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Global Reward Update – Wrap Up

August 2024

We hope you are enjoying the summer. We thought it would be a good time to circulate a few key changes impacting global incentive plans since our last update. Some are an update on information provided in previous Global Reward Updates (GRUs) and others are new developments.

We hope this summary is useful, and if you have any questions, please do get in touch with your usual Deloitte contact or any of the Incentives partners listed on the final page.

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Global tax & legal updates

Canada: Proposed changes to capital gains and stock option inclusion rate

Following our recent GRU regarding the proposed changes to the capital gains and stock option inclusion rate (here is the link), draft legislation was presented with no significant changes and has confirmed that employers should withhold at the higher amount for any relevant transactions that occur on or after 25 June 2024.

With effect from 25 June 2024, the 50% deduction for qualified stock options will be reduced to 33.33% when an employee's combined qualified stock option benefits and capital gains exceeds CAD 250,000 for the tax year. As a result, the taxable stock option amount has increased to 66.67% from 50%. Any additional deduction on the first CAD 250,000 of stock option benefits/capital gains (i.e., to achieve the possible 50% deduction on the first CAD 250,000) is at the taxpayer's discretion and should be managed through their personal tax filing.

Whether an employee will be able to request a waiver from the Canada Revenue Agency (CRA) to authorise the reduction of the withholding at source to take into account any additional deduction that will be claimed on their personal income tax return, is unclear. Furthermore, for employees who exercise stock options where shares are sold to cover the tax withholding, an instance could arise where more shares than are actually required are sold if a waiver has not been obtained on time. **We will keep you updated** if we receive further clarity on this.

For mobile employees, given the additional deduction is calculated based on the stock option deduction otherwise claimed for the year, employees who become resident in Canada during the year and exercise their options following their arrival could be limited in the additional deduction they could claim. This is because only stock options taxed in Canada and the related stock option deduction claimed can be considered in the calculation. As the individual will be allowed to claim the additional deduction at their discretion, employers will need to consider the potential impact on their tax reimbursement policies to clarify which of the employee or the employer will benefit from any additional deduction under the policy, particularly in situations where the employer's policy covers only one of these items.

Finally, please note the Quebec government have announced that the Quebec legislation would be in line with the federal legislation.

Please contact us if you would like to have a more in-depth discussion or have any questions relating to the above, or if you would like our assistance in preparing communications to any of your employees regarding the impact of these changes.

Canada: Capital Gains Exemption for Employee Ownership Trusts

As discussed in our December 2023 Global Wrap Up (here is the link), the 2023 Fall Economic Statement proposed a temporary exemption for the first CAD 10 million of capital gains realised on the sale of a business to an Employee Ownership Trust (EOT) in qualifying circumstances. This is intended to provide a further incentive for business owners to utilise the EOT structure to transfer beneficial ownership of the business to their employees where this is viewed as a long-term ownership model. The exemption will apply to qualifying dispositions of shares to an EOT that occur between 1 January 2024 and 31 December 2026.

In the 2024 Federal Budget, the Canadian government provided more detail on how the CAD 10 million capital gains exemption will work. Broadly this means:

- The exemption is available to individuals (or personal trusts of which they are beneficiaries in certain circumstances) who dispose of shares in a company pursuant to qualifying business transfer under the EOT rules;
- The trust which acquires the shares cannot already be an EOT and at least 75% of the proposed beneficiaries of the trust must be resident in Canada immediately prior to the transfer;
- The individual must satisfy certain requirements regarding their ownership of shares and involvement in the business, and more than 50% of the fair market value of the company's assets must have been used principally in an active business, in the 24 months prior to the transfer;
- The exemption is available to multiple individuals in respect of the same transaction (subject to the overall CAD 10 million limit) and is claimed via an election; and there are certain "disqualifying events" which could cause the exemption to be unavailable (or retroactively denied) and lead to a tax liability for the EOT following the transfer.

The legislation to implement the above proposals received Royal Assent on 20 June 2024. The 2024 Federal Budget also included proposals to expand the definition of a qualifying business transfer in the EOT rules to include the sale of shares to a Canadian worker cooperative where certain qualifying conditions are met. However, the legislation did not contain any provisions with respect to the expansion to worker cooperatives**. We will keep this under review and will provide any necessary updates.**

Please contact us if you would like our assistance in considering any of the above.

Czech Republic: Deferral of tax point for share-settled awards

In our Global Wrap Up in March 2024 (here is the link), we discussed the new legislation in the Czech Republic regarding the deferral of the income tax point for share-settled awards to up to ten years from acquisition of the shares. At the time of publication, there was no equivalent update for the social tax position. We understand that this was inadvertently omitted and the rules have been amended with effect from 1 July 2024, such that the social tax position is now aligned with the new income tax position.

This alignment will simplify obligations in Czech Republic for both companies and employees. **We recommend** reviewing your current approach to the provision and taxation of share-settled awards in the Czech Republic to ensure your organisation continues to comply with the new legislation.

Germany: Upper house confirms 1/5th rule will be available during the withholding process until 1 January 2025

In our Global Wrap Up in March 2024 (here is a link) we provided clarification on the continued availability of the 1/5th rule during the withholding process in 2024. As a reminder, the 1/5th rule in Germany allows income earned over multiple years to be taxed at a potentially lower effective rate at the withholding stage. On 22 March 2024, the upper house of the German parliament approved the Wachstumschancengesetz (Growth Opportunities Act), which confirms the 1/5th rule will no longer be available during the withholding process effective from 1 January 2025. However, individuals can apply for this rule via their personal income tax return.

We recommend employers consider updates to their withholding processes and any employee communications, to consider these updates.

Italy: Changes to personal tax filing requirements for foreign investments

Further to our recent GRU regarding changes to tax reporting in Italy (here is a link), we wanted to share further clarification in relation to the changes which came into effect from 1 January 2024. The sections of both the "simplified" tax return (Modello 730) and the "ordinary" tax return (Modello RPF) have been re-configured with the reporting requirements connected to share plans now spanning both returns. Dividends and wealth tax / tax monitoring obligations have moved to Modello 730, with capital gains tax staying in Modello RPF. The double filing requirement remains, but there is now additional complexity when it comes to the practicalities of completion for both returns.

However, it is important to note that, whilst the format for tax reporting in relation to foreign investments (e.g. shares received under overseas share plans) has changed, the reporting deadlines for the 2023 tax year continue to be:

- 30 September 2024 for the "simplified" tax return (Modello 730); and
- 15 October 2024 for the "ordinary" tax return (Modello RPF).

The 30 June deadline is for tax remittances only and has not changed with respect to the past.

This is a significant change for employees that participate in a foreign parent company's share plan, as it makes tax compliance more complex. **We recommend** ensuring that participants are notified of the relevance of these changes as we are seeing increased scrutiny from the authorities.

Please contact us if you would like assistance preparing communications for impacted participants ahead of the upcoming tax filing deadlines.

We expect the Modello RPF deadline to be updated to 30 September following the end of the tax year (aligning with the Modello 730 deadline) from the 2024 tax year. However, this is yet to be finalised. **We will keep this under review and will provide any necessary updates.**

Netherlands: Scaling back of the 30% ruling - subject to further amendment

As discussed in our March 2024 Global Wrap Up (here is the link), the scaling back of the 30% ruling in the Netherlands came into force with effect from 1 January 2024. This included a transition period for employees already benefitting from the 30% ruling in December 2023. As noted in our March update, the changes to the 30% ruling have been the subject of political debate in the Netherlands and studies have been conducted into, amongst other things, its expected impact on the Dutch economy, the perception amongst affected individuals of the complexity of the new scaled back 30% ruling (from 30% to 10% over 60 months), and its effectiveness in attracting highly skilled migrants.

We understand that the Dutch Ministry of Finance might want to make changes to the recent adjustments to the 30% ruling based upon the report's findings. It is hoped that these will be announced in September on Budget Day (Prinsjesdag). **We will keep you informed of any changes.**

In the meantime, **we continue to recommend** that relevant employers take steps to:

- update employee communications;
- consider timings of any new 30% ruling applications; and
- plan for possible adjustments in compliance and payroll processes.

Portugal: Reduction in capital gains tax on sale of listed securities held for more than two years

On 29 June 2024, new tax measures came into force which introduced exemptions to the amount of income from capital gains that would be subject to taxation depending on the holding period between acquisition and sale.

As an incentive to hold securities for medium and long-term periods, there will now be a partial exemption from Personal Income Tax (PIT) available on up to 30% of the total gain received when they are eventually sold. The exemption will increase depending on the length of time between the acquisition and sale of the securities, as follows:

- Two years or less (0%)
- More than two years, less than five years (10%)
- From five years, less than eight years (20%)
- Eight years or more (30%)

We recommend employers consider updating any employee communications to consider these updates.

South Korea: New reporting requirement on foreign equity-based income has come into force

As discussed in our Global Wrap Up in August 2023 (here is a link), there were proposals in South Korea to introduce equity reporting for offshore parented companies (including a Korean subsidiary of a foreign company which owns 50% shares or more directly or indirectly, and a Korean branch office of a foreign Headquarter). These proposals have been approved and the first reporting deadline will be 10 March 2025, to report all relevant activity during the 2024 tax year.

We understand that the South Korean tax authorities may use the transaction details submitted by the entity to verify whether employees have appropriately reported their equity-based income through their individual income tax return. **We recommend** employers prepare communication to employees, to inform them of these new company reporting obligations.

Please contact us if you would like our assistance in considering these new reporting requirements and gathering the requisite information ahead of the deadline

Vietnam: Relaxation of registration and change to reporting requirements for overseas plans

On 28 June 2024, the State Bank of Vietnam ("SBV") published a circular ("Circular 23"), which revises and supplements existing regulations regarding the registration and operation of overseas share plans in Vietnam, which took effect from 12 August 2024. There are a number of significant changes worth noting, namely that:

- The requirement that plans be registered with the SBV prior to their implementation has been removed. It should be noted that exchange control restrictions apply to plans where employees pay to acquire shares.
- The local employing company is now required to provide plan documents to the financial institution operating the foreign exchange account through which payments to plan participants are routed.
- Reporting requirements have changed, with monthly (and not quarterly) reporting to the SBV now required. Reporting must follow the form prescribed in the Appendices to Circular 23 and must be filed with the SBV by the 12th of the following month by both email and submission of a hard copy.

The changes represent a welcome liberalization of the regulatory approach to overseas plans in Vietnam. However, significant exchange control restrictions around outbound remittances remain in place, effectively prohibiting the operation of ESPPs and option plans with an exercise price.

Please contact us if you are considering the launch of a plan in Vietnam or require assistance with the new, monthly reporting requirements.

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