



Businesses are expanding into new markets, so employees increasingly have to move between different geographical locations. www.shutterstock.com

Employees who are internationally mobile might not be taxed correctly both within and between countries, creating risk and uncertainty for the businesses that employ them, [our research finds](#). We found that there is strong potential for more than one country to claim taxing rights, whether or not such claims are justified, over all or part of an employee's remuneration.

Internationally mobile employees play an increasingly important role in a globalised world. As technology develops and businesses expand into new markets, complex employment arrangements are in place to move directors, executives and employees between different geographical locations.

These employees provide experience and understanding which can be of considerable benefit to the organisations in which they work. The tax aspects and consequences of such assignments are often overlooked, or at best, not well understood.

Together with Mark Abbs, partner in Blick Rothenberg and with the assistance of BKR International, we have studied current trends in the taxation of internationally mobile employees, drawing on both academic literature and publicly available information, as well as the opinions of tax practitioners dealing with these complex issues.

We find there are significant risks and uncertainties arising from the complexities of individual national tax systems as applied to internationally mobile employees which are exacerbated when they interact with one another. Even where double tax treaties between two countries are in place, they frequently fail to capture the nuances of complex national systems and may not cover all aspects of an employee's obligations.

Time periods are important here. The duration of an overseas assignment will often determine

which country has taxing rights, but unfortunately differences between the tax treatment of the two countries can lead to confusion over double claims resulting in additional tax liabilities.

In addition, some forms of payments that employees receive are delayed, severing the connection between geographical location at the time of receipt and the location at the time the work was done. This can happen with deferred bonuses, pension contributions or even share option arrangements. The latter are particularly complex and can lead to tax liabilities crystallising in one of the countries at a much later date, well after the overseas assignment has been completed.

Tax treaties between countries

Double tax treaties are designed to prevent double taxation, but are deficient in a few main respects. First, they are necessarily generic, failing to take into account the intricacies of national tax codes.

There are guidelines and commentary produced by the OECD which help countries apply the provisions of existing double tax treaties. These are subject to re-assessment, reappraisal and change, but at a slow pace. These changes often appear to have retrospective effect and given that most bilateral double tax treaties are based on [the OECD model treaty](#), changes in the interpretation of the model treaty may result in a revised understanding of how a national tax code is to be applied.

We also find treaties often do not capture the full range of fiscal obligations which internationally mobile employees and their employers might be subject to. This incompleteness can be of particular concern in the area of social security taxes.

Some separate bilateral social security agreements between countries exist, but they are far less common than double tax treaties relating to income tax. In relation to social security, we find that expatriate employees are often faced with being insured in both countries and often don't have a choice as to the country where social security contributions are made.

Taxation at a national level

There are also differences at the individual country level, between the set of legislation and

regulations, the tax code of a country and the practical application of that code.

From time to time practice might deviate from theory. The extent to which there is a gap between the rules on the books and the rules in practice varies between countries. So too does the level of sophistication and expertise in the tax authority charged with administering the tax code.

For employers, who generally bear the costs of any unexpected tax liabilities on behalf of their employees, managing the tax compliance obligations of these workers is yet another source of risk. The risk is not only in the uncertainty of the tax consequences of the arrangements and remuneration package, but also in the associated administrative requirements in terms of record keeping, notifications and payments.

The tax involved with an assignment is an important element of any evaluation of the location of international business. In our discussions with tax advisers, we found they recognised the benefits of internationally mobile employees. They also wanted a concerted attempt to clarify and make more certain the way in which they are taxed.

Governments are currently focused on taxing the profits of large multinational corporations. This means not enough effort is being put into resolving some of the problematic issues for internationally mobile executives and employees.

The study reported here was partly funded by Blick Rothenberg.

Read more <http://theconversation.com/tax-laws-are-not-keeping-up-with-our-globally-mobile-workforce-new-research-73674>