KB0599717: GLOBAL – Trailing Taxes Concept Related to Equity Compensation (RSU, PSU and Stock Options)

Introduction:

This article covers trailing taxes information on Restricted Stock Units (RSU), Performance Stock Units (PSU) and Stock Options transactions if an employee worked in different countries due to expat assignment or localization.

Eligibility:

Active and former employees with trailing taxes deduction on their RSU, PSU and Stock Options transactions.

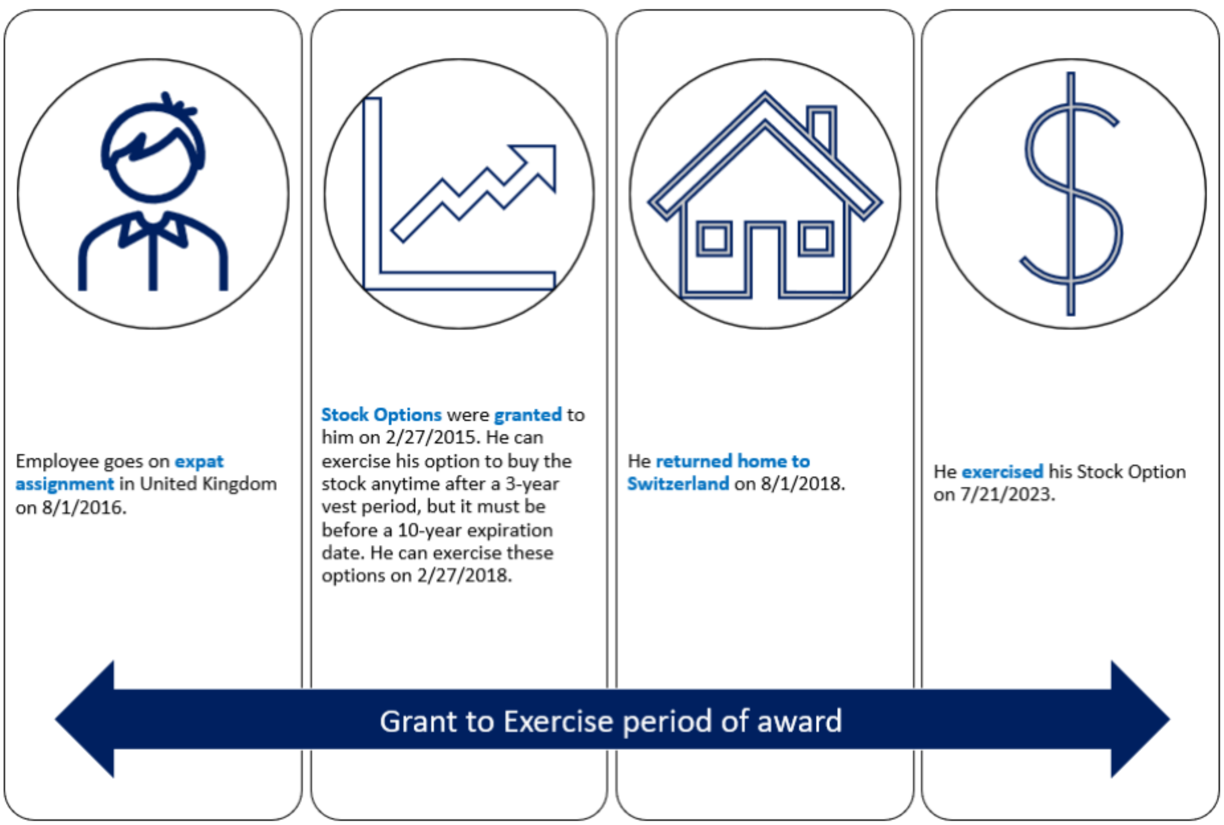
Audience:

Employees who have RSU, PSU & Stock Options

Details:

In many countries, the Company is required to report and withhold taxes on equity compensation based on the employee's location at the time the award was granted or vested, as well the employee's location when the award is exercised or settled in shares.

Here is an example for illustration purposes:



In this scenario, employee was an expat in UK from 8/1/2016 to 7/31/2018 over the grant to vest date of his Stock Option award (2/27/2015-2/27/2018). Therefore, this portion of the award is subject to tax in UK. Please see sample calculation below.

Award	Grant Date	Vest Date	Days in UK	Total Days	% Days in UK	Total Proceeds	Proceeds Allocated to UK	UK Tax
Stock Options	2/27/2015	2/27/2018	576	1097	52.51%	$303,027.64	$159,110.23	$74,781.81
Days in UK	8/1/2016	2/27/2018	576					

Market price	153.36	681,089.97	(where in 153.36*4441)
Grant price	85.13	378,062.33	(where in 85.13 *4441)
Number of shares	4441		
Fair Market Value (FMV)	303,027.64		

The UK tax rate of 47% for trailing tax in USD is 74,781.

There are scenarios where an employee can request for tax protection due trailing taxes. Please refer to KB0599715 <GLOBAL – Tax Protection in Equity Compensation Awards> for eligibility.

How does this Trailing Tax concept affect employees with RSU, PSU or Stock Options?

- It has always been the employee's responsibility to file and pay taxes to the country (or countries) where the income is earned.
- The Company may be required to report the withheld taxes for multiple countries based on the employee's location between grant date and the date of exercise or settlement.
- Regardless of the Company's reporting and withholding obligations, the employee may have a tax return filing requirement in multiple countries.
- This could continue for many years after the completion of the employee's expatriate assignment.

What support is available?

Assignment Type	**Authorized Support**
Current Expatriates	Tax assistance provided via current expatriate support programs.
Previous Expatriates Returned Home or Localized	Employees in this category already have the responsibility to file where necessary and generally qualify for some level of tax preparation assistance and may request tax protection if their final liability is higher than if they never had an expatriate assignment.
Local to Local Transferees (No Previous Expatriate Assignments)	Consistent with current policy, localized employees (beyond the year of localization) are responsible for their own tax preparation and tax liabilities. Tax protection is not applicable.

KB0599715: GLOBAL – Tax Protection on Equity Compensation Awards

Introduction:

This article covers information on Tax Protection Policy and the types of tax protection when Restricted Stock Units (RSU) and Performance Stock Units (PSU) are settled, and Stock Options are exercised.

Eligibility:

Active and former employees with trailing taxes deduction on their RSU, PSU and Stock Options transactions, who worked in different countries.

Audience:

Employees who have RSU, PSU & Stock Options, and Employee Care/GetHelp L1 Agents

Details:

Tax Protection Policy

- Upon employee's request, the company will protect employee's taxes up to the hypothetical home tax rates, regardless of where his/her home country is.
- If an employee feels that his/her global tax claim has increased due to a previous expat assignment, he/she can ask for tax protection once all actual taxes become final through payroll or tax return. Employee may request the tax protection by sending an email to trailingtax.im@pg.com.
- If an employee requests for tax protection, he/she must live with the results. Even if hypothetical home tax is higher than the actual tax, as a result of tax protection calculation, they are still responsible for paying the additional tax to the company.
- No pre-calculation of tax protection can be provided.
- Tax protection does not apply to any additional taxes on equity awards caused by localization.
- If an employee is on P&G-sponsored expat assignment, he/she will be authorized for the Outside Tax Provider assistance to prepare the tax return in the former host country. The Outside Tax Provider assistance is generally not provided in the home country. Employee may contact myiac.im@pg.com for more information.
- There is no Outside Tax Provider assistance in former host locations for an employee who worked as a local.

Types of Tax Protection

1. Immediate Tax Protection
2. Tax Protection Calculated by Outside Tax Provider
3. Advanced Tax Protection

- **Immediate Tax Protection**

In some situations, the Company will provide immediate tax protection or reimburse the trailing tax deducted.

A. Entitlement of an employee with trailing taxes:

1. Belgium stock options – since these are taxed at grant, any tax on exercise is duplicative therefore eligible for tax protection.
2. In some home countries, the RSUs and Stock Options will be taxed at 100% due to residency at exercise, and there is no Foreign Tax Credit (FTC) relief for other taxes paid. The Company will therefore reimburse duplicate withholdings for the following home countries: China (some exceptions)*, Egypt, Korea, Mexico, Morocco, Romania, Russia, Saudi Arabia, Turkey (some exceptions)*, United Arab Emirates and Slovakia.

B. Timing:

When an employee settles RSU or exercises Stock Options, he/she may send the request to trailingtax.im@pg.com.

- **Tax Protection Calculated by Outside Tax Provider**

There are cases where we do not provide immediate tax protection to employees, and where we would need the Outside Tax Provider to calculate the amount for tax protection.

A. Entitlement of an employee with trailing taxes:

1. **Trailing Tax to be finalized through Tax Return** – the trailing tax withheld from employee's proceeds is not yet final and will still be finalized come tax filing. In this case, the amount to protect (if any), will only be finalized after tax filing. We will need the Outside Tax Provider's expertise for this tax protection.
2. **The source of taxation is not exactly distinguishable**, whether they are due to a P&G provided expat assignment, or due to employee's local status in another country.
3. **Tax protection calculation is not straightforward**. Employee may have had multiple home countries during the grant to vest period of an equity compensation award.

B. Timing:

If an employee was not able to claim a credit for trailing country taxes paid, he/she may then request tax protection from P&G for double taxation created by a P&G expatriate assignment. To request this, send an email to trailingtax.im@pg.com

- **Advanced Tax Protection**

In some cases, the Company allows an exception to the general tax protection requirement.

A. Entitlement of an employee with trailing taxes:

1. Foreign Tax Credit (FTC) is outstanding for more than 2 years, AND
2. FTC is more than the lesser of 75,000 or 10% of the gross income recognized.

B. Timing:

Once the FTC filing is finished and the two entitlements mentioned above have been met, send an email to myiac.im@pg.com to request advanced tax protection.

Note: The Company will advance the duplicate tax withholding if employee signs a promissory note acknowledging that they will return that amount back to the Company when they get these funds back from the government when they file their tax return. For further questions and assistance, please contact myiac.im@pg.com.