Global Equity Compensation: A Primer on Key Legal, Regulatory and Tax Considerations

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A Practice Note addressing the legal, regulatory, and tax-related issues that US public companies must navigate when granting stock-based compensation internationally. Issues include tax considerations, securities registration and prospectus requirements, labor and employment-related considerations, currency restrictions and exchange controls, and data privacy rules.

The number of US public companies operating internationally has grown exponentially in recent years, expanding the search for talent to new frontiers and diverse borders. The use of equity compensation globally has also grown in popularity to the point that today, stock options, restricted stock units **(RSUs)**, performance-based awards, and other stock-based awards (including employee stock purchase plans, or ESPPs) are viewed as a core component of any competitive compensation package for key employees, regardless of industry, expertise, background, or location. But while new and growing companies recognize and embrace the economic value and attractiveness of these awards in securing the human capital needed to fuel growth and innovation, many organizations:

- Fail to appreciate and address the many complexities of these awards.
- Become ensnared in the complex and expensive legal, regulatory, and tax regimes that countries have built to:
  - regulate stock-based compensation; and
  - generate significant local tax revenues.

This Note provides a basic primer on the many and quickly evolving legal, regulatory, and tax-related issues that US public companies must navigate when considering whether to provide stock-based compensation internationally. Although privately held corporations face the same issues, there are unique, additional issues that arise for private companies that are beyond the scope of this Note.

EMPLOYEE AND EMPLOYER TAX CONSIDERATIONS

Today's greatest compliance risk associated with the use of equity compensation internationally centers on:

- The tax treatment of the awards in the hands of award recipients.
- The corresponding tax withholding and reporting obligations that are imposed either on:
  - the parent corporation that grants the award; or
  - the local subsidiary of the granting company that employs the award recipients.

In recent years, taxing bodies around the world have enacted local tax laws and devoted significant resources to ensure that they receive significant tax revenues from the compensation that local employees receive from stock-based awards. Moreover, most countries have enacted broad and significant civil and criminal penalties, fines, and interest for companies that fail to properly comply with local tax withholding and reporting requirements applicable to stock-based compensation.

Non-compliance can therefore present serious financial exposure and potential reputational damage to companies that fail to comply with local rules, even if non-compliance is unknowing and unintentional. For these reasons, perhaps the most important issue that multinational companies must address when considering using equity compensation globally is the tax treatment of awards from the perspective of both the award recipients and the granting and employing companies.

EMPLOYEE TAXATION

Most countries tax equity compensation awards granted by US parent corporations to local employees in a similar fashion from the perspective of:

- The timing of the taxable event.
- The amount of taxable income derived from the award.
- The types of taxes that are payable on the awards.

This reduces some of the complexities that otherwise would exist. Employees receiving stock options or participating in an ESPP generally are subject to taxation at the time of exercise (in the case of an option) or purchase (in the case of a stock purchase right granted under an ESPP) on the excess of the fair market value of the shares being purchased over the exercise price or purchase price paid for the shares (the spread, or in the case of an ESPP, the discount).

Caution

In some countries, such as India and Italy, "fair market value" is defined differently under local tax laws for purposes of computing the taxable income realized from stock awards.

Employees receiving RSUs or performance-based awards that do not require award recipients to pay any cash purchase price typically are subject to taxation when the shares are issued in settlement of the awards on the fair market value of the issued shares. In the case of restricted stock, where award recipients receive all or a portion of the ownership rights associated with the shares (such as voting rights and dividend rights) at the time of grant, the tax treatment varies, with some countries treating restricted stock as taxable at the time of grant (most European countries), and others delaying taxation until vesting when the award recipient acquires a non-forfeitable interest and can sell or otherwise transfer the shares.

Practice Point

In the United States restricted stock is taxed at vesting unless the holder makes an election under Section 83(b) of the Internal Revenue Code (Code) to be taxed at grant. For more information on Code Section 83, see Practice Note, Code Section 83: Property Transferred in Connection with the Performance of Services (W-014-4725). For a sample Section 83(b) election, see Standard Document, Code Section 83(b) Election: Restricted Stock (3-518-4832).

Practitioners working on the international implementation of a US multinational company's equity compensation program should be well-versed in the tax treatment of US equity compensation awards and be able to compare and contrast the tax treatment in different countries with the tax treatment in the US.

Multinational companies typically avoid granting restricted stock globally to avoid creating situations in certain countries where award recipients are taxed on awards at a time when they cannot convert the award to cash to fund the tax liability.

In most instances, employees realizing taxable income from equity compensation awards are subject to both:

- Income taxes.
- Local social insurance taxes (the equivalent of US social security contributions).

TAX PREFERENTIAL EQUITY COMPENSATION AWARDS

In some instances, companies may be able to structure the grant of equity compensation awards to provide award recipients and/or the local subsidiary that legally employs the award recipients (as distinguished from the granting company itself) with preferential tax treatment of the awards, whether in the form of:

- Reduced taxable amounts.
- Preferential income tax or capital gains tax rates.
- The avoidance of local social insurance taxes on equity income.

Therefore, like the United States, where award recipients who are granted incentive stock options (ISOs) can receive preferential tax treatment (see Incentive Stock Options Checklist (7-518-3717)), some countries around the world (for example, Denmark, France, Ireland, Israel, and the United Kingdom) have enacted local tax legislation that provides favorable treatment if the equity awards or the underlying equity compensation plan satisfy specific requirements under local tax laws.

In most instances, the terms and conditions of the equity compensation awards must be adjusted to reflect local law requirements. In some cases, the local law requirements must be embodied in the underlying equity compensation plan of the company granting the awards (which typically is done by establishing a sub-plan of the equity compensation plan that is adopted and approved by the granting company's board of directors or compensation committee of the board).

Whether a company chooses to structure its equity compensation awards to satisfy these requirements to achieve the favorable tax benefits typically is a function of:

- The particular requirements under local law (which can be substantial and time-consuming).
- The number of affected award recipients.
- The aggregate value of the contemplated awards.
- The required level of administration for the awards (which, in some circumstances, can be substantial).
- The level of tax-savings that may be achieved verses the costs associated with granting the awards.

TAX WITHHOLDING AND REPORTING OBLIGATIONS

Although the timing of taxation and the amount of taxable income realized from stock-based awards by award recipients generally is predictable and consistent among many developed countries, the corresponding tax withholding and reporting obligations that are imposed on companies granting stock-based awards and/or the local subsidiaries that directly employ the award recipients vary greatly and require a great deal of diligence, consideration, and coordination between the parent corporation granting the awards and the local subsidiaries that employ the award recipients.

In some countries, the taxable income realized from stock-based awards is characterized as additional employment or labor income and is subject to both income taxes and local social insurance taxes that are payable both by the award recipient and the local subsidiary that employs the award recipient, and the corresponding tax withholding and reporting obligations are the same that otherwise apply to regular salary and wages.

Caution

Local social insurance taxes can represent a significant additional cost to companies, as a number of countries have high social insurance tax rates. For example, in Belgium the employee portion is 13.07% uncapped and the employer portion is approximately 25% uncapped. In France, the employee portion is approximately 46% on annual income up to €329,088.

In other countries, the characterization of the taxable income realized from equity compensation awards can depend on a variety of factors, including whether the local subsidiary:

- Bears the economic cost of the awards that are granted by its parent corporation (see Equity Compensation Reimbursement Arrangements).
- Is otherwise involved with the operation or administration of the equity compensation award program.

In these instances, the corresponding income tax and social insurance tax withholding and reporting obligations can vary depending on these structuring types of issues, and companies can, with proper due diligence, generally structure awards to minimize or avoid these burdensome tax obligations.

The method of tax withholding also must be thoughtfully addressed. In prior years, companies often required award recipients to pay back to the company the amount of the income taxes and social insurance taxes that were required to be paid to the local taxing bodies as a condition precedent to the issuance of shares at the time of award settlement. However, more recently, most multinational companies granting stock-based awards internationally have chosen to effectuate tax withholding using either:

- A **"Sell-to-cover" method**, where the company sells a sufficient number of shares issuable to an award recipient on the open market to cover the required tax withholding, pays the proceeds from the sale of these shares to the local tax authorities, and provides the award recipient with the remaining number of shares.
- **A "Net share issuance" method**, where the company calculates the amount of required tax withholding, makes a cash payment to the applicable tax authorities for that amount, and provides the award recipient with the net number of shares having a value equal to the taxable amount less the amount of the cash payment made to the tax authorities.

Under both approaches, award recipients end up receiving the same number of shares at the time of settlement of the underlying equity compensation award. However, from the company's perspective, the sell-to-cover method results in the open market effectively funding the required tax withholding while the net share issuance results in the company itself funding the required tax withholding. Although less frequently used, companies also can withhold the required withholding taxes from the award recipient's regular salary or wages or from other cash amounts payable to the award recipient (such as cash bonuses).

Companies that use equity compensation internationally must ensure that they devote the appropriate level of care and resources to satisfying their tax withholding and reporting obligations in all of the countries where awards are granted; to do otherwise creates perhaps the single greatest compliance exposure and the most significant financial risks to both the companies themselves and the award recipients.

EQUITY COMPENSATION REIMBURSEMENT ARRANGEMENTS

One of the factors that can impact the tax implications of equity compensation awards is whether the local subsidiary that employs the award recipient bears the economic cost of the awards that are granted by its parent corporation. In the case of a US parent corporation that grants stock-based awards to employees of its foreign subsidiaries:

- The US parent corporation is unable to claim a US income tax deduction in connection with the awards because the award recipients are not legally employed by the US parent corporation (rather, the award recipients are legally employed by the local subsidiary in the particular country).
- The local subsidiary in most countries is unable to claim a local tax deduction for the awards because it does not incur any costs associated with the awards (but otherwise would be able to claim a local tax deduction to that extent that it did bear the costs of the awards).

To secure the deduction, US parent corporations often enter into equity compensation reimbursement agreements with their foreign subsidiaries, whereby the foreign subsidiary agrees to reimburse the US parent corporation for the costs associated with equity compensation awards granted to the foreign subsidiary's employees. Under these agreements, in many countries, the local subsidiary can claim a local tax deduction for the reimbursement payments made to the US parent corporation (because the local subsidiary is incurring the cost of the awards), while the US parent corporation can receive the reimbursement payment from the local subsidiary on a tax-free basis for US income tax purposes.

The rules governing equity compensation reimbursement arrangements vary by country and depend on a variety of factors, including:

- The type of shares (newly issued shares or treasury shares) that are issued on settlement of the equity compensation award (for example, in France, a local tax deduction is only allowed where treasury shares are issued).
- The position of the award recipient (for instance, a director verses a rank-and-file employee). For example, in Japan, a local tax deduction cannot be claimed for equity compensation reimbursements attributable to awards granted to directors of the local subsidiary.
- The timing of the grant of the equity compensation award for which reimbursement is being sought (that is, awards granted before the execution of the equity compensation reimbursement agreement verses awards granted after the agreement is concluded). For example, in Germany, a local tax deduction is available only for awards granted after the equity compensation reimbursement arrangement is executed.

SECURITIES REGISTRATION AND PROSPECTUS REQUIREMENTS

Although the tax considerations are the primary compliance risk in the global equity compensation arena, given the highly regulated nature of securities offerings in most countries around the world, companies seeking to grant stock-based awards globally also need to give significant attention to securities law considerations. In general, company stock is viewed as an ownership interest or security, and an offering of securities in most countries typically requires the granting company to:

- Register the offering with the local securities regulatory body (in the United States, the Securities and Exchange Commission (US SEC) is the governing body at the federal level).
- Produce a prospectus (in the local language) for potential investors that provides key business, financial and tax information about the offering so that investors can make an informed investment decision.

Alternatively, depending on the nature, size, and value of the offering, or the nature of the potential investors to whom the offering is directed, the offeror may be able to avail itself of an exemption under local laws if certain requirements are satisfied, which may allow the offeror to completely avoid the local registration and/or prospectus requirements (or allow the offeror to proceed with the offering subject to more simplified registration and disclosure obligations). For example, under the recently adopted EU Prospectus Regulation, companies making equity grants to employees in Europe can avoid the prospectus obligations pursuant to an employee share scheme exemption if an information document is provided to award recipients in conjunction with the grants.

The grant of stock options, RSUs, or other stock-based awards, or the offer of participation in an ESPP, potentially is viewed as a securities offering (or the offering of financial products) and companies seeking to grant equity awards to employees in other countries must consider and address the local law requirements in each country where award recipients reside well in advance of the particular grant.

Broadly speaking, awards that require award recipients to pay monetary consideration for the underlying shares (for example, stock options and stock purchase rights under an ESPP) generally are viewed as an offering of securities from a legal and regulatory perspective requiring compliance with local registration and/or prospectus requirements because the award recipients must make an affirmative investment decision to purchase company shares through the outlay of personal funds.

Conversely, awards that do not require award recipients to pay monetary consideration for the underlying shares (for example, RSUs and performance share awards) often are not treated as a securities offering under local rules and regulations because the award recipients are not:

- Required to make an investment decision.
- At risk of losing personal funds through the payment of any purchase price.

In the US, the grant of equity compensation awards is treated as a securities offering and publicly traded corporations granting stock-based awards to US employees must register the offering with the US SEC via a simplified registration statement on Form S-8 that is specifically geared towards employee compensation and benefit arrangements. As part of the simplified registration requirements, the company must deliver a prospectus to award recipients providing them with basic information about:

- The company.
- The equity awards being granted.
- The underlying equity compensation plan.
- The tax treatment of the equity awards.

For more information on Form S-8, see Practice Notes, Registration Statement: Form S-8 (6-500-5259) and Form S-8 Considerations: Prospectus Disclosure and Annual Reports (9-500-6926).

Outside of the United States, local securities law requirements can vary significantly from country to country and generally depend on a variety of factors, including:

- The type of equity compensation award that is being granted.
- The number of award recipients in the particular country.
- The aggregate value of the offering.
- The nature of the award recipient (that is, whether the award recipient is an employee verses a non-employee independent contractor).

In some countries (for example, Japan, Malaysia, and the Philippines), the local requirements can be particularly extensive, burdensome, costly, and time-sensitive, while in many other countries (for example, Brazil, Mexico, and Singapore), the grant of stock-based awards to employees of the local subsidiary of the granting company does not trigger any local law requirements.

In some instances, companies may be able to avoid local securities law requirements by either:

- Settling awards in cash rather than company shares (for example, Malaysia).
- Limiting award recipients of stock options to a mandatory cashless exercise (either a sell-all exercise or a net exercise) (for example, Italy).

LABOR AND EMPLOYMENT-RELATED CONSIDERATIONS

Because equity compensation awards typically are granted to award recipients in the context of their employment and as partial consideration for the performance of services, multinational companies granting stock-based awards to employees of their subsidiaries and affiliates in other countries must be cognizant of local employment and labor laws. Without oversimplifying a broad and complex issue, it is fair to say that the employment of individuals in the United States, where employers and employees enjoy substantial freedom to mutually establish the terms and conditions governing the employment relationship and individuals typically are employed at will without any guaranteed rights of employment, is substantially different from the employment of individuals in most other regions of the world where:

- The employment relationship is highly regulated and contract-based.
- Employees tend to enjoy substantial protections that place greater restrictions on what employers can do and what changes they can seek in the employment relationship.

For example, concepts such as "acquired rights" and "termination indemnities" generally do not exist in the United States but they are commonplace in many other countries around the world.

Regarding acquired rights, in many countries outside of the US, once an employer provides a component of compensation (for example, the grant of stock awards) to an employee on a recurring or semi-recurring basis, the employee arguably acquires a vested right to receive that compensation in perpetuity (for example, annual grants of stock options).

Further, on termination of employment, a terminated employee is legally entitled to receive mandatory severance payments that are based on the terminated employee's compensation as in effect prior to termination (potentially including compensation realized from equity compensation awards). These termination indemnities often exist regardless of whether the employee's rights are set out in a formal employment agreement.

US companies must carefully structure equity compensation awards to award recipients in other countries to avoid or minimize these employment-based risks as much as possible. This risk mitigation exercise can typically be accomplished through thoughtful drafting of award agreements, equity compensation plan documents and other employee communication materials with a view towards the various issues that are presented in the affected countries. Too often, multinational companies use the same grant materials prepared for award recipients in the United States when granting stock-based awards to employees in other countries and inevitably, these grant materials are inherently inadequate simply by virtue of the differences between US and non-US employment and labor laws, rules and regulations.

Specific actions companies should take to mitigate employment-related risks include:

- Drafting award agreements to distinguish between the company that is actually granting the equity compensation award and issuing the underlying shares of common stock on settlement of the award (the US parent corporation) and the local subsidiary of the granting company that is actually the legal employer of the award recipient.
- Including express contractual provisions in grant materials addressing the various employment-related issues, coupled with appropriate governing law, jurisdiction and venue provisions, which can provide substantial protections in favor of the company.
- Having US laws and courts govern the plan and awards granted under the plan and related disputes rather than the local laws and courts of the country in which the award recipient is employed.

Although these actions are not fool-proof and do not entirely preclude a local court from applying local employment laws to a dispute between a US parent company and an award recipient in another country, they represent the best approach for global companies to manage these risks consistently and effectively from country to country.

CURRENCY RESTRICTIONS AND EXCHANGE CONTROLS

For many years, various countries around the world either expressly precluded or maintained substantial restrictions on the ability of local citizens to:

- Acquire and hold ownership interests in foreign companies.
- Convert local currency into other currencies to purchase foreign goods and services (including shares of foreign corporations).
- Hold foreign currencies abroad for extended periods of time.

However, as the economies of countries around the world increasingly have become global and interdependent, many countries have substantially loosened these rules so that it is now fairly common and relatively easy for employees in countries outside of the United States to be able to acquire shares of common stock of a US corporation pursuant to an equity compensation award. However, some countries continue to maintain extensive oversight and control over local foreign currency transactions (for example, Argentina, China (the SAFE approval regime), and Vietnam (the SBV approval regime)) and as a result, companies that grant equity compensation awards to employees in other countries must evaluate and address local foreign exchange rules in conjunction with the grants, particularly when award recipients must pay a purchase price for the underlying shares that will be acquired under the award (such as in the case of stock options or stock purchase rights under an ESPP).

In some instances, companies may be able to structure their stock-based awards in a manner that avoids implicating the local exchange control requirements while still delivering the same economic value to the award recipients (for example, granting stock options subject to mandatory cashless exercise so that award recipients are not required to remit funds out of their home country to acquire shares).

Even today, some countries (for example, India) continue to prohibit local citizens from holding foreign currency outside of their home country and require these amounts to be repatriated to the home country and converted back to local currency within a specified period. In most instances, the legal obligation to comply with these requirements falls on the individual award recipient, but in some circumstances, the company granting the award may:

- Bear some responsibility for satisfying the local law requirements.
- Have a duty to notify award recipients of their personal obligations to comply with these rules.

DATA PRIVACY

In light of the relatively recent explosion in rules and regulations governing this area, companies granting equity compensation internationally must place increased attention and focus on compliance with local data privacy rules. In general, "data privacy" broadly refers to the various requirements, rules, and regulations governing the collection, processing, use, transfer, and maintenance of personally identifiable information regarding an individual person ("personal data").

The entire process of granting equity compensation awards and administering these awards is built on the flow of personal data, which may include information such as an award recipient's:

- Name.
- Address.
- Date of birth.
- Position/job title.
- Tax identification number or similar governmental identification number.
- Compensation and applicable tax rates.

For multinational companies offering equity compensation internationally, personal data activities among related companies and with third-party service providers, vendors, and advisors is a practical necessity. Further, most multinational companies manage the organization's human resources function via one or more global human resources information systems ("HRIS") into which each legal entity in the company's consolidated organization feeds certain personal data regarding its local workforce. Also, business organizations increasingly are outsourcing stock plan administration to third-party brokers and administrators (TPAs) where equity compensation programs are operated and administered electronically via web-based platforms that are either directly or indirectly linked with the organization's HRIS, or information is pulled from the HRIS and shared with the TPAs. For these reasons, data privacy is and forever will be interconnected with global stock plans.

While the first generation of data privacy laws that primarily originated in Europe in the 1990s offered a rudimentary framework for how personal data was supposed to be collected, handled, and protected, governmental and regulatory bodies charged with responsibility for the enforcement of these new rules were ill-prepared and ill-equipped to provide real muscle or teeth behind these rules. Enforcement actions generally were therefore lax and businesses operating across multiple countries faced very little practical risk for non-compliance. Further, US regulation on data privacy historically lagged behind most of the world given the premium place on a free, open, and democratic society.

In today's current global, inter-connected, and ever-changing world, technology has:

- Changed every aspect of life.
- Exposed an abundance of individual personal information to the global economy.
- Re-engineered how business organizations operate.

On the heels of many recent, high-profile personal data breaches, such as the Equifax breach that affected 140 million consumers (see Legal Update, Equifax to Pay $575 Million to Settle Data Breach Claims with FTC, CFPB, and State AGs (W-021-3927)), a second generation of data privacy laws have sprung up with great ferocity over the past few years in Europe, Asia, South America, and even the United States. For example, see Practice Note, Overview of EU General Data Protection Regulation (GDPR) (W-007-9580). Under these new data privacy rules, governments around the world are:

- Establishing much more stringent and rigid requirements governing the collection, use, and protection of personal data.
- Mandating more significant and meaningful penalties for non-compliance.
- Charging small armies of regulators with responsibility for meaningful enforcement efforts.

On this basis, given the presence of more meaningful penalties (for example, under GDPR penalties for non-compliance can be up to the higher of €20 million or 4% of annual global turnover) and the looming likelihood of more enforcement actions, more than at any other time in history, multinational companies must re-think their strategy on personal data, re-calibrate prior risk assessments, and adjust compliance activities when it comes to all types of personal data that the company touches, including employee data used in conjunction with global equity compensation programs.

Multinational companies granting stock-based awards internationally typically try to address data privacy issues by seeking a broad and comprehensive consent from award recipients (as part of the equity compensation award agreement). However, the privacy laws of some countries (for example, EU member countries) raise significant concerns about the viability of obtaining a binding consent in the context of the employment relationship, and as a result, companies may need to seek and rely on an alternative basis under local privacy laws for collecting and handling personal data of local award recipients.

BEST PRACTICES FOR GRANTING EQUITY AWARDS GLOBALLY

In addition to identifying, understanding, and formulating an action plan for addressing the legal, regulatory, and tax considerations associated with the use of equity compensation globally, multinational companies wanting to grant stock-based awards to their employees in various countries should adopt the following time-tested best practices to minimize legal risks and administrative burdens, enhance the value proposition and understanding of equity compensation awards by award recipients, and ultimately ensure the success of the company's global long-term incentive compensation program:

- **Create an oversight team.** Due to the multi-disciplined nature of global equity compensation, companies should assemble a team of professionals with soup-to-nuts responsibility for the company's use of equity compensation internationally comprised of representatives from legal, tax, treasury, human resources and compensation, accounting and stock plan administration, supplemented with outside legal and tax advisors (including local country experts that are centrally orchestrated).
- **Centralize stock plan administration with the US parent corporation.** To ensure a consistent approach from country to country, avoid possible compliance violations for the US parent corporation granting the awards and issuing the shares of common stock on award settlement. To reduce the risk of local labor and employment law issues (such as vested rights and termination indemnity risks), stock plan administration should be centralized at the US parent corporation level with minimal involvement from the local subsidiaries in the various countries that employ the award recipients (as opposed to a de-centralized approach where the local subsidiaries bear substantial oversight and administration responsibilities).
- **Prepare award agreements and grant materials with a global mindset.** Stock award materials should be drafted with a view towards addressing the many legal, regulatory and tax issues and risks that arise when granting awards internationally (but do not exist when granting awards to US employees due to the different nature of the employer-employee relationship).
- **Grant equity awards "smartly."** By understanding the local legal, regulatory and tax landscape **prior** to granting stock-based awards to employees in other countries (ideally, companies should start the review process three to four months before the actual grant date), multinational companies can structure the awards to avoid local legal and regulatory requirements, reduce various risks, and in some instances, secure preferential tax treatment for the award recipient, the employing company, or both.
- **Ensure compliance with local tax withholding and reporting obligations.** Failure to properly execute income tax and social

insurance tax withholding and reporting obligations stands as the most significant compliance risk for companies granting equity awards internationally. If faced with limited resources, companies are best served by placing a premium on addressing this issue above all others.

- **Assess the benefits and costs of local tax-qualified awards.** In determining whether to structure equity awards to take advantage of preferential tax regimes, companies should consider not only the tax savings that will be realized, but also the legal and regulatory costs associated with establishing the tax-qualified awards and the administrative burdens that may be created by the awards and conduct a cost-benefit analysis.
- **Develop a grant checklist for each applicable country.** Because local law requirements applicable to equity compensation awards are susceptible to frequent change, companies should establish a mechanism for tracking and updating the governing rules that apply to grants made to award recipients in each applicable country.
- **Provide sufficient information addressing local tax consequences to award recipients.** Local country tax supplements to the US prospectus for the underlying equity compensation plan (or similar tax summaries) not only ensure that companies satisfy their US securities law disclosure obligations when granting stock-based awards internationally, they provide meaningful information to help ensure that award recipients understand and treat their awards properly from a local tax perspective.
- **Consider the potential benefits and impact of equity compensation reimbursement arrangements.** In many instances, an equity compensation reimbursement arrangement between the US parent corporation granting the awards and the local subsidiary that employs the award recipients can produce a win-win proposition from a US and local tax perspective. However, a company should assess the feasibility of the arrangement and the potential impact on tax consequences on a country-by-country basis.
- **Do not neglect ongoing oversight and compliance activities.** Legal, regulatory, and tax compliance for global stock awards is not static. Each grant of stock-based awards to employees around the world (whether annually or more frequently) should be evaluated independently, and companies should develop and regularly update tools (for example, grant checklists, legal, regulatory, and tax compliance charts) to manage compliance activities in a systemic manner.

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