

Crossing Borders with Equity Awards

March 28, 2014

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STATE STREET

Agenda

- ❖ Tax Fundamentals for Mobile Employees
- ❖ Challenges of Mobility in Equity Plan Context
- ❖ State Street Case Study

Tax Fundamentals of the Mobile Employee

- Why are we here?

Even a small number of mobile employees can create havoc in terms of the administration, risk, costs, compliance and reporting requirements associated with an equity based compensation plan.

The Mobile Employee (a.k.a. “Expat”, “Inpat” etc.)

- Employee who is sent to work in one or more jurisdictions other than their normal place of work
 - Global/International Assignee = EE on Global Assignment.
 - Permanent Transfers/Local Hires
 - Short Term Assignees – Typically less than one year.
 - Short Term Business Travellers - potentially no minimum.
 - Cross Border Commuters

A brief note on terminology (Expat, Inpat, TCN)

These definitions are important for tax and social security issues on equity.

Mobile Employees and the Trailing Tax Liability (a.k.a “Cross-border taxation”, “Multi-jurisdictional Taxation”)

- Obligation to pay tax on current income related to past employment services performed in countries in which the EE worked prior to transferring to his current country.
- Example:
 - On March 1, 2014, John receives payment in Country B for LTI Award that was granted on March 1, 2012 when he was in Country A.
 - Country A’s tax regulation requires John’s employer to report the taxable wages on income related to services provided in Country A, even if the employee is no longer there, thereby creating a “Trailing Tax Liability”.

Mobile Employees: Trailing Tax Liability (continued)

- Related definitions:
 - Income sourcing = Calculation to prorate income to “source”
Options, RSUs etc can be sourced differently.
Options are typically grant to vest sourcing.
 - Income Tax Treaty = Agreement between two countries to prevent taxation of the same income in both countries. Many are “quiet” on stock based remuneration.
 - Totalization Agreement = Social Security Agreement between two countries to allow the EE to participate in his Home Country social tax system while temporarily working in Host Country

Key Risks Associated with Equity Awards Held by Globally Mobile Employees



Challenges of Mobility

Inconsistent tax rules between countries

- ❖ Varied timing of taxable event (grant, exercise, exit or sale)
- ❖ Varied sourcing rules (grant to vest, grant to exercise, treaty sourcing rules)
- ❖ Withholding rules may vary from income tax rules
- ❖ Social tax sourcing rules may vary from income tax sourcing
- ❖ Reporting – when and how much
- ❖ Many countries tax a portion of the award even if employee is no longer present at taxable event (trailing liabilities)
- ❖ Qualified or tax-preferred plans
- ❖ Recharges

Challenges of Mobility

Trailing Liabilities Issues

- ❖ Identifying impacted individuals (expatriates, short-term assignees/permanent transfers, international transferees, business travelers)
- ❖ Identifying impacted transactions
- ❖ Mobility data maintenance
- ❖ Applying income tax and social security withholding correctly to allocated awards
- ❖ Remittance of taxes when employee is no longer on payroll and taxes due with non-resident tax return filing
- ❖ Tax Policy Concerns - Tax equalization vs Tax protection
- ❖ Employee communication

Challenges of Mobility

International Plan Administration

- ❖ Tracking
- ❖ Coordination with external providers
- ❖ Tax withholding
- ❖ Process with record-keeper
 - Full-value awards
 - Options
- ❖ Communication with payroll
- ❖ Communication with HR
- ❖ Communication with employees

State Street Case Study

❖ **Goals:**

- Design and implement an efficient vesting support process
- Leverage Broker/Stock Plan Vendor system capabilities
- Eliminate internal manual processes and streamline multiple handoffs
- Effectively manage and coordinate global payroll requirements

State Street Case Study

❖ Requirements for success:

- Joint partnership between Global Total Rewards and GHR Shared Services
- System enhancements in order to support automated data feeds
 - PeopleSoft
 - Payroll instructions
 - Broker: Number of shares processed and withheld for taxes, Net shares deposited into employee accounts
- HR Operations/ Payroll Manager to effectively manage and coordinate global payroll process and compliance

Internal mandate & project approach

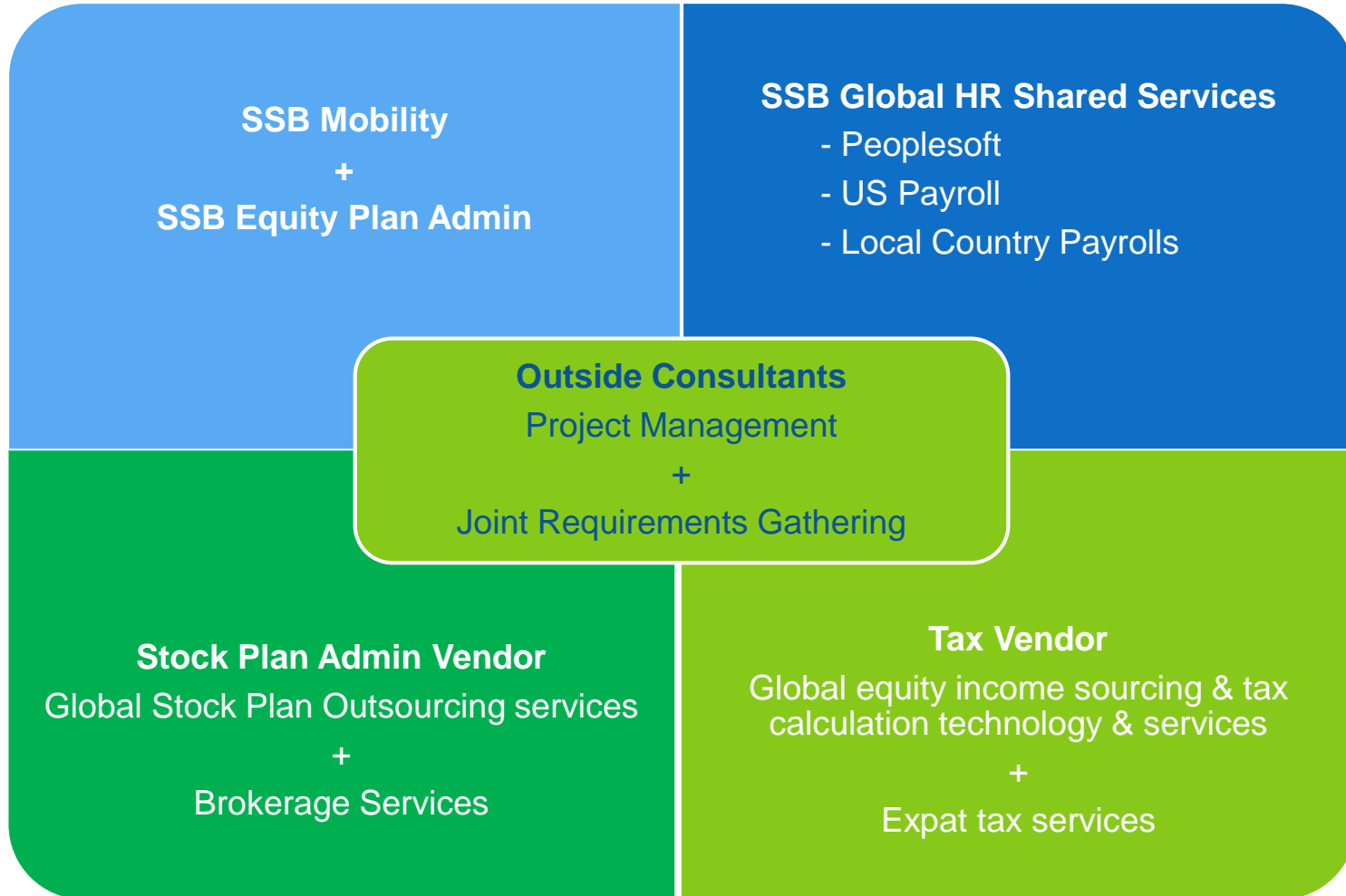
❖ Internal mandates

- Compliance or operational risk
- Settlement timeframes
- Design & implement in 3 months

❖ Project approach

- Secure executive sponsorship & engagement throughout project (bi-weekly executive briefings)
- Engage external resources supplement internal expertise to facilitate cross-functional and inter-company system & procedural requirements gathering
- Quickly evaluate & select multijurisdictional equity tax solution provider
- Engage internal stakeholders and secure buy-in to rapidly implement changes
- Engage broker partner early to secure commitment to collaborate and implement changes

Stakeholder Team



Project Team Structure

Steering Committee

Executive Sponsor – Head of Total Rewards
Head of Equity Operations
Head of Mobility
Head of Global HR Ops/Payroll

Project Manager

Work Streams

Global
Mobility

Equity
Administration

Business
Requirements

Delivery /
Implementation

Vendor
Management

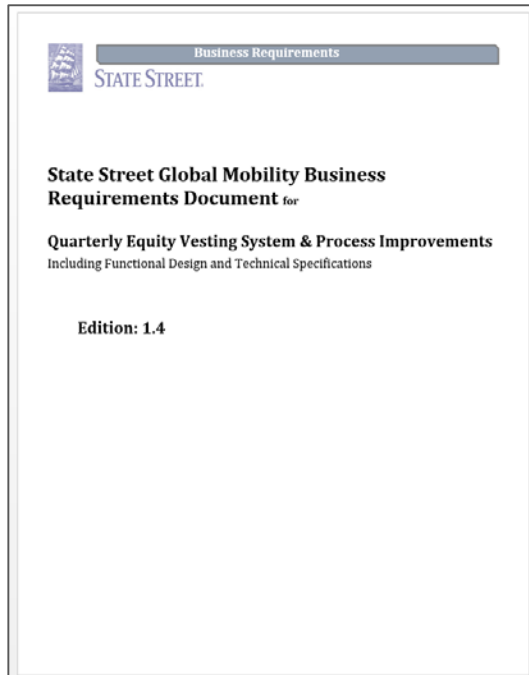
Project Timeline

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Timeframe	Action
Step 1	<ul style="list-style-type: none">• Project team identified team members, work streams, and detailed business requirements
Step 2	<ul style="list-style-type: none">• ISP Advisors reviewed current state processes, documented proposed future state processes including key process requirements (subject to review and comments by Broker, and validation via testing)
Step 3	<ul style="list-style-type: none">• Based on feedback and agreed set of requirements, ISP Advisors documented agreed process & functional requirements• ISP Advisors identified and documented non-US payroll process improvement opportunities and related requirements• GHR Shared Services reviewed business requirements and identified technical requirements and resources needs• GTR, GHR Shared Services, and Broker jointly reviewed and signed off on project plan
Step 4	<ul style="list-style-type: none">• Development and ongoing collaboration: GTR, GHR Shared Services, and Broker
Step 5	<ul style="list-style-type: none">• Testing
Step 6	<ul style="list-style-type: none">• Execute vesting process

Joint Business Requirements Document

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Business Requirements Identified & Documented

BR1 - Identify equity awards subject to multi-jurisdictional taxation

- **Stock Plan Admin Vendor:** Runs daily system process to identify affected awards & provide data to Tax Vendor
- **Tax vendor:** Receive affected transactions and initiate necessary calculations via global equity tax system
- **State Street Mobility:** Review & approve transactions identified by Stock Plan Admin Vendor

BR2.1 – Employee Mobility Data maintenance

- **SSB Mobility:** Maintain up-to-date assignment data in Peoplesoft; review & validate historical mobility data
- **SSB Shared Services:** Create new assignment types in Peoplesoft HR database to identify PTs and Localizations; develop & maintain file feed to Stock Plan Admin Vendor; historical mobility data load with Stock Plan Admin Vendor
- **Stock Plan Admin Vendor:** Receive & maintain mobility data

Joint Business Requirements Document

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BR2.2 - Tax Rates maintenance

- **SSB Shared Services:** supply actual & hypo tax rates to Stock Plan Admin Vendor
- **SSB Local Payrolls:** Review/validate/correct tax rates prior to each major plan event (using preliminary calculations prepared by Tax Vendor)
- **Stock Plan Admin Vendor:** Update its system with tax rates supplied by SSB Shared Services; maintain mobile participant identifiers (Expat vs. Permanent Transfer)
- **Tax Vendor:** Manage tax rates for cross border award tax withholding calculations for Permanent Transfers and post-vesting actual tax calculations for Expats)

BR3 - Calculate w/h taxes and release net shares

- **SSB Shared Services:** Coordinate with SSB mobility to ensure correct tax rates are maintained at Stock Plan Admin Vendor
- **Stock Plan Admin Vendor:** Process tax withholding
- **Tax Vendor:** Performs income allocation & withholding tax calculations, produce and deliver withholding instruction file to Stock Plan Admin Vendor

Joint Business Requirements Document

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BR4.1 - Post-vesting reporting and reconciliation for Expats

- **Stock Plan Admin Vendor:** Make post-vesting transaction details available and deliver to Tax Vendor
- **Tax Vendor:** Performs taxable income allocation, final tax liability & tax gross up calculations; produce & deliver payroll instructions for Expat Tax Vendor; instruct SSB Local Country Payrolls re: tax equalized equity transactions.
- **SSB Equity Plan Admin:** Ensure payroll instructions to local country payroll exclude expats (to prevent duplicate reporting)
- **SSB Mobility:** Provide quality control review of selected calculations performed by Tax Vendor (i.e, high value transactions and any known exceptions to global assignment policy)

BR4.2 - Post-vesting reporting and reconciliation for Permanent Transfers & Localizations

- **Stock Plan Admin Vendor:** Make post-vesting transaction details available and deliver to Tax Vendor
- **Tax Vendor:** Performs taxable income allocation, final tax liability calculations (reconcile variances b/n pre-vest estimates); produce & deliver payroll instructions to SSB EPA; produce & deliver participant statement for PTS.
- **SSB Equity Plan Admin:** Ensure payroll instructions to local country payroll exclude expats (to prevent duplicate reporting); *Provide payroll instructions to SSB local payrolls*
- **SSB Mobility:** Provide quality control review of selected calculations performed by Tax Vendor (i.e, high value transactions and any known exceptions to global assignment policy)

BR5 - Post-vesting funding of withholding taxes (handled by Tax Vendor & SSB EPA)

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Functional Requirements Identified & Documented

FR1: Peoplesoft Data to Stock Plan Admin Vendor

FR2: Stock Plan Admin Vendor processes (both short-term and long-term requirements)

- Cross border status determination (Expatriate, Permanent Transfers, Localizations, Repatriates)
- Data Exchange b/n Stock Plan Admin Vendor and Tax Vendor

FR3 – 6: Tax Vendor processes

- Withholding rate validations with SSB Local Payrolls
- Withholding rate file to Stock Plan Admin Vendor
- Payroll instructions to SSB Local Payrolls, EPA, and Expatriate Tax Vendor
- Payroll statements for Expatriates
- Funding reports for SSB EPA

Joint Business Requirements Document

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Also documented...

1. Supporting process maps, logics to clearly articulate how the key business & functional requirements will be supported
2. File layouts
3. Stakeholder Sign-Off:
 - ✓ SSB Mobility
 - ✓ SSB GHR Shared Services
 - ✓ SSB Equity Plan Admin
 - ✓ Stock Plan Admin Vendor
 - ✓ Tax Vendor

Q&A

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