

## Candidate Services – Pre-offer Assessment Program

The common relocation goal of candidates and employers is a successful move. Today the challenges of attaining that goal are greater than ever. Candidates and employers alike are faced with the financial impact of a potential move and want to be sure it is the right move at the right time for each transferring family.

Costs to relocate employees, particularly homeowners, have been increasing due to longer selling times and larger losses on sale. Additionally, refusal or reluctance to move has increased, particularly for dual career families, which is challenging for employers who recognize the importance of a mobile workforce in this global economy.

As a result, pre-offer assessment programs offer an up-front alternative that can be very helpful in evaluating the probable success of an anticipated move – for both the company and the employee.

### Planning for Success

There are tools and services available to help the candidate and the employer make a good decision about a potential relocation. Arrays of options exist when creating a pre-offer assessment program such as an:

**Initial Needs Assessment** – It all starts with a comprehensive family needs assessment to help the candidate identify the different issues, both financial and personal, which will impact the potential relocation, including concerns regarding the home sale process and identifying suitable housing in the new location – particularly in the current housing market. A review of the authorized policy and available benefits helps the candidate understand costs the employer covers and those which will be his or her responsibility. The assessment also includes bringing to light other family considerations in making the decision – spouse career issues, school issues and lifestyle considerations and any company benefits designed to meet those needs.



The information from this initial assessment provides data which can help the candidate and the employer decide on next steps. At this point, a decision may be made to move ahead with the offer or the candidate may need more information before deciding that a relocation is a viable option at this time. Additional information can include more in depth financial analysis concerning the candidate's home, cost of living information, and information about the new area.

**Financial Analysis** – Typically, the market value of the employee's primary residence along with his equity (the difference between the total of all property debt including unpaid taxes, all mortgages, or other encumbrances and the potential net sale price) are key to determining the employee's ability to relocate. An affordable, timely tool for determining the most likely sales price is to obtain two broker's market analyses or a relocation appraisal, and at the same time gathering the balances for all liens on the property. Once all data is compiled, an estimate of the property's equity can be determined. This helps the candidate estimate the amount that may be available to purchase a property in the new location and if there is a likely loss on sale or a negative equity situation.

A cost estimator tool can be used for the above analysis – employers, candidates, or both, depending on the company preference can use this tool to estimate the total cost for the relocation. The estimator takes into account all of the approved relocation benefits along with the applicable gross up, and provides an estimate for the total cost of the move. Some employers prefer using this tool as a gauge for decision making even before having a formal discussion with a candidate about a potential move.

**Cost of Living Differences** – Cost of living information for the new community can be provided, allowing the candidate to compare average costs in both locations. If the relocation policy includes financial support for this differential, it can be incorporated into the cost estimate. If the company policy does not include this benefit, the impact of the cost of living information will be assessed – by having this type of data, a more educated decision can be reached.

## Additional Tools

- **City Search Tool** – Using an online City Search tool, the employee can become acquainted with the new location before the home finding trip or area orientation. The City Search tool provides links to information such as schools, health care, medical facilities, recreation, entertainment, government offices, and elder care options.
- **Proactive Policy Provisions** – Some policies provide an area orientation tour at the candidate stage so the candidate can assess the new community, prior to making a decision. This can be particularly useful if there are certain family requirements such as special medical care, specific schooling needs and commute time considerations.

## Solutions for Candidates and Employers

Both employers and employees want to avoid the financial and personal costs of cancelled or failed relocations and by using these tools and services, the likelihood of achieving successful relocations increases significantly. The goal for the relocation of each employee is to have a win-win situation – for the family and the company.

### **For the candidate and family:**

- Expectations are managed upfront, which subsequently reduces exception requests.
- A full understanding of the home equity situation is discovered before a candidate accepts the new assignment.
- Candidates feel valued that the company helped them make an informed decision.

### **For the corporation:**

- Projected costs make it easier for the hiring manager to meet budget goals.
- Comparing the cost of relocation to the return on investment helps hiring managers make objective decisions.
- Exceptions can be managed closely when anticipated costs have been defined.

## NEI's Pre-Offer Assessment Solutions:

- Family Needs Assessment
- Cost Estimator Tool
- Cost of Living Differential Reports
- City Search Tools
- Homeowner's Pre-Assessment Survey

## Planning for Short-term Assignments

Most organizations that are planning for longer term expatriate assignments will know how to incorporate the taxation impact into the plan. However, what about shorter term assignments that often “fly under the radar?” These often start out as extended business trips, but with just a little more time added to the assignment, a host of unanticipated tax and payroll issues to both the mobile employee and the company can occur.

### Tax Implications

From a U.S. tax perspective, as long as the original intent of the trip is under one year, the U.S. considers this to be an “away from home” assignment. This means that reimbursement and per diems are most likely to be non-taxable to the employee (within certain limits).

However, as soon as the intent of the assignment length changes to lasting longer than one year, the reimbursements and allowances become fully taxable in the U.S. as of the date of the change in the intent.

**For example:** Dan goes to Toronto for an eleven-month assignment, but after seven months he and his employer agree that he will need to stay another six months to finish the project. All of Dan’s housing reimbursements and per diems become taxable as soon as the lengthier stay is determined. The employer will need to provide tax gross-up to keep Dan whole, and must now budget for this new additional cost. The company has a payroll tax exposure if they don’t comply with reporting this income as taxable income to Dan.

What about the tax implications in the host location? Some other countries also have this concept of treating a short-term assignment differently from a long-term assignment. A well managed program will include an understanding of the potential host tax rules and take them into account.

As an example, Canada has a “special work site” rule whereby board and lodging can be received tax free if the employee is required to work temporarily far enough away from your home that he cannot reasonably expect to return at night. Temporary is considered less than two years. On the other hand, some countries only have a tax-free window for such allowances for only three months. It is critical to tax planning to understand each country’s current rules.

### Payroll Implications

A company should be aware of the tax implications for shorter assignments so that the proper data is captured for U.S. as well as host location payroll reporting. U.S. employers are responsible for social security tax, workers compensation, unemployment taxes, etc., which are driven from the taxable benefits reported in payroll. Employers are exposed to risk of penalties and interest if income is under-reported.

### Tax Treaties

No discussion of business trips or short-term assignments would be complete without a discussion of international tax treaties.

The U.S. has dozens of such treaties with other countries around the world. Their purpose is to minimize double taxation, such as when a resident of one country works temporarily in another country, and both countries claim the same income as taxable.

Most treaties between the U.S. and other countries contain a “dependent services” (meaning “employee services”) article that exempts the income from tax in the host location as long as the employee spends less than 183 days (total days) in the host location, AND the host location does not bear the cost of the compensation through an inter-company charge. Some older treaties will measure the 183 days on a calendar year basis, but the trend among new or updated treaties is to measure those days within a rolling 12-month period, potentially impacting the exemption requirements.

If an organization is unsure of the tax treatment for domestic or international short-term assignments or frequent business travelers, it may be helpful to work with a global tax accounting firm. With tax rules and treaties changing frequently in each country, obtaining advice and counsel from those who work in this industry and keeping current about the regulations in the countries with whom you work will prove to be a wise decision.

### **About Perkins & Company, P.C.**

Perkins & Company, P.C., provided the information in this article and work with NEI for expatriate tax services. Its expatriate group is headed by Carol-Ann Simon, a Canadian CA and US CPA with over 20 years of expatriate tax experience, much of that with Big 4 firms. Carol-Ann also has experience working with clients with programs administered by relocation companies, and is very familiar with their processes and common touch points in service to clients.