



## **Mobility Programs: Navigating the Intersection of Tax & Policy**

presented by

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## Discussion Topics

- Gap – The Company
- Taxable Relocation Benefits
- Reporting / Tax Gross up
- Hypothetical tax withholding / Tax Equalization

## Gap at a Glance



BANANA REPUBLIC

INTERMIX

OLD NAVY



PIPERLIME

ATHLETA

- Specialty apparel retail, founded in 1969 by Don and Doris Fisher
- HQ in SF, \$16B @ 1/31/2013, 136,000 employees worldwide
- 3,400 stores in 50 countries, available online in 80 countries
- Expats in 10+ countries, managed centrally in the US
- 50 int'l, 100 domestic cases / yr managed by relocation vendor
- 3 Int'l + 5 domestic policies
  - Long / short term assignment + one way move
  - Lump sum, homeowner, renter by level

# Taxable Relocation Benefits

## Taxable Relocation Benefits - Overview

- Type of Benefits
  - COLA, Location Premium, Car Allowance – via relo vendor
  - Relocation Allowance, Lump Sum – via payroll or via relo vendor
  - Non cash benefits (Housing, School, taxes, etc.) – via relo vendor or by Gap
- Data Accumulation
  - Ongoing data accumulation by relo vendor
  - Quarterly foreign and Gap HQ data feed to relo vendor



# Taxable Relocation Benefits

## Reporting / Tax Gross up

- US Reporting / Tax Gross up
  - Reporting requirement – determined by relo vendor
  - Gross up rates – determined by Gap with guidance from tax service provider
    - Current assignee – FICA / Medicare only
    - Repatriated / short term assignee – All taxes
- Non US Reporting / Tax Gross up
  - Reporting requirement – determined by host country payroll
  - Gross up rates – determined by host country payroll with guidance from tax service provider



# Taxable Relocation Benefits

## Reporting / Tax Gross up – cont'd

- Domestic
  - Monthly payroll feed from relo vender to Gap payroll, statutory rate
  - True up (in December) performed by relo vendor with marginal tax rates estimated by Gap payroll
- International
  - Quarterly payroll feed from relo vendor to Gap payroll, gross up rates estimated by Gap based on historical data and / or with guidance from tax service provider'
  - Year-end true up in December, with guidance from tax service provider. FTC information considered.



# Taxable Relocation Benefits

## Reporting / Gross up Challenges

- Domestic
  - Historically used statutory rates – under grossed up
- International
  - Gross up for one way movers from US to lower tax country
  - Reporting and gross up of trailing expenses for one way movers (i.e. imputed tax prep fee)
  - Reporting / gross up for termed employees (esp. moved to another state)
  - Large negative adjustment – not enough current year assignment income to offset



## Hypothetical Tax Withholding

- US outbound
  - Long term assignment only, unique circumstance (i.e.: family unaccompanied) reviewed with tax service provider
  - At start of assignment, updated in January and after merit increase
  - Based on YTD payroll and other income / deduction from assignee
  - Implemented with assignee's approval or using current withholding amount
  - Form 673 + W-4 completed
- Non US outbound
  - Determined and implemented based on local practice

Reconciliation / Settlement Calculation prepared with tax return



## Tax Equalization

- Domestic
  - Taxable relocation items only, grossed up for all taxes
- International
  - Assignment – 100% on Company income including equity income, 50% of base cap on personal income
  - Permanent Move – Taxable relocation items only
  - Tax equalized to home country, state and local
  - One policy, modified if not US outbound
  - Penalties / interest allocated to assignee

## Tax Equalization Pain Points

- Final Settlement Due
  - Equity income post review / updates
  - Inaccurate personal income / deduction estimation
  - Post repatriation – supplemental withholding on equity / bonus
  - Collection
- Large FTC carry forward for repatriated / termed employee
  - Tax accrual balance issue
  - Tax filing administration challenge