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A Matter of Fact

Did you know that only 10.8% of companies provide a COLA as part of a single allowance covering items besides goods and services?

Source: Mercer's 2011 Worldwide Survey of International Assignment Policies and Practices

The Expatriate Observer
2012 • Volume 36 • Number 1

Why Home-Country Spendable Income Increases Or Decreases

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Home Country Data and Tax Profiles provide the information required for understanding an individual's expenditure pattern in the home location – goods and services, housing, income tax, and social security contributions. These data may change when the profile is updated annually.

When it comes to spendable income (the portion of income allocated to goods and services), there are three reasons why this factor might increase or decrease with the release of a new profile:

1. When income taxes and social security contributions change, individuals will either have more or less money to spend on goods and services, which will cause spendable income to increase or decrease, accordingly.
2. Inflation causes spendable income to increase at a given salary level; deflation causes it to decrease.
3. When a home-country government issues new expenditure data, the differences are usually due to preference changes – for example, consumers in a developing home country may spend less on food and more on housing or car purchases as the country develops economically.

These situations can occur simultaneously, so the expected result may not be obvious. The net result of an increase and decrease may limit the changes that will be seen in the goods and services spendable income (and housing norms). The profile provides an explanation about what has changed, as well as a numerical example of how each income component (goods and services, housing, taxes, social security, and reserve) has been altered. It also provides an example of how these changes may affect the balance sheet.

The sample profile used for the tables on pages 2 and 3 is for the United States, updated in January 2011 for inflation through October 2010. In that profile, goods and services increased 1.54 percent, and housing and utilities increased 0.14 percent. Tax changes that took place with this profile included:

- The income ranges for the tax brackets for both single and married individuals were adjusted for inflation, as well as the standard deductions and exemptions.

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- The employee social security contribution for old-age, survivor, and disability insurance was decreased temporarily for 2011 from 6.2 to 4.2 percent.
- The estimated variable deduction and average state tax calculations have been updated based on new statistical data from the U.S. Internal Revenue Service and state government data. The variable deduction is a compilation of actual expenditures by the individual taxpayer that the government has determined should be deductible from income. These include medical expenses (over a limit), real estate taxes, personal property taxes, mortgage interest payments, charitable contributions, and state and local taxes.

These changes increased hypothetical taxes at all income levels, mostly due to an increase in the average state tax calculation. Social security contributions decreased at all income levels. Goods and services spendable incomes and housing norms rose at all income levels. The differences between the new and prior profiles are illustrated in Table A, and the impact of these changes on compensation is illustrated for five income levels in Table B.

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Table A. Comparison of New and Prior Profiles (3-Person Family)

	Annual Fixed Cash Compensation (USD)				
ITEM	**50,500**	**71,000**	**142,000**	**182,000**	**214,000**
Goods and Services					
New	29,695	37,748	61,501	73,246	82,096
Prior	29,544	37,558	61,201	72,893	81,703
Difference	151	190	300	353	393
Housing					
New	12,799	15,478	22,783	26,166	28,640
Prior	12,785	15,461	22,759	26,138	28,610
Difference	14	17	24	28	30
Income Taxes*					
New	3,525	7,425	25,244	36,202	45,758
Prior	3,516	7,386	24,999	35,743	45,164
Difference	9	39	245	459	594
Social Security					
New	2,853	4,040	6,552	7,132	7,596
Prior	3,863	5,470	8,688	9,268	9,732
Difference	–1,010	–1,430	–2,136	–2,136	–2,136

* Federal tax with federal variable deduction rate and average state and local tax deduction included plus average state and local taxes.

Table B. Impact of Changes on Compensation (3-Person Family)

	Annual Fixed Cash Compensation (USD)				
ITEM	**50,500**	**71,000**	**142,000**	**182,000**	**214,000**
Goods and Services (assumes index of 150)	76	95	150	177	197
Housing	–14	–17	–24	–28	–30
Income Taxes	–9	–39	–245	–459	–594
Social Security	1,010	1,430	2,136	2,136	2,136
Net Change in Compensation	1,063	1,469	2,017	1,826	1,709

Note: The amounts shown in Table A are the same as Table B, but the signs have been changed, where necessary, to show how the item affects the balance sheet. On the one hand, in the normal balance sheet approach to the compensation of expatriates, an increase in goods and services spendable increases compensation, since it enlarges the base against which the differential index is applied, while a decrease in goods and services spendable decreases pay. On the other hand, an increase in housing or taxes decreases compensation, since these amounts are subtracted from pay. Since the index is assumed to be 150, only 50 percent of the rise/decrease in goods and services in Table A results in a compensation change in Table B.