# Tax Issues Between United States, Mexico And Germany

## General tax laws and implications

*Effective rate including trade tax is 30-33%

*Trade tax is typically 14-17% for companies. and individuals conducting commercial through a subsidiary or permanent establishment in Germany. Singapore 17%.

Table 1- Tax rates for Mexico, Germany and Singapore for businesses

One of the biggest concerns that most expatriates have is in regards to compensation and taxes. Adjusting for the cost of living, housing and other taxable items for an employee in the US and in the host country may leave them taxed at much higher rates thus lowering their overall after-tax income. This is often enough to stop many expats from considering the position and should be rectified via attractive compensation or benefit packages that will offset the increased cost or services to assist them in filing their tax reports to ensure the lowest possible tax rate imposed on them. Beyond that, there are many different payroll implications such as 401(k) plans, differences in social tax systems domestically and abroad, decision to pay in USD or local currency and determination of which country gets to tax what income and at which levels.

### Proposal to address double taxation and compensation

A method to avoid double taxation as an expatriate on their US taxes is to go through the Foreign Earned Income Exclusion (FEIE) and Foreign Housing Exclusion and Foreign Tax Credit. The IRS provides a series of guidelines on what qualifies as an exclusion from income up to an amount of an individual's foreign earnings that is adjusted annually for inflation.

Another method for avoiding double taxation is to remind expatriates that they should file their past due tax returns in order to receive an abatement in penalties. According to the IRS, relief is usually granted when an individual can demonstrate that they have exercised ordinary business care and due prudence in meeting their tax obligations but failed them nonetheless. This is especially important for expatriates that have not filed their prior tax returns and allows them a chance to not be doubly taxed with added penalties.

The proposed method for McDowell's is to hire an international tax code specialist that is familiar with taxation on expatriates in order to provide our team the knowledge and consult they would feel comfortable in having. In addition, the specialist will also conduct workshops and seminars for soon-to-be expatriates on the importance of being prudent when filing taxes in order to avoid any unnecessary penalties or double taxation and the various resources available in the US that can help abate double taxation on their income.

Due to the increased burden of living abroad and the tribulations of having to adjust to a new environment and culture, consideration for a salary increase to compensate for the cost of living and expenses is highly recommended. As previously mentioned, the increased challenges of taxation and cost of living for expatriates can be enough to dissuade candidates from accepting such roles within McDowell's. To counteract this, the proposal recommends disbursing additional funds in the form of lucrative annual bonuses, providing residence for expatriates or a salary increase to attract candidates to the role.

In conclusion, both Germany and Mexico have tax agreements with the US which will be helpful in determining and filing taxes for our expatriates and businesses there. While Singapore does not currently have any tax agreements with the US, the strong economic relationship and relatively low tax rates will help compensate for the lack of a tax agreement. The resources from the IRS and assistance from an international tax code specialist will be invaluable in providing an additional layer of assurance for expatriates. Lastly, the proposal agrees with the notion of additional compensation for expatriates due to the challenges of living overseas and to attract the necessary talent for the roles.