Global Reward Services Quarterly Newsletter

July 2022

KPMG LLP's (KPMG) Global Reward Services Quarterly Newsletter brings you compensation and reward developments, along with KPMG observations from around the world.

Topics included in this issue:

Americas

— **United States:** IRS releases update to health savings accounts and high deductible health plans

Asia Pacific

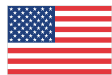
— **Australia**: Legislative update for employee share scheme (ESS)

Europe

— **Belgium**: Clarification on new expatriate tax regime
— **Netherlands**: Future changes to the Netherlands expatriate tax concession
— **Poland**: "Polish Deal 2.0" moves to the Polish Senate

Global Reward Services spotlight on KPMG Global Equity Tracker technology and Health & Welfare.

Americas



United States: IRS releases update to health savings accounts and high deductible health plans

On April 29, the IRS released an advanced version of Rev. Proc. 2022-24 which provides limits related to health savings accounts (HSAs) and high deductible health plans (HDHPs) for the 2023 calendar year.

This release provides the 2023 annual limitation on deductions for contributions to HSAs, respectively, for:

— An individual with self-only coverage under a HDHP—$3,850 (an increase from $3,650 for 2022)

— An individual with family coverage under a HDHP—$7,750 (an increase from $7,300 for 2022)

© 2022 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization. NDP347710-1A

For calendar year 2023, a "high deductible health plan" or "HDHP" is defined as a health plan:

— With an annual deductible that is not less than $1,500 for self-only coverage or $3,000 for family coverage, and
— For which the sum of the annual deductible plus annual out-of-pocket expenses—such as co-payments or other amounts, but not premiums—does not exceed $7,500 for self-only coverage (an increase from $7,050 for 2022) or $15,000 for family coverage (an increase from $14,100 for 2022).

For more information, read our KPMG Flash Alert.

KPMG observations:

While these figures represent routine adjustments to HSA and HDHP thresholds, employers should continue to follow best practices with regards to employee benefit plans. To ensure high-value benefit offerings and meet employees' needs, employers must stay up to date on these values and their impact on the workforce.

Asia Pacific

Australia: Legislative update for employee share scheme (ESS)

Final legislation removing the cessation of employment as a deferred taxing point of employee share scheme (ESS) interests has been approved. The change is effective on July 1, 2022 and applies to all awards, including those granted before the effective date that have not yet reached the taxing point. Therefore, the cessation of employment will not be an applicable taxing point for employees who terminate after July 1, 2022.

For a number of years, the cessation of employment as a taxing point has caused complexities. This change in legislation aligns Australia's equity tax rules more closely with international jurisdictions. For employees, cash flow issues have been common due to the possibility of having to pay tax on their ESS interest prior to realizing any income from the interests. Employees have also previously faced the issue of potentially paying tax on ESS interests when they were valued at a higher share price, rather than the share price at the time the employee would be able to dispose of it.

For more information, read our KPMG Flash Alert.

© 2022 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization. NDP347710-1A

KPMG observations:

Looking forward, organizations may have additional factors to consider.

- Successful employee share schemes require understanding from participants. Organizations should distribute employee communications detailing these changes and the the potential impact to participants.
- Keeping good record of ESS awards for terminated employees is imperative. This will help facilitate any future ESS reporting obligations for former employees.
- This change in legislation provides a good opportunity to reconsider how equity incentives are treated within your ESS for individuals that leave the organisation. This includes considering how your 'leaver provisions' are defined, and how this interacts with Australia's Termination Benefits Cap rules.

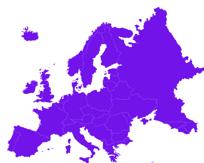
ESS Reporting Requirements –

Employers are required to provide ESS statements to their employees by July 14th and then subsequently file an Annual Report to the Australian Taxation Office (ATO) by August 14th.

For assistance with ESS reporting requirements, organizations should contact their tax service providers or a member of the KPMG team in Australia (see the Contact Us section in the linked KPMG GMS Flash Alert).

KPMG's market leading technology, ESS Assist, and dedicated team of data analysis specialists, can effectively assist organizations with their ESS reporting obligations.

Europe



Belgium: Clarification on new expatriate tax regime

On May 6, 2022 the Belgian tax authorities published a circular letter providing additional clarification on the new expatriate tax regime that was put in effect at the beginning of the year. The circular letter should help professionals understand the practical application of the rules, as its contents summarize and include examples of the most important elements of the law. Important clarifications provided in the circular include:

- Expatriate allowances have to be paid on top of the employees' salary and benefits. It is not possible to exempt part of the regular remuneration as expatriate allowance.
- Confirmation that a review and possible amendment of the employment contract may be required for expatriates that desire to opt-in to the new regime.
- An announcement that the filing deadline is extended to July 31, 2022 for individuals who arrived in Belgium during the first quarter of 2022. This is an exception to the rule that applications for the expatriate tax concessions have to be filed within three months following the individual's arrival in Belgium.

For more information, read our KPMG Flash Alert.

© 2022 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization. NDP347710-1A

KPMG observations:

Even after the publication of the circular letter, there are still many questions that remain unaddressed. The Belgium tax authorities have announced that a FAQ document will be released providing additional guidance to these outstanding questions.

For more information and assistance related these updates, please contact Ilse De Mesmaeker (idemesmaeker@kpmg.com) and Saâdia Abdi (sabdi@kpmg.com) of KPMG Belgium.

Netherlands: Future changes to the Netherlands expatriate tax concession

A recent announcement from the Dutch Ministry of Finance has been made regarding future changes to the Netherlands expatriate tax concession, the "30% ruling".

Currently, eligible employees from abroad are able to receive 30% of their gross employment income as a tax-free allowance. This in turn reduces the top effective tax rate for eligible employees from 49.5% to 34.65%.

The proposed change to the 30% ruling, which is subject to the Dutch Parliament approval, will put a cap on the amount of employment income the concession may be applied to. For 2022, that amount is €216,000, and any employment income above this threshold will not benefit from the 30% ruling meaning highly compensated individuals would be subject to the top tax rate of 49.5%. This change could also cause individuals to be pushed over the threshold if they were to receive one-off payments such as bonuses or equity-based compensation.

For more information, read our KPMG Flash Alert.

KPMG observations:

While it has not been made clear whether the changes to the 30% ruling will apply as of 2023 or 2024, the proposed provision does include a grandfather rule for current eligible employees receiving the concession. The details of the grandfather rule have not been provided, but we do know that the cap will be introduced over a three-year period.

Employers must consider how these updates will affect assignment costs and planning. Dutch income tax liabilities on one-off payments such as bonuses or equity-based compensation can be expected to increase, which could lead to higher expenses to employers for tax-equalization policies.

© 2022 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization. NDP347710-1A

Poland: “Polish Deal 2.0” moves to the Polish Senate

On 12 May, the lower house of Polish parliament (Sejm) passed the “Act Amending the Act on Personal Income Tax and Certain Other Acts,” implementing the so-called “Polish Deal 2.0” program (“the Act”). The act is now to be progressed to the Polish Senate.

This Act introduces tax rate changes and other amendments with progressive goals such as support for families and reduced tax burdens for lower income citizens.

Key changes include, but are not limited to:

- **Reduced Personal Income Tax (PIT) Rate:**
  - The changes are set to reduce the lowest personal income tax bracket from 17% to 12%. This rate generally applies to income between PLN 30,000 to PLN 120,000 (income up to the amount of PLN 30,000 is not taxed).
- **Changes to Health Insurance Premiums:**
  - Taxpayers will be able to reduce their taxable income by the amount paid for health insurance premiums (up to certain limits) for individuals who obtain revenue from business activity subject to the flat tax, fixed-amount tax, or lump-sum tax on recorded revenue.
- **Tax Scale for Lump-Sum/Flat-Tax taxpayers**
  - Due to the reduced PIT rates, the Act allows previously flat-taxed or lump-sum taxed payers to elect taxation according to new tax scale brackets.
  - Personal income tax annual return deadlines set to be April 30 of the subsequent tax year for PIT-28 and PIT-28S annual returns.

For more information, read our KPMG Flash Alert.

KPMG observations:

Employers should take these planned changes into account as they project costs and budgets for potential international assignments involving Poland.

Specifically, changes to the personal income tax scale, reduced tax basis due to health insurance premiums, and shifts from flat taxes to progressive rates are all issues which can be expected to directly impact employer’s payroll obligations and practices.

KPMG Poland notes that key aspects of planning for international assignments, such as payroll adjustments and hypothetical taxes for equalized assignees, may be impacted by these changes when they are enacted. The essential updates under the Act are expected to enter into force on July 1, 2022.

© 2022 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization. NDP347710-1A

Global Reward Services spotlight

KPMG Global Equity Tracker

Ready for T+1 Settlement – It's coming!

Are you ready for the forthcoming T+1 stock option settlement requirement going into effect in 2024? In order to meet this shorter deadline consider use of Application Programming Interfaces (APIs) to exchange data with your vendors. KPMG has invested in these interfaces with several of the major share plan administrators to meet the short deadlines for settling equity awards. Whether you are looking for quick processing of regular RSU vests or to meet the upcoming shorter deadline for stock option exercises, APIs can help you settle awards timely, meet payroll tax deposit requirements and address other reporting needs within your organization. If you have any questions, contact in the Americas, Leann Balbona lbalbona@kpmg.com or Europe/Asia, Vickram Paliwal vickrampaliwal@kpmg.com.

Health & Welfare

Almost every employer is looking to enhance their Employee Value Proposition (EVP) to compete in this difficult labor market. Coupled with an uncertain economy and increasing inflation, these investments become even more difficult. A few recommendations to maximize this investment:

- **Understand your population** – with your employee base shifting over the past two years, utilizing employee data to understand your employee's demographics and wants/needs will maximize the ROI on your EVP investments. It's not only about compensation and flexible work, to compete your EVP needs to be evaluated more broadly. Statistical methods of evaluating employee trade-offs and retention patterns allow you to understand the value being placed on your benefits and where to place the focus, ensuring the value of any changes are maximized
- **Match the data to emerging trends** – with a better understanding of your population, identify where the current benefits program can be improved. This can include adding flexible benefits, different methods of engagement, or modifying current programs to better retain the at-risk demographics. Use the data as the baseline to innovate
- **Create efficiencies** – with 30% of US healthcare spend deemed wasteful, every employer has the opportunity to create efficiencies, but they require a strategic focus. Since the 1930s, healthcare inflation has been double that of core inflation. That trend likely cannot continue in the near-term, but can you and your employees absorb a 15+% increase? Take a fresh perspective on how to maximize the value of your program and build a sustainable long-term program

© 2022 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization. NDP347710-1A

Contact us

Michael A. Bussa
Partner and Global Reward Services Leader
T: 212-954-1811
E: mbussa@kpmg.com

Kathy Lo
Principal
T: 415-963-8988
E: kathylo@kpmg.com

Ryan McDonald
Principal
T: 585-263-4098
E: ryanmcdonald@kpmg.com

Terrance Richardson
Principal
T: 214-840-2532
E: trichardson@kpmg.com

Parmjit Sandhu
Principal
T: 212-954-4063
E: parmjitsandhu@kpmg.com

Dinesh Sinniah
Partner
T: 312-665-3603
E: dsinniah@kpmg.com

Leann Balbona
Managing Director
T: 212-872-3671
E: lbalbona@kpmg.com

Jennifer Link
Managing Director
T: 212-909-5381
E: jlink@kpmg.com

Kerri McKenna
Managing Director
T: 267-256-1951
E: kerrimckenna@kpmg.com

Mark Spittell
Managing Director
T: 214-840-4394
E: mspittell@kpmg.com

John Tomaszewski
Managing Director
T: 212-909-5561
E: johntomaszeski@kpmg.com

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

kpmg.com/socialmedia

The information contained herein is of a general nature and based on authorities that are subject to change. Applicability of the information to specific situations should be determined through consultation with your tax adviser.

© 2022 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization. NDP347710-1A