action Plan includes a number of initiatives aimed at establishing international coherence related to corporate income taxation, realigning international corporate tax standards and rules, and ensuring transparency while increasing certainty and predictability related to corporate taxation.

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EDITOR'S LETTER

The BDO Expatriate Newsletter provides a brief overview of issues affecting international assignees, predominantly, but not exclusively, from a tax and social security perspective.

This newsletter brings together individual country updates over recent months. As you will appreciate, the wealth of changes across multiple jurisdictions is significant so to provide easily digestible information we have kept it to the key developments that are likely to affect your business and international assignees.

For more detailed information on any of the issues or how BDO can help, please contact me or the country contributors direct.

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Reducing artificial avoidance of permanent establishment status

With the increasing focus on corporate tax avoidance, the OECD is working to counter key risks and gaps. One identified weakness relates to globally mobile employees in particular. This weakness is the use of permanent establishment status. Action 7 of the BEPS Action Plan focuses on countering artificial avoidance of permanent establishment status by ensuring core business activities cannot benefit from the exception and that artificial arrangements related to the sales of goods and services cannot be used to avoid PE status.

Action 7 is also geared toward preventing the artificial fragmentation of business operations among multiple group entities in order to qualify for exceptions to permanent establishment status.

As a result of Action 7, there are four impending changes associated with permanent establishment status that companies with globally mobile employees should seek to understand and incorporate within their tax compliance regime moving forward. These changes focus on the following areas:

Dependent agent test

Currently, permanent establishment rules associated with the dependent agent test focus on habitual conclusion of contracts by the agent. The OECD plan is to shift this definition to include both habitually concluding contracts and habitually playing the principal role leading to the conclusion of contracts that are routinely concluded without material modification. This particular change could affect companies that have senior executives, sales representatives or contractors conducting activities related to the conclusion of a contract in other tax jurisdictions.

There are a number of elements associated with this change that have yet to be defined, including the definition of 'principal role' and what would constitute a material modification to a contract. International companies will need to monitor Action 7 updates in order to understand what definitions are agreed to.

Independent agent exemption

A second change associated with Action 7 includes the tightening of the definition of when an agent is considered to be independent. In the future, agents that act exclusively or almost exclusively for an enterprise to which they are closely related will no longer be considered to be independent under corporate tax structures. Closely related is intended to mean that there is either direct or indirect control of the beneficial interests of the organisation. This rule change may have the most impact for companies with agents that were initially hired on a contract basis during a global expansion, but whom have since been brought on as full time employees.

Specific activity exemption

Changes to the specific activity exemption impact companies in the early stages of expansion into new jurisdictions. Under the current rules, a permanent establishment does not exist when a business is used specifically for storage, for maintenance of goods for storage, display, delivery or processing, for purchasing or for the collection of information. Under the new rules, these particular activities will only be considered exempt if they are preparatory (i.e. activities that have a short-term duration) or auxiliary (i.e. activities that support without being an essential part of a company's business activity).

One area that could be adversely affected by this rule is storage and delivery related to the fulfilment of online sales. Under the new rules, these activities would not be considered preparatory or auxiliary in nature, and so would not be exempt. Anti-fragmentation rules are also expected to be introduced in order to ensure companies cannot fragment their operating businesses into smaller operations in order to meet the new rules for specific activity exemptions. To assist with this, the activities of related parties will be viewed as a whole when evaluating the activities which should be exempt.

Splitting up contracts

BEPS Action Plan changes are also expected to limit the ability of companies to split contracts artificially into shorter periods in order to benefit from the construction site exemption. While the rules associated with these changes have not yet been defined, the effects could be significant. Limitations on contract splitting could also affect the permanent establishment provisions related to the interpretation of services. Companies that may be using split contracts should understand the exact terms of any arrangements and monitor specific rule changes as they are clarified.

Ramifications of non-compliance

While a number of the rules associated with the BEPS Action Plan are still being formulated, multinational organisations need to act now in order to manage the future risks associated with permanent establishment status claims. By developing the processes and procedures associated with tracking the activities of globally mobile employees, companies can ensure they will be able to respond effectively to any additional reporting requirements that may be introduced in the future. This could help companies respond to the expected increase in scrutiny from tax authorities worldwide and, therefore, reduce their reputational risks and the potential risks associated with penalties for non-compliance.

Starting the journey

For international businesses, ensuring compliance with the OECD's Base Erosion and Profit Shifting Action Plan as it relates to permanent establishment status could help reduce corporate tax risks associated with globally mobile employees. In order to become more compliant with the BEPS Action Plan, companies with globally mobile employees should consider the following key actions:

- Understand where you are today – by evaluating the activities of globally mobile employees and current tax strategies, companies can develop more concrete plans to address their risk exposure to expected rule changes.
- Plan ahead – by establishing processes and procedures to track and monitor globally mobile employees, companies can create the structure they will need to address future compliance requirements.
- Establish specific rules – by establishing country-by-country specific rules, companies can ensure they will be able to comply with the reporting requirements in each jurisdiction in which they do business, thereby minimising their risk exposure.
- Document effectively – by ensuring robust assignment and inter-company documentation is in place, companies can ensure they have the information needed to respond to increased scrutiny from tax authorities so as to avoid potential penalties.
- Ensure transfer pricing compliance – by assessing cost recharge arrangements relative to globally mobile employees to ensure policies adhere to transfer pricing guidelines, companies can ensure they remain onside of any corporate tax requirements in the jurisdictions in which they do business.

BDO comment

The OECD's BEPS plan has already had huge focus placed on it by the global tax community and tax authorities will rigorously enforce this. Companies monitoring of their globally mobile force is just a small but crucial part of the overall obligations arising in this area. Global Revenue authorities are including the tracking of business travellers and settling any income tax due as part of their programme of clamping down on tax avoidance.

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CANADA

FEDERAL BUDGET REPORT

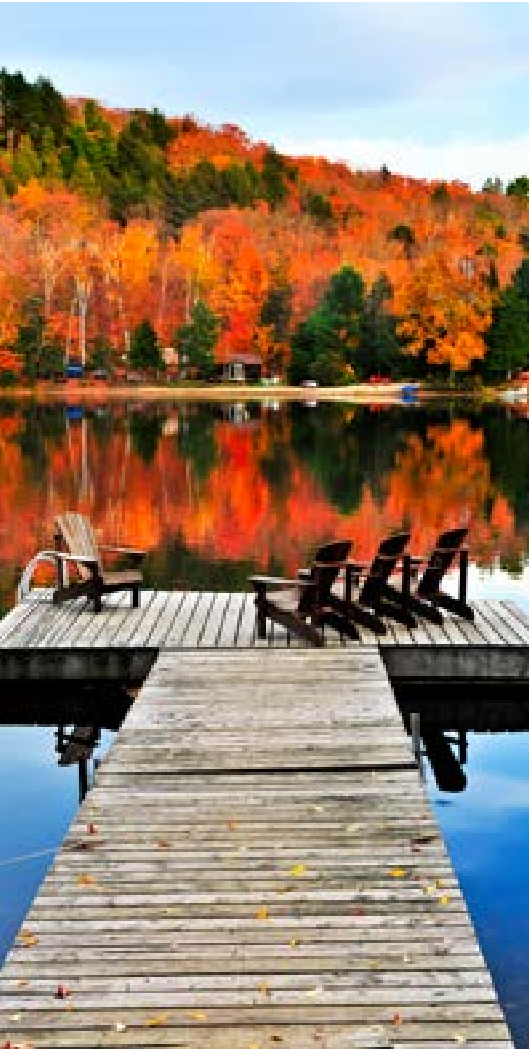
On 22 March 2017, the Honourable Bill Morneau presented his second budget as Minister of Finance entitled 'Building a Stronger Middle Class'. Similar to last year's budget, this budget focused on providing fairness to the middle class through spending and tax changes.

Personal tax highlights include the following:

Personal tax measures

A. Medical expense tax credit eligible expenditures

Various costs related to reproductive technology use are eligible for the medical expense tax credit (METC), generally where the eligible expenses are incurred due to a medical infertility condition. The budget clarifies that such costs incurred by an individual who requires medical intervention to conceive a child, even where treatment is not on account of medical infertility, will be eligible for the METC. This measure will apply to 2017 and subsequent tax years, and a taxpayer will be allowed to elect in a year to apply this measure for any of the immediately preceding ten taxation years in their return of income in respect of the year.



B. Consolidation of caregiver credits

Under the current tax system, three non-refundable tax credits provide tax relief for caregivers. These include the infirm dependent credit, the caregiver credit and the family caregiver tax credit. In order to simplify the tax system, as well as better target those who need support, it is proposed that these credits be replaced with a new Canada Caregiver Credit, beginning with the 2017 taxation year.

The new credit will provide tax relief on an amount of:

- CAD 6,883 (in 2017) in respect of expenses for care of dependent relatives with infirmities (including persons with disabilities) – parents, brothers, sisters, adult children and other specific relatives.
- CAD 2,150 (in 2017) in respect of expenses for care of a dependent spouse/common-law partner, an infirm dependent for whom the individual claims an eligible dependent credit or minor child with an infirmity (including those with a disability).

The amounts of the new credit are consistent with the amounts that could have been claimed in respect of dependents under the current system of credits. The Canada Caregiver Credit will be reduced dollar-for-dollar by the dependent's net income above CAD 16,163 (in 2017). The credit amounts and income phase-out threshold will be indexed annually after 2017. For purposes of claiming this new credit, there will be no requirement for the dependent to live with the caregiver. However, the credit will no longer be available in respect of non-infirm seniors who live with their adult children.

Tuition tax credit

The budget proposes to extend the eligibility criteria for the tuition tax credit to fees for an individual's tuition paid to a university, college or other post-secondary institution in Canada for occupational skills courses not offered at the post-secondary level, for courses taken after 2016. The credit will be available in these circumstances if the course is taken for the purpose of providing the individual with skills (or improving skills) in an occupation and where the individual has attained the age of 16 before the end of the year.

Effective for 2017 and subsequent years, eligibility as a 'qualifying student' will be extended to individuals in these circumstances who would otherwise meet the conditions to be a 'qualifying student', allowing the full amount of bursaries received for such courses to qualify for the scholarship exemption (where conditions are met).

C. Anti-avoidance rules for registered plans

Tax-Free Savings Accounts, Registered Retirement Savings Plans and Registered Retirement Income Funds are subject to a number of anti-avoidance rules. The budget proposes to extend these rules to Registered Education Savings Plans and Registered Disability Savings Plans. This measure will generally apply to transactions occurring and investments acquired after 22 March 2017. Note that investment income generated after 22 March 2017 on previously acquired investments will be considered a transaction occurring after 22 March 2017.

There will be certain exceptions to the effective date of this rule. In particular, the advantage rules will not apply to swap transactions undertaken before July 2017, although there will be a transition rule in place to permit certain swap transactions until the end of 2021. As well, under certain conditions, a plan holder may elect by 1 April 2018 to pay Part 1 tax (in lieu of the advantage tax) on distributions of investment income from an investment held on 22 March 2017 that becomes a prohibited investment under this measure.

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GERMANY

SOCIAL SECURITY FOR WORKERS IN THE UNITED KINGDOM

On 29 March 2017 the United Kingdom informed the European Council of their intention to leave the European Union. By invoking Article 50 of the European Union contract the United Kingdom has two years to exit the European Union from the date of notification.

There are European Union social security regulations governing the position for workers posted between European Union Member States and A1 certificates are issued to formalise the country in which social security is payable. Due to this planned exit the German authorities have announced that no A1 certificates will be issued for periods past 29 March 2019. Where assignments are expected to go beyond this date, the A1 certificate will only run to 29 March 2019.

BDO comment

It is currently unclear what regulations will apply for the application of German social security obligations for mobile individuals working in the United Kingdom beyond this date, hence the German authorities stance on issuing A1 certificates which go past the two year period. This is likely to be one of many tax and social security related implications which arise as a result of the United Kingdom leaving the European Union.

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IRELAND

CLAMPDOWN ON OFFSHORE ASSETS

Finance Minister Michael Noonan announced in his October Budget that the Government was committed to weeding out tax payers who are currently non-compliant.

Tax payers were given a deadline of 30 April 2017 to call the Revenue Commissioners to declare offshore assets and investments not previously declared. After this date stiffer penalties are likely to be imposed or possibly even criminal prosecution.

The Irish authorities will have greater powers from later on this year and will be able to access bank and other financial account information from more than 100 countries in their continued pursuit of unpaid tax liabilities. The information available will include the identity of taxpayers, account balances, gross income, gross sales proceeds and account closures.

BDO comment

Ireland is just one of many countries that has committed itself to identifying those tax payers who are not paying their fair share of tax and pursuing the recovery of this. Irish tax payers must ensure they have declared all income sources which are subject to Irish tax and volunteering this information should lead to a lower overall settlement.

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THE NETHERLANDS

MORTGAGE INTEREST RELATING TO A HOME OUTSIDE THE NETHERLANDS

In the Netherlands it is possible for non-resident taxpayers to opt to be treated as a resident taxpayer. As of 1 January 2015 the regulations have changed with regard to these qualifying non-resident taxpayers. In order to qualify under these rules, a non-resident taxpayer needs to earn at least 90% of their worldwide income from the Netherlands. If this is the case, they are able to qualify for certain personal deductions. This Dutch regulation is an interpretation of European case law ('Schumacher'). The European case law dictates that where a taxpayer who is living in one EU country and is earning (almost all of) his income from another EU country, and as a result is not able to effect personal deductions in his home country, he should be granted the possibility by the working country to claim personal deductions from the taxable income in that working country.

On 9 February 2017, the European Court of Justice made a decision with regard to a taxpayer living in Spain. In Spain, he was paying mortgage interest on his own house located in Spain. The taxpayer was not working in Spain, earning 60% of his income from the Netherlands and 40% of his income from Switzerland. The question was whether the taxpayer should be allowed to deduct the mortgage interest relating to the home in Spain from his Dutch taxable income according to Dutch national tax laws, even when he was not earning almost all of his income from the Netherlands. The European Court of Justice decided that since the taxpayer is not able to effect his personal deductions in Spain, he should be allowed to claim these personal deductions in the working country. As he was earning 60% of his income from the Netherlands, the Netherlands should allow a deduction of 60% of the paid mortgage interest relating to the Spanish home from the income that is considered taxable in the Netherlands.

BDO comment

As a result of the above, even in cases where a non-resident taxpayer is not earning at least 90% of his income from the Netherlands, but still is earning almost all of his taxable worldwide income outside his home country, the taxpayer may still be able to deduct a part of certain personal deductions from taxable income in the Netherlands.

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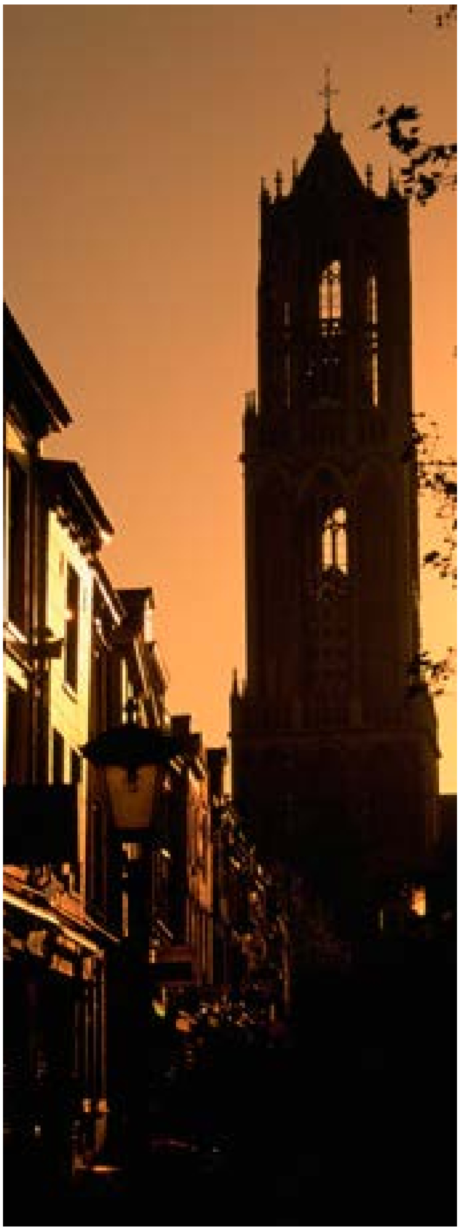

SINGAPORE

SINGAPORE AND GHANA SIGN DOUBLE TAX TREATY

The Inland Revenue Authority of Singapore has announced that Singapore and Ghana have signed a tax treaty.

The agreement is designed to reduce incidence of double taxation and tax disputes. It includes reductions in withholding tax on interest, dividends and royalties and provisions on exchange of information between tax authorities.

The agreement, signed on 31 March, will enter into force after procedures for ratification are completed by the two countries.

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SWITZERLAND

TAX DEDUCTIBILITY OF COMMUTING COSTS – NEW RULES INTRODUCED

In January 2016, the Swiss tax authorities introduced a general limitation on the tax deductibility of the costs for travelling to work. This may affect many taxpayers including expatriates and their employers, so please do remember this during completion of 2016 returns.

The new legislation aims at securing the financing and further extension of the Swiss railway infrastructure. To generate additional taxes for this purpose, the new law contains a limitation of the commuter expenses tax deduction. The corresponding Federal articles have been adapted starting January 2016.

On Federal level, CHF 3,000 is now the absolute maximum amount of commuting costs that one can deduct in the tax return. Many Cantons have introduced similar limitations for cantonal taxes (some applying different thresholds, however).

Effect in the tax declaration

Previously, commuting costs were deductible without an upper limit. If someone e.g. commuted from Winterthur to Schaffhausen (30 kilometres per way) using their own car, costs of approx. CHF 10,000 were allowed as a deduction. For the 2016 tax period, on Federal level, a deduction of only CHF 3,000 is granted in exactly the same scenario.

This taxpayer ends up with an additional CHF 7,000 taxable income, which obviously results in a higher tax burden. This applies for all taxpayers incurring commuting costs of more than CHF 3,000 (same restriction if commuting by public transport).

Tax impact when using a company car for commuting

The limitation that impacts taxpayers actually incurring costs for commuting is extended to situations where a company car is used. In this case, there is an additional taxable benefit computed.

Calculation example:

If an employee uses a company car for their journey to work (30 kilometres one way), the total is calculated with a deductible amount of CHF 0.70/per kilometre or a deduction of CHF 7,080 for 240 working days in the Canton of Zurich. This value is given by multiplying 30 kilometres x 2 x 0.70 x 240 = CHF 10,080. Of this sum, CHF 3,000 (the maximum deduction) is to be subtracted giving the employee the pecuniary benefit of CHF 7,080 because they are using a company car. It is the taxpayer's personal responsibility to declare this in his tax return as additional income if the annual wage statement has a cross in Field F.

In the context of the preparation of the wage statement, under section 2.2, the employer has to fulfil the following obligations relating to the employees private use of the company car: declaration of the private share (generally in the amount of 9.6% of the car's net purchase price). This remains unchanged; the respective amount does reflect private use only and not commuting costs.

For individuals with off-site workdays (e.g. sales representatives), the employers have to specify this on the annual wage statement (under section 15 'observations') giving the percentage of the off-site workdays. The additional income in the 2016 Swiss tax return for the use of a company car to commute to work is then reduced by the percentage as specified by the employer in the annual wage statement. This figure is based on the effective and traceable field days. It is therefore recommended to log the exact number of kilometres driven.

BDO comment

From 2016 commuters will suffer a financial disadvantage compared to previous years, where the (deemed) costs for commuting exceeds CHF 3,000. This is already the case for a taxpayer living more than 10 kilometres from their place of work and travelling twice a day there and back with their car.

Depending on the applicable policy (balance sheet, tax protection, tax equalisation), additional taxes triggered by such additional deemed income are a cost for the employer or the employee and need to be dealt with accordingly.

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UNITED KINGDOM

NEW NOTIFICATION REQUIREMENTS FOR COUNTRY-BY-COUNTRY REPORTING (CBCR)

The United Kingdom (UK) has introduced notification requirements for UK entities of groups required to file Country-by-Country reports. These apply for financial years beginning from 1 January 2016 and have a 1 September 2017 deadline and so require immediate attention from businesses.

CbCR – the mechanics

Businesses falling within the CbCR rules must submit one report for the group. This will typically be made by the parent company, although under certain circumstances a surrogate might be nominated.

For example, a surrogate might be used when the parent territory does not have CbCR requirements in place, or does not have sufficient exchange of information arrangements with other tax authorities. Where a surrogate is not used in these circumstances, local filing may be required.

Where a local filing is not required as submission of the CbC report is performed by another group company, the local tax authority will gain access to the report directly from the tax authority of the filing territory. In order to do so, they will need to know where the report has been filed.

Notification – new UK requirements

Entities falling within CbCR need to let their tax authorities know where that filing will be made. At the end of March 2017, the UK introduced notification requirements for UK taxable entities falling within CbCR. These companies must notify HMRC of:

- The name of the company or partnership making the filing;
- That entity's unique tax reference number; and
- The territory where filing will be made.

Only one notification is required for group entities within the UK, so one company may file the notification and include details (the names and tax reference numbers) of the other relevant UK entities, including partnerships and branches or permanent establishments. If a UK entity is filing the CbC report this should also be notified to HMRC as part of this process.

HMRC has set out brief guidance on the notification format: with a preference for a spreadsheet sent to a dedicated email mailbox. The deadline for notification will usually be the end of the accounting period for which the report is being prepared. For the first period (i.e. the first one starting on or after 1 January 2016) the notification deadline has been extended to 1 September 2017.

The notification deadline should not be confused with the CbCR filing deadline, which in the UK is twelve months after the year end (as for the corporation tax return).

Notification – other territories

A number of countries have introduced CbCR. Most of these have brought in notification requirements. Those bringing in CbCR from 2016 have generally extended their notification deadline, although not always as far as the UK has done. Some have not extended it at all.

Generally, the same kind of information will be required for entities in these territories as for the UK notification. However, the rollout of notification requirements is still in progress and expectations in each location should be kept under regular review.

Notification – key issues

The information required for notification is not onerous. However, businesses should consider:

- Whether they are part of a group which falls within CbCR; the UK uses a EUR 750 million annual turnover threshold while some territories have converted this into local currency. Foreign exchange movements will have an impact.
- Which entity will make the CbCR filing? Does its territory have a CbCR requirement itself and can/will its tax authority share the information with other relevant fiscal authorities? If not, should a group company elsewhere be used as a surrogate?
- Which local entity in each territory will make the notification, if a consolidated notification can be made.
- When each filing is due.
- If the business has regional head offices, whether they, the parent or the local businesses should manage the notification process.

These notification considerations will sit alongside issues groups will need to address for the country by country report: HMRC has also updated the requirements for the CbC report itself.

BDO comment

If your business falls within CbCR, you will need to ensure that appropriate notification is made to HMRC and that you have the right information to do so. If you have responsibility for other territories, the requirements for notification in these countries should also be addressed.

Last month we covered the importance of tracking your international business visitors. This all feeds into CbCR requirements and ensuring global tax compliance.

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SHARE PLAN REPORTING 2016/17 – 6 JULY 2017 DEADLINE

If employees or directors working in the United Kingdom participate in any form of share plan or equity incentive, it is likely that there will be a UK share plan reporting obligation. This requirement is in addition to the separate payroll obligations which arise for all relevant income.

Who is affected?

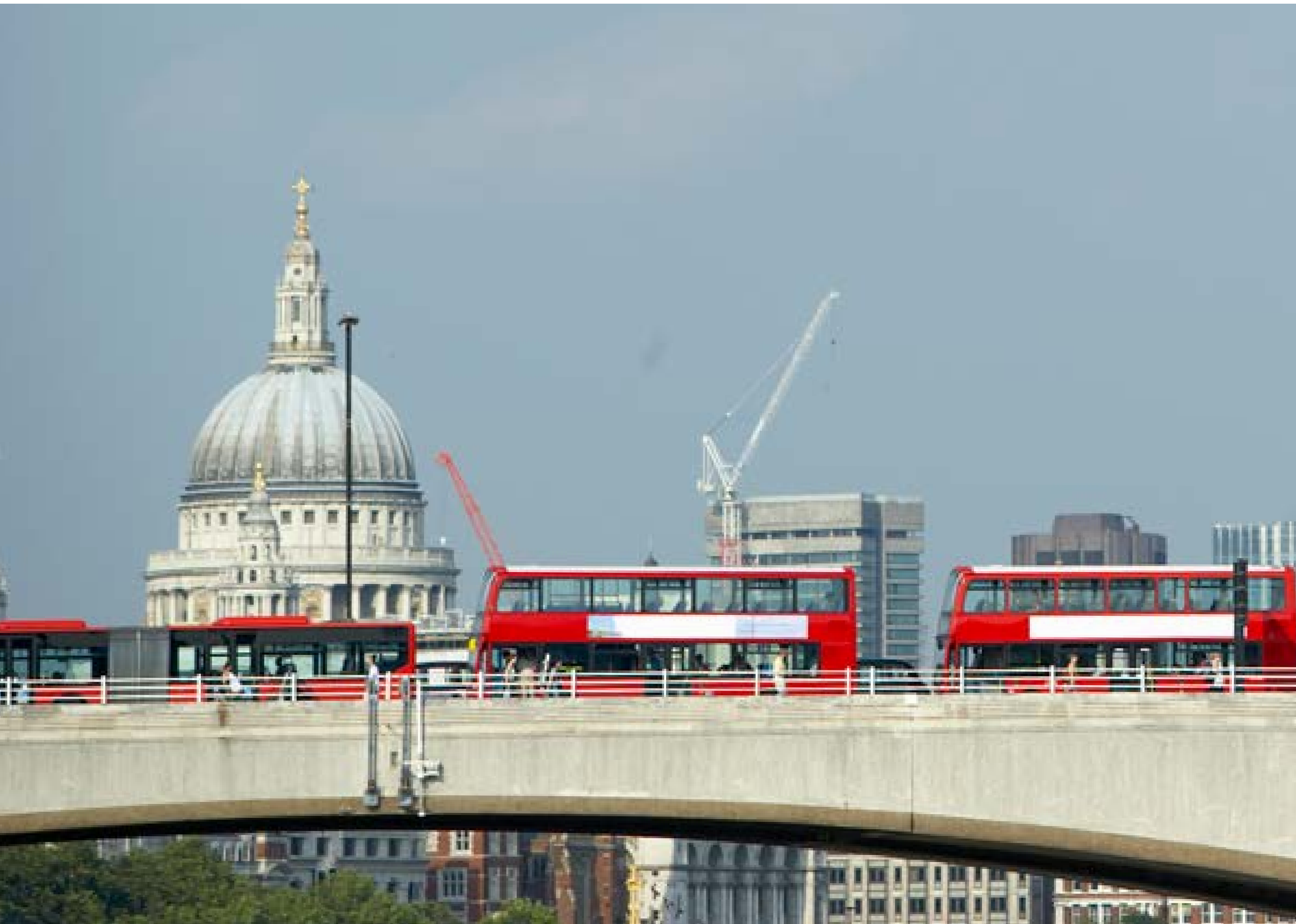
The obligation extends to all companies and LLCs where UK participants receive equity, including a plan operated by an overseas parent. This is part of the 'make tax digital' movement being adopted by tax authorities across the globe. International groups are often unclear whether reporting is dealt with at a parent or local company level and this can lead to problems and penalties. For internationally mobile employees it is also necessary to apportion income between UK and other countries of residence with appropriate payroll and reporting.

If you are not sure about your share plan filing requirements we have created a short online assessment tool, which will identify if you are required to report on your plans. More information can be found at **https://www.bdo.co.uk/en-gb/services/tax/human-capital/share-plan-reporting**

The requirement

All companies whose UK resident employees or directors participate in any type of employee share plan or arrangement are required to register their plans and submit returns online to HMRC by 6 July. This includes participants who were UK resident at any time during the period in which the equity was earned (typically the vesting period or period from grant to exercise). This cover grants, awards, certain cancellations, option exercises and other share awards. This replaced the old form 42 paper-based system in 2015. This obligation is not exclusive to formal share plans and the need to file a return is likely to arise for any employee or director share transaction.

Where online registration is not completed by 6 July for plans implemented in 2016/17, tax advantages may be lost and automatic penalties for non-compliance will be issued. If returns for earlier years have not been submitted these should be dealt with as soon as possible to minimise penalties and risk of HMRC audit. Lastly inactive plans should be closed on the HMRC system.



A new technology solution for 2016/17

We have developed BDO EQUITY REPORTER for those companies with significant numbers of participants of employees or levels of transactions. This tool significantly reduces the compliance burden and helps to identify issues and opportunities. The tool has sophisticated data validation, testing and payroll diagnostics which interrogates your data before exporting it into a HMRC compliant format. It comes with a secure portal which allows you and the BDO team to project manage data gathering from various teams and track overall progress. It also assists with Corporation Tax plus the new Apprenticeship Levy and Gender Pay Reporting requirements.

Other UK developments

Since April 2017 Apprenticeship Levy has been payable if the total UK pay bill (which includes certain equity) is more than GBP 3 million. If so the employer is required to pay 0.5% of this via payroll. Employers can use the levy to fund certain employee training. Companies will need to consider if this is payable in respect of equity income.

Going forward UK employers with more than 250 employees will have to submit Gender Pay Reporting, the first reporting date is in April 2018 but this includes an analysis of all equity income received during the 2016/17 UK tax year which was subject to UK income tax, BDO EQUITY REPORTER can assist with this.

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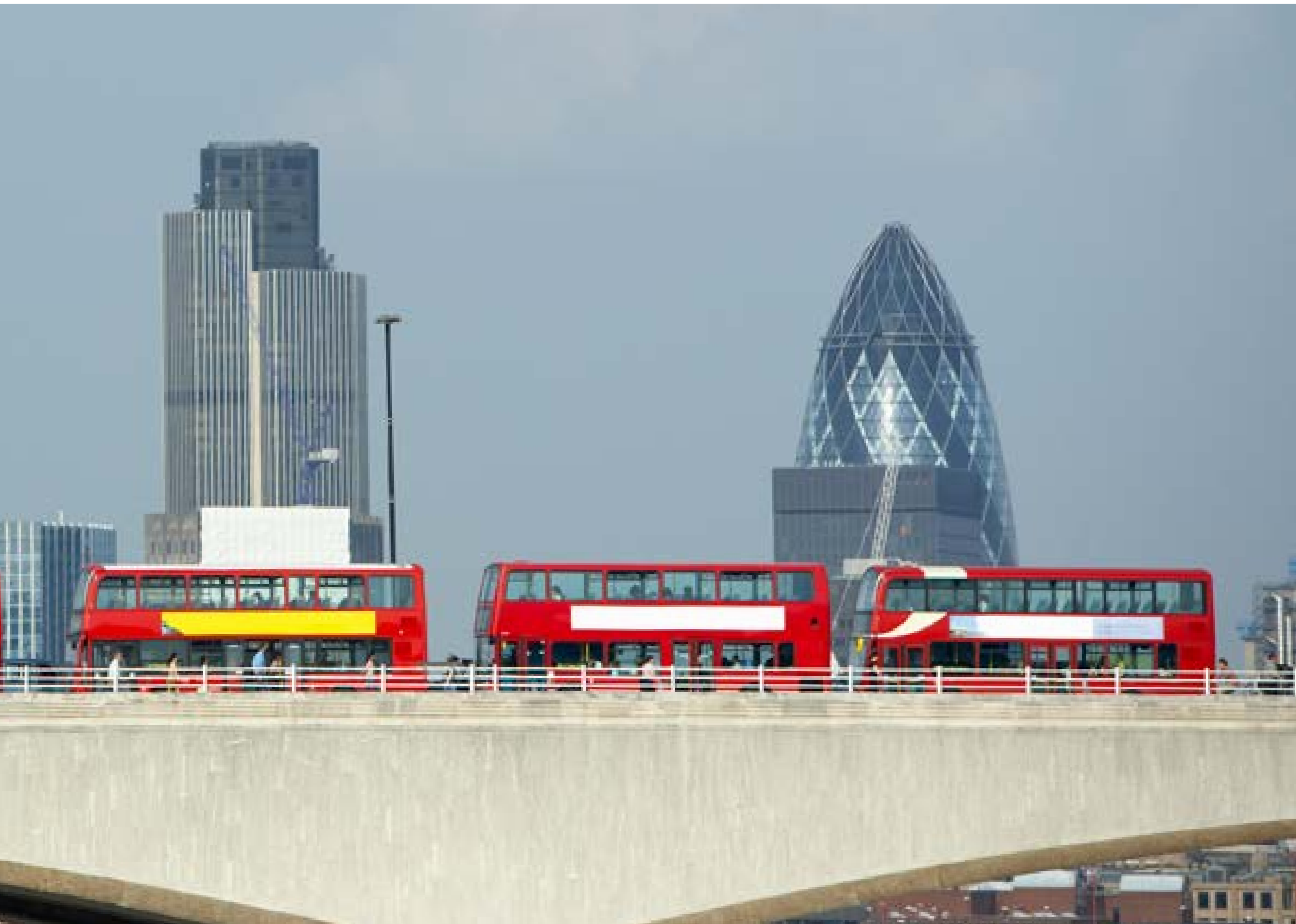

CURRENCY COMPARISON TABLE

The table below shows comparative exchange rates against the euro and the US dollar for the currencies mentioned in this issue, as at 24 April 2017.

Currency unit	Value in euros (EUR)	Value in US dollars (USD)
Canadian Dollar (CAD)	0.69005	0.74054
Euro (EUR)	1.00000	1.07216
Swiss Franc (CHF)	0.93529	1.00324
British Pound (GBP)	1.19352	1.28023

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