Recent legislative updates

This month's issue addresses recent changes in various jurisdictions, namely:

- *Greece –* Tax rate changes for 2016
- *Israel –* Implications of recent court ruling to stock-based compensation
- *New Zealand –* Changes to tax collection have been enacted and take effect April 1, 2017
- *United Kingdom –* Implications of the vote to leave the European Union
- *United States –* Changes to international accounting for stock compensation

Country summaries

Greece

Tax rate changes effective for the 2016 calendar year

On May 8, 2016, the Greek government adopted the "Unified Social Security System – Reform of insurance and pension system – Income taxation and gaming taxation regulations." In particular, the new law introduces amendments to individual income taxation and a reform to the pension regulations. Effective beginning January 1, 2016, individual income will be taxed at progressive rates up to a maximum of 45%, and a special solidarity contribution will be due on income at progressive rates up to a maximum of 10%. The tax rate for dividends will also increase to 15% (from 10%). We expect further details to be released regarding the reform to the pension regulations in the coming months.

For more information on the changes to individual taxation, please click here for PwC Greece's Tax Flash Alert.

The information above will not be discussed in the *Country Discussions* below.

Israel

Implications of recent court rulings for stock-based compensation

In December 2015 and January 2016, an Israeli District Court ruled in two cases regarding a transfer pricing issue that could have an impact on companies who provide share-based compensation to Israeli employees as part of a cost plus arrangement. The court held that an Israeli subsidiary of a US parent company which provided services to the US parent company and is compensated for such services on a cost plus basis, must include in its costs the employee stock ownership plan ("ESOP") expense relating to options granted to the Israeli company's employees. In the January 2016 ruling, the District Court determined that as the option costs were included as an expense in the Israeli company's financial statements and the costs were directly related to the service provided by the Israeli company, the costs of the ESOP should be included in the cost plus remuneration.

This outcome increases the risk for Israeli companies in multinational groups that have provided services to their foreign affiliates on a cost plus basis without including the costs of the option benefit in determining the cost plus service fee. These cases are both being appealed to the Israeli Supreme Court, and companies with similar circumstances should monitor the results of the appeal to determine the potential impact of the ruling.

For more information, please click here for PwC-Israel's Tax Insight Alert on the recent rulings.

This information will not be discussed in the *Country Discussions* below.

New Zealand

Changes to tax collection have been enacted and take effect April 1, 2017

As discussed in our April 2015, July 2015, September 2015, and May 2016 Alerts, New Zealand is introducing new rules to simplify the method of tax collection on employee share schemes. Under the newly enacted Taxation (Transformation: First Phase Simplification and other Measures) Bill (the "Bill"), employers have the option to apply Pay As You Earn ("PAYE") withholding rules to income acquired from participation in employee share schemes. The new rules will take effect on April 1, 2017.

The Bill aims to better regulate tax payments and to create a more efficient process for tax collection. If the employer chooses to withhold taxes, it will pay the PAYE to the Inland Revenue in the following PAYE period after the employee receives the benefits (e.g. exercise for stock options / vesting for RSUs). The employer must also disclose the employment income and PAYE in the Employer Monthly Schedule ("EMS") for that next pay period. If the employer chooses not to withhold taxes, they will still be responsible for disclosing the income in the next period Employer Monthly Schedule ("EMS"), but the employee will be responsible for reporting the income in his/her individual tax return and remit taxes by the tax return deadline.

Employers will need to consider the advantages and disadvantages of voluntary withholding. For employers who choose to withhold, a new process will need to be established and we also suggest updating any internal employer and employee New Zealand tax guidance for current tax schemes.

The information presented above will not be discussed in the *Country discussions* below.

United Kingdom

Implications of the vote to leave the European Union

On June 23, 2016, the UK held a referendum on whether it should continue to be a member of the European Union ("EU") in which the British population voted to exit the EU. Following the decision, there will now be a period in which the UK government will negotiate the terms of departure from the EU, and many of the implications of leaving the EU will be uncertain. However, it is likely that there will be significant changes to the social security position for mobile employees in the EU and to the rules regarding migration between the UK and participating EU member states. Global Mobility and Human Resource groups should monitor the situation closely over the coming months to determine the potential impact on employee mobility and reward programs.

For more information, please refer to the *Country discussions* below.

United States

IASB finalizes amendments to share-based compensation guidance under IFRS 2

On June 20, 2016, the International Accounting Standards Board ("IASB") updated its share-based compensation guidance under IFRS 2. These amendments clarify the classification and measurement of certain share-based payment transactions. In particular, the IASB has provided guidance on the following three topics:

1. Classification of share-based payment transactions with net settlement features for employee tax withholdings;
2. Effects of vesting conditions on the measurement of a cash-settled share-based payment; and
3. Accounting for modifications that change the classification of an award from cash-settled to equity-settled.

Transition for these amendments is generally prospective for starting on or after January 1, 2018.

For more information, please refer to the *Country discussions.*

Country discussions

United Kingdom

Implications of the vote to leave the European Union

As mentioned above, the vote for the UK to leave the EU could potentially have a large impact on the social security arrangements between the UK and EU member states. Prior to the vote to leave the EU, social security rules for employees working between the UK and an EU member state (including the European Economic Area of Norway, Liechtenstein, and Switzerland) were governed by the pan-European social security regulations, which allow employees assigned from one European country to another to remain in their home country social security system for up to five years, so long as certain criteria were met. In addition, the regulations provide for "totalization" of benefits, where contributions paid by employees in two or more European countries are taken into account by each country when determining the contributions required to satisfy the vesting criteria for receipt of the benefits.

With the UK's departure, it is likely that access to these regulations will no longer be available, unless the UK elects to remain a member of the EEA or negotiates a bilateral deal with the EU. The UK currently has bilateral agreements with a number of EU countries; however, these agreements generally provide less comprehensive coverage of the totalization of benefits, which may impact the social security obligations for employees who are working on assignment in EU countries. In addition, there are numerous countries in which the UK does not have a bilateral agreement, and it is likely that employees will be subject to the domestic rules of each country in which they provide services, potentially creating dual liabilities in the UK and these countries.

In addition, the UK's departure could end the EU Freedom of Movement principles as they apply to the UK. This will impact any EU and UK individuals who wish to exercise their right to live and work in the UK and the EU, respectively. It is widely expected that existing EU migrants will be able to continue to live and work in the UK, although it is unclear what transitional arrangements, if any, will be made. For now, employers must be prepared to answer questions from their mobile workforce. It is important to note that there will be few changes in the immediate future, as estimates suggest a minimum period of 2.5 years will be required for the UK to leave the EU.

Global Mobility and Human Resource teams should evaluate their current mobile population to determine the population which may be impacted and the potential effect of the changes to reward and mobility programs in the UK. Global mobility teams should also determine how social security positions might change and quantify any potential increase in costs following the UK's departure from the EU.

For additional information, please click here and here for recent Alerts from PwC-UK.

United States

IASB finalizes amendments to share-based compensation guidance under IFRS 2

The IASB has finalized three amendments to its share-based compensation guidance under IFRS 2. Below is a summary of the changes and their potential impact to companies offering share-based compensation under IFRS 2.

1. Classification of share-based payment transactions with net settlement features for employee tax withholdings

   Under current guidance, in a situation where a share-based payment transaction provides a choice of settlement form (i.e., cash or shares), IFRS 2 requires

treating components of the transaction that are cash settled as a liability. As a result, a 'bifurcation approach' is generally applied where an award will be net settled for tax withholdings, with the arrangement being treated as part equity-settled and part cash-settled.

The new guidance provides an exception to the general rule requiring liability treatment for cash-settled arrangements. In particular, if the employer net settles an award to meet statutory withholding obligations, the arrangement can be considered equity-settled in its entirety without bifurcation. It is important to note that if no statutory withholding obligation exists, this exemption is not available.

2. Effects of vesting conditions on the measurement of a cash-settled share-based payment

   IFRS 2 requires the liability for a cash-settled share-based payment be measured at fair value for each reporting period until it is settled. Prior to the amendment, IFRS 2 did not address the impact of certain vesting and non-vesting conditions on the measurement of the fair value of the liability for these payments. The new guidance clarifies the accounting for the effects of vesting and non-vesting conditions on the measurement of a cash-settled share-based payment. Overall, it requires that the same approach used for measuring equity-settled share-based payments is to be followed. Under this approach, non-market vesting conditions should not be taken into account when estimating the fair value of a cash-settled payment. Instead, these conditions should be accounted for by adjusting the number of shares expected to vest based on management's best estimate.

3. Accounting for modifications that change the classification of an award from cash-settled to equity-settled

   In situations where a cash-settled share-based payment changes to an equity-settled share-based payment due to modifications to the terms and conditions of the arrangement. IFRS 2 has been amended to clarify that these transactions should be accounted for as equity-settled transactions from the date of modification. In addition, the original liability associated with the cash-based payment is derecognized upon the modification and the equity-settled payment is recognized to the extent that services have actually been rendered up to the modification date. Finally, the difference between the carrying amount of the liability at the modification date and the amount recognized in equity is recorded in profit or loss immediately.

For additional information please click here.

Come see us!

Please see a schedule of our upcoming speaking events.

1st Annual CEP East Coast Symposium with Event Partner Rutgers' School of Management and Labor Relations

Session 1B - A Match Made in Heaven? Making Mergers and Acquisitions Manageable

Presenter(s): AmyLynn Flood, Partner, Philadelphia, PA
When: July 29, 2016 from 11:10am – 12:20pm ET

For additional event information, click here.

Let's talk

For more information about any of these developments, please feel free to contact any of our team members listed below.

Bill Dunn (Partner), *Philadelphia, PA*
+1 (267) 330-6105
william.j.dunn@pwc.com

Kerri McKenna, *Philadelphia, PA*
+1 (267) 330-1723
kerri.l.mckenna@pwc.com

Amanda Beittel, *Philadelphia, PA*
+1 (267) 330-2556
amanda.m.beittel@pwc.com

Parmjit Sandhu, *Stamford, CT*
+1 (203) 539-3774
parmjit.k.sandhu@pwc.com

Jennifer George, *San Jose, CA/ San Francisco, CA*
+1 (408) 817-4370
jennifer.b.george@pwc.com

AmyLynn Flood (Partner), *Philadelphia, PA*
+1 (267) 330-6274
amy.lynn.flood@pwc.com

Michael Shapson, *Philadelphia, PA*
+1 (267) 330-2114
michael.j.shapson@pwc.com

Blake Eisenberg, *Chicago, IL*
+1 (312) 298-3760
blake.eisenberg@pwc.com

Gemma Smith, *New York, NY*
+1 (646) 471-6623
gemma.a.x.smith@pwc.com

Karen Slotsky, *Portland, OR*
+1 (971) 544-4604
karen.slotsky@pwc.com

Genevieve Vartian, *Chicago, IL*
+1 (312) 298-2386
genevieve.vartian@pwc.com

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