What is the benefit of a ‘tax equalization’ ?

As income tax rates **differ from country to country**, a ‘tax equalization’ or ‘**hypotax**’ **policy** aims to ensure the employee is ‘**no better or worse off’** tax-wise while on an **international assignment**. If an employee is going to work in another country, they might not immediately include ‘taxes’ in the decision-making process, but they are obviously an **important factor**. Especially since, considering the high Belgian tax rates, this could result in a **significant cost increase** for the company, if the employee is ‘tax equalized’ during their assignment in Belgium.

For the **employee** it will make little or no difference as they will receive a **guaranteed net salary** anyway when working abroad. The **employer**, on the other hand, will first deduct the **hypothetical tax liability** from the employee’s ‘standard pay’ at regular intervals (i.e. the tax he/she would have paid had the individual stayed in the home country) and calculate the **host country tax due** on the net salary and benefits abroad.

The employer then **pledges to pay** the employee’s (foreign) income tax when due. In some cases, there might be an additional tax liability in the **home country** as well, because of the assignment abroad. To avoid any unpleasant surprises, the hypothetical tax amount **should always be reconciled** with the actual tax amount—preferably **on a regular basis**.

If the ‘hypotax’ deducted **exceeds** the amount needed to pay the tax authorities in the host country, the employer **keeps the amount saved**. In case the **tax burden is higher** than it would have been in the home country, then the employer **pays the excess**. In this second scenario, the overall cost for the employer is **higher** due to the employee’s working abroad. For the **employee**, this ‘tax equalization’ does **not create any taxable benefit** and will simply be regarded as **foreign tax paid** that has been withheld from the gross salary.

For example: the employee earns a salary of 100 in his home country on which he normally pays 40 taxes. The employer asks the employee to come and work in Belgium, but guarantees a net salary of 60, so he will continue to pay 40 in taxes, even after starting work in Belgium. If the Belgian income tax is 50 instead of 40, the employer will cover the additional tax burden of 10 as a result of the Belgian assignment, but the employee will continue to earn 60 as before.

This all might seem like a **relatively straightforward** process, but **complications** can certainly arise. Alternatively, a ‘**tax protection**’ clause can also be agreed to when working abroad. This system puts the **burden of tax compliance on the employee**, but at the end of the year the employer would compensate the employee if the actual taxes paid are higher than the ‘hypotax’ stay-at-home amount.

TAXPATRIA® can review your **tax equalization policy** and make sure that you are **fully compliant** during your international assignment.