

## Tax withholding and reporting obligations in the global village

The greater use of employee share ownership in remuneration packages and substantially increased regulatory pressures has made the tax withholding and reporting obligations for global businesses ever more complex.

This article highlights the issues that global companies face when dealing with cross-border withholding and reporting issues and provides suggestions as to how the compliance risks associated with operating global employee share schemes can be managed.

### The issues

Compliance with local income tax and social security withholding and reporting obligations for incentive plans is ever more challenging. Global companies who wish to meet their obligations are now required to keep track of their internationally mobile employees throughout the entire lifespan of a given award not just while they are on assignment. Equally, they must track localised employees and "voluntary" cross-border movers.

The risks and costs of failing to carry out the correct withholding and reporting in a timely manner are significant and include:

- Multiple penalties and interest
- Negative publicity
- Loss of government contracts
- Reduced employee confidence
- An increased chance of local tax authorities carrying out an investigation
- Potential criminal liabilities.

### How are global companies approaching this problem?

Historically, employers have taken a variety of approaches to deal with this issue. They are generally applying withholding in the current payroll country or 'manually' calculating the correct deductions using an in-house tax department or an external administrator or advisor.

The possible consequences of taking this approach are:

- Insufficient resources are made available for timely calculations at peak exercise or vesting times leading to delays/errors in applying the correct withholding
- Increased costs because of the time taken to carry out these complex calculations, eg, it may be necessary to consult with overseas advisors, refer to double tax treaties and local rules
- Delays in employees receiving their shares or the proceeds of sale. This can lead to employee anxiety/unhappiness.

Calculating the correct amounts to be withheld on vesting or exercise requires reliable, accurate data and there is a good case for automating the process. Collating the data from within the organisation or the plan administrator is a challenge. Plan administrators can often only 'withhold' based on a single tax rate and they are unlikely to have the resources or desire to be tax experts.

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In this edition of the Newsletter we have contributions from Ernst & Young, looking at tax withholding issues for companies with Internationally Mobile Employees; and from HBOS and Yorkshire Building Society who are commenting on the recent consolidation in the share plan administration market.

## Press and public affairs

Employee Share Ownership (ESO) has been a hot topic for the press this year, with Marks & Spencer, Tesco and FirstGroup announcing large staff rewards for their employees as part of their SAYE schemes. Also Corus Steel employees benefiting from their membership of an ESO scheme following a recent takeover. The Royal Mail situation has also brought renewed focus on ESO.

The *Sunday Telegraph*, *Sunday Times* and the *Guardian* have all contained articles featuring **ifs ProShare** in recent weeks, as have trade publications such as *Employee Benefits* and *People Management*.

**ifs ProShare** will continue to highlight developments relating to ESO and financial education in the workplace, seeking to maximise media opportunities for members. Our press and public affairs manager, Phil Hall, is always available to assist members wherever possible and can be contacted on 0207 444 7103 or at phall@ifslearning.com.

2007 has also already seen considerable lobbying activity, which we will sustain and build on throughout the year. Questions on ESO have been asked in parliament and we have met with MPs, for example the Rt. Hon. Alan Milburn MP, and we have provided briefings and exchanged correspondence with numerous MPs on a range of ESO issues.

In addition, the All Party Parliamentary Group (APPG) for Insurance and Financial Services are to hold a meeting in March 2007 focusing on ESO at which **ifs ProShare** will be making a presentation and leading the debate. **ifs ProShare** Gold members will be invited to attend this event.

Finally, as stated in our last newsletter, we will be holding follow up briefings on the Finance Bill 2007. A number of MPs have agreed to meet with **ifs ProShare** following the Budget in April. We have agreed to undertake a full assessment of the subsequent Finance Bill and provide possible amendments to be considered as part of the Bill's committee stage. Again, input from members on that assessment would be very welcome.

## A technology based solution

The increasing availability of technology can be used to collect the relevant data and ensure that the correct withholding is applied.

However, to move the withholding and reporting compliance issue to the top of the internal agenda, support is required from internal stakeholders including Tax, Human Resources, Compensation, and Benefits and Payroll. Equally important is the role of the share plan administrators and tax advisors.

Introducing a single technology-based solution requires project management of an integrated team to:

- design an effective and efficient withholding/reporting process;
- review details of the relevant share plans and consider the geographies and demographics that apply to the participant population;
- understand local tax and social security implications and the impact of tax treaties, rulings and approvals;
- identify accounting and reporting implications;
- understand the policies and costs associated with international assignees;
- achieve compliance consistency across different countries;
- communicate actions to the employees and business units;
- monitor, review progress and continuously improve quality.

## Summary

Tax withholding and reporting is a major issue for global companies. All stakeholders need to be involved in resolving this issue. Good project management skills can deliver real benefits where technology-based systems are used.

**Sarah Pickering, Partner, Ernst & Young**  
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# Communicate to consolidate

It is unlikely to have escaped anyone's notice that 2006 was a year of consolidation, with both Mourants and Abbey's businesses being bought by competitors.

This inevitable activity seemed to be a fight for the survival of the fittest where providers who had not continually invested in systems and talent were unable to maintain momentum within their own organisations and the market.

The acquisition of the Abbey Sharesave book by Yorkshire Building Society (YBS) is the first deal of its kind in this market. The challenge of an acquisition of this size was significant and with the support of over 50 team specialists from across YBS and a strong team at the Abbey, all elements of the project were completed successfully from Scheme of Arrangement and client communication, to data migration.

Client communication was a priority and a comprehensive joint communication strategy was created and deployed to ensure all client and participants' questions and needs addressed proactively, with the overall objective of achieving a seamless transfer of data and relationships.

Meeting the needs of new and varied clients has demonstrated the need to be flexible with both systems and resources. Former Abbey clients have for the first time been able to take advantage of many services that were not available to them previously, such as telephone and web applications and closures, online enquires and 24-hour service agreements.

There was much debate last year as to the future of Sharesave and SIP. Almost bucking the trend, YBS end of year figures, even without the additional boost of the Abbey schemes, has experienced a 10 per cent increase in companies renewing Sharesave schemes, 17 per cent of whom were introducing Sharesave for the first time. SIP continues to go gradually from strength to strength with consistent growth year on year.

Without doubt both SIP and Sharesave continue to deliver long-term rewards to employers and employees alike.

**Jill Evans, Head of Corporate Business**  
**Yorkshire Building Society**

# Celebrating Excellence

Once again Celebrating Excellence provided a sparkling exhibition of commitment to Employee Share Ownership. Despite the bad weather and difficult travelling conditions nearly 80 attendees joined us on 8 February at Linklaters' auditorium to hear from the companies that won the 2006 *ifs ProShare* Annual Awards. Informative and entertaining presentations were delivered by QinetiQ, The Capita Group, Hammerson plc, Enterprise Inns, easyJet, Sainsbury's and HSBC.

"The Hammerson board have shown a strong commitment to employee share ownership through the use of share schemes. The team are so pleased to be acknowledged and praised for this commitment and for the efforts it takes to implement and administer the wide range of schemes that the Company offers."

**Quote from Nicola Challen, Share Plans Manager, Hammerson plc**

The *ifs ProShare* Awards provide an excellent opportunity for companies to showcase the work they have done to promote Employee Share Ownership amongst their employees. The Awards are open to all companies, who are encouraged to submit entries for a variety of categories covering Plan Design, Communication, and Financial Education in the Workplace. Entry forms for the 2007 Awards will be available from April, the closing date for entries is 1 October 2007. The winners will be announced at the *ifs ProShare* Awards dinner to be held at The New Connaught Rooms on 20 November 2007.

## 2007 *ifs ProShare* Conference and Exhibition

We are delighted to announce that our 2007 Conference and Exhibition will be held on 27 September at the Russell Hotel, Russell Square, London.

Once again we are offering a packed programme of technical sessions, case studies and panel discussions. Further information about booking, sponsorship opportunities and the event programme will be announced soon and full details will be published on our website – please visit [www.ifsproshare.org/events/conference\\_exhibition.cfm](http://www.ifsproshare.org/events/conference_exhibition.cfm) or contact us if you are interested in attending, or in speaking or sponsorship opportunities.

# Dates for your diary

Date	Time	Event	Course	Location
Wednesday 18 April	10:00 – 13:00	Workshop	Internationally Mobile Employees	<b>ifs ProShare</b> , 100 Cannon Street, London EC4N 6EU
Tuesday 24 April	10:00 – 13:00	Workshop	Financial Education in the Workplace Share Plans to Pension Plans	Killik & Co, 46 Grosvenor Street, Mayfair, London W1K 3HN
Monday 21 May	10:00 – 16:00	Training Course	The Companies Bill and its Impact on Share Plans	Baker & McKenzie, 100 New Bridge Street, London EC4V 6JA
Thursday 24 May	10:00 – 13:00	Workshop	An Introduction to the Stock Exchange	Killik & Co, 46 Grosvenor Street, Mayfair, London W1K 3HN
Wednesday 13 June	10:00 – 16:00	Training Course	Employee Share Plans - From Launch to Maturity	<b>ifs ProShare</b> , 100 Cannon Street, London EC4N 6EU
Thursday 21 June	10:00 – 16:00	Training Course	Executive Share Plans	<b>ifs ProShare</b> , 100 Cannon Street, London EC4N 6EU
Tuesday 10 July	10:00 – 13:00	Workshop	Share Plans for Payroll Managers	Killik & Co, 46 Grosvenor Street, Mayfair, London W1K 3HN
Wednesday 18 July	10:00 – 13:00	Workshop	EU Prospectus Directive	Baker & McKenzie, 100 New Bridge Street, London EC4V 6JA

**2007 Employee Share Plans Conference and Exhibition – Thursday 27 September**  
**2007 ifs ProShare Annual Awards Dinner – Tuesday 20 November**

Our comprehensive events programme is intended to help those wishing to gain a better understanding of the regulatory and legislative environment within which Employee Share Plans operate. Substantial discounts are available to **ifs ProShare** members attending our events. For more information about these events and membership of **ifs ProShare** please visit our website at [www.ifsproshare.org](http://www.ifsproshare.org).

If there is a topic/issue you would like to see addressed at one of our events please contact Sally Russell at [srussell@ifslearning.com](mailto:srussell@ifslearning.com) or Kylie Hinge at [khinge@ifslearning.com](mailto:khinge@ifslearning.com)

## Global share plan market continues to mature

With changing employee expectations and market regulations, the global share plan market continues to mature and evolve. Once viewed as the privileged preserve of the board, share plans have spread broadly and deeply within organisations. In the US, long seen as the leader in remuneration packages for employees, the market for share plans has penetrated the culture of companies and has become successfully established within smaller and medium sized enterprises – a trend already developing here in the UK.

Of course, the overall state of employee benefits and compensation remains subject to a large amount of speculation and market comment. Although contention remains as to what direction the industry is moving, the situation in some areas, such as pensions provision, has pre-empted governmental intervention in an effort to change market practices and improve flexibility.

In addition, as they become global, both operationally and in their outlook, companies have recognised how global share plans can provide them with a valuable tool to support their corporate offering and reward strategies. This recognition encourages employees to identify with the organisation and has proven to be a significant driver of financial performance.

As implementation presents firms with a complex and diverse range of obstacles, the benefits of a share plan provider who is a one-stop shop appears clear. The merger last year between Halifax Employee Share Services and Mourant Equity Compensation Solutions created HBOS Employee Equity Solutions, the UK's largest specialist provider of employee and executive share plans. At the heart of the merger was customer service and meeting growing expectations. This entails market-leading expertise, global reach, autonomy and the technological innovation to deliver fast and in real time. The merger has achieved this and its success has been reflected with more of the world's best companies coming on board. As the market continues to evolve, we expect to see even greater industry appetite for share plans throughout this year and more interest from smaller and medium sized enterprises.

**Richard Nelson, HBOS Employee Equity Solutions**

## Share Incentive Plan and Sharesave Research

Once again **ifs ProShare** is undertaking research into the use of Share Incentive Plan and Sharesave to monitor trends and support its lobbying activities. Questionnaires have been distributed to the key administrators and the results will be presented to **ifs ProShare** members in Spring 2007.

## Membership of ifs ProShare

Members of **ifs ProShare** enjoy a number of benefits including discounted prices for attending events, free research seminars, priority access to research findings, the opportunity to attend Focus Group meetings and to influence our lobbying activities.

The membership year runs from April – March; we are looking forward to renewing our relationship with existing members and to welcoming new members. If you would like more information on how membership of **ifs ProShare** could benefit your company, please contact Fiona Downes on 020 7444 7141, or email [fdownes@ifslearning.com](mailto:fdownes@ifslearning.com).