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Business Travel Analytics - The world outside your window

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What is the issue?

Global business travelers potentially trigger compliance and withholding obligations. These can be multiple (income tax, social security, immigration, corporation tax) and can impact at either or both the individual and the corporate level. Different tests apply to different taxes and places, but broadly all traveling employees making more than just an occasional annual visit increase these exposures. Historically this has often fallen below the radar of the employer, the employee and the relevant tax and immigration authorities. While most large groups with mobile workforces have a short-term relocation or assignment policy, these typically don't take account of business travelers. This is despite the business traveler population frequently being many times larger than those on assignment as people have become increasingly specialized and moving skills by putting them on a plane (rather than building capability in another country) is a given component of many working lives. By exercising control of their business travel, corporates aggregate a mass of data with huge inherent value to be tapped.

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Why is this a hot topic?
Since the global economic travails of 2008 and their impact on tax revenues across many jurisdictions, tax authorities have faced pressure to reduce the “tax gap” – the shortfall between what could be and what is actually collected. In seeking ways to address this, and in an environment compounded by falling tax receipts, the potential for the business traveler community as a source of revenues is becoming apparent with the added attraction that these individuals typically don’t have a vote in the jurisdictions seeking to tax them. Tax and social security can be collected without the sort of political consequences which would potentially follow a rate increase for domestic taxpayers, and the individuals and companies affected have little or no leverage to challenge the agenda.

More recently, pressures on the Schengen Agreement in Europe have resulted in far more passport checks at borders which in turn has made it easier for immigration authorities to distinguish between occasional visitors and regular cross-border commuters. Immigration and tax authorities are increasingly sharing information both within countries and between them, raising the likelihood that business travelers and their employers will find themselves in the spotlight.

In a corporate context, while immigration requirements have always been taken seriously, awareness of the tax and social security exposures associated with business travelers has been somewhat hazy, unquantified and, crucially, un-owned within organizations. Often no one in the business has had unequivocal responsibility for the area, and given the variety of data sources which may need to be mastered in order to understand whether there is a problem and if so how large, it is not surprising that executives haven’t been rushing to take ownership. Building a business case for solving a problem whose existence has yet to be quantified would be difficult enough with senior sponsorship. No one having responsibility has proved both a significant and sufficient deterrent to action. Even where there has been an appetite to tackle the exposure, existing HR and payroll systems are generally too “domestic” to easily enable analysis where multiple jurisdictions are involved.

For their part, tax authorities which had the legislative framework enabling them to tax business travelers have displayed little appetite for doing so, but this no longer appears to be the case. Heightened sensitivity to the issue of economic migrants has led immigration authorities to identify business travelers in breach of visa and work permit requirements. In consequence, companies with large business traveler populations have faced penalties and individual travelers have found themselves refused entry or worse. For example, Malaysia applies six lashes as the penalty for breaching immigration rules while one European jurisdiction has gone as far as banning entire firms from working in the country as punishment for immigration violations.

While the liability for income tax rests with the individual business traveler, accountability for remitting the tax may fall on the employer just as filing responsibilities are often shared between employer and employee. However, it is always the employer that is liable for social security contributions. Furthermore, as the tax treaty network – which relieves business travelers of any income tax liability between many jurisdictions – is much less extensive with respect to social security, the sums involved can be far larger.

In the case of social security, in many jurisdictions these payments carry with them entitlements. Employers who are compliant can take doing the right thing for their employees one step further by getting assistance with securing their employees’ retirement and other benefits in countries where they have accrued these rights.

We believe the minority of companies who have taken action have done so for a variety of motives including a wish to understand their exposure so they can take steps to minimize or mitigate it, to protect their reputation and for talent reasons to do the right thing by their employees.

For others the prompt has been that the tax authorities have challenged them, or Internal Audit have identified the issue and required that someone owns it. In one or two cases a senior executive has had a run in with either the tax or immigration authorities and has demanded action. In time it is likely that external auditors will be considering whether an accrual is necessary for liabilities in relation to business travel, adding to those bringing pressure on companies to take this seriously. In most cases the starting point has been to look back at historic travel by business travelers, and run analytics on that data to establish the scale of any exposure.

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How are the authorities approaching the issue?

The approach varies from one tax authority to another. For example, the State of New York has been targeting financial services companies present in multiple countries and requesting the expense reports and travel records for the highest paid employees. Having identified unpaid State Taxes in relation to business travelers, liabilities to tax, interest, and penalties are extrapolated across the population resulting in significant demands on the employer. By contrast, the Canadian tax authority asks for details of a company's business travelers when it seeks a refund of withholding tax levied on intra-group payments, on the grounds that if a group is international a sub-set of its employees will be business travelers.

For many immigration authorities, the data is more immediately available from passport swipes on entry and exit allowing them to quickly identify business travelers who have breached immigration rules. These can be dealt with the next time they attempt to cross the relevant country's border.

What are the external challenges to being compliant?

Beyond the challenge presented by a lack of ownership or awareness, and internal and third party systems which are not designed to address the business traveler challenge, the systems and rules applied by the tax authorities in individual countries also make it very difficult—if not impossible —to comply. The rules usually assume the physical presence of an employer in the country concerned, but if neither the employer nor the employee have a local presence it may not be possible to get withheld income tax or social security payments into the system and linked to the employee. If tax authorities want wide-scale compliance by business travelers and their employers their systems will need to adapt.

Business travel and data analytics
As tax and immigration authorities have begun targeting resources in this area, helping organizations manage their business travel compliance has become a key area of focus for professional services firms. Deloitte has developed a range of services, collectively known as "Business Travel Analytics," to help businesses address compliance and risk both reactively and proactively.

At Deloitte, Business Travel Analytics (BTA) has grown from being a resource to identify and address tax compliance obligations into an end-to-end, managed service employing data analytics to support a range of services relevant to the growing business traveler community, underpinned by a robust engine incorporating subject matter knowledge across individual income, corporate and indirect taxes, social security and immigration. BTA can support mobility and business transformation by enabling data-driven decision-making.

One of the major challenges is how to harvest the right data. It is likely to be gathered from two or more disparate sources including HR information systems, the travel system or the expenses system, and potentially from other records such as badge scans at company sites and VPN log-ins. This then needs to be mapped and the inevitable imperfections managed so that anomalies can be identified. For example, conflicting information about an employee's whereabouts—the travel system says they returned home on one date, yet they have an expense claim for a hotel in another country on the same day. Validation and explanation of this type of inconsistency is typically the only time that employee involvement in the process is potentially required, and is a far lighter touch than traditional systems which rely on regular travel diary entries by already busy business travelers.

Validated data must then be subject to analysis using domestic country rules, international treaty networks, and the client's business rules. At this stage Deloitte's BTA offerings produce visualized outputs covering income tax, US state taxes, social security, immigration and permanent establishment (PE) risk factors. These visualizations allow the user to understand, in a way hitherto not widely available, the areas of immediate exposure so that informed, fact-based decisions can be made as to what should be prioritized and addressed. The exposure to income tax and social security liabilities, withholding and reporting obligations at both the corporate and individual employee levels are indicated.

Becoming compliant is just a first step. Once the data has been marshaled, executives and their advisers like Deloitte are recognizing that there is more that they can do with it.

What opportunities beyond compliance does business travel analytics bring?
One of the reasons that companies haven't focused on business travel compliance in the past is because it cuts across multiple functions (tax, legal, finance, operations, procurement, HR, payroll and internal audit) so it hasn't been the obvious responsibility of one department. However, once a company decides (or is forced) to tackle the tax and immigration issues of its business traveler population, this very multiplicity of stakeholders offer a wide range of potential usage for the data.

From a corporate perspective the two most immediately interesting areas are PE and VAT and the attention paid to these by tax authorities will inevitably increase as companies start to submit Country-by-Country Reporting under the OECD's Base Erosion and Profit Shifting (BEPS) initiative. BEPS increases pressure on global organizations to demonstrate and implement a robust process to identify where they have established a corporate PE for tax purposes. The outputs of BTA-type tools can be used to identify those countries in which the company has a PE risk so that this can be proactively managed and consideration given to who goes where and when before trips are undertaken. Similarly an individual business traveler can be provided with instructions on activities that can and cannot be conducted while traveling.

In relation to VAT, data mined from the travel and expenses systems can help VAT specialists identify the potential for VAT refund claims. Given the volumes of business travel in some organizations, this has the potential for being a significant tax cash inflow.

What opportunities beyond compliance does business travel analytics bring? (cont'd...)
From a cost control and governance perspective BTA activities help identify instances where corporate travel and accommodation policies are not being adhered to, or areas in which a policy needs to be amended or introduced.

For organizations with high volumes of business travel, being able to aggregate expenditure by vendor offers a cost control angle that has the scope to make a worthwhile contribution over time, helping procurement to negotiate with airlines and hotel groups that enjoy the greatest company spend.

Business traveler data can also be used to assess the accuracy of budgets and forecasting with the benefit of hindsight and improve them in future, or to identify countries where results may not merit the level of investment in inbound business travel.

As more companies are using analytics, valuable applications have emerged which were only identified once a widening net of stakeholders could see the outputs available and were able to ask themselves “Can I use this data to help me ..... ?”

For example, understanding the travel patterns of revenue generators has allowed the tax function of one US group to better identify the jurisdictions in which its sales are being made. This correct sourcing of income in the corporate tax return is being used to support claiming of foreign tax credits.

Another company has been able to analyze the exact number of trips made by its employees to areas affected by the Zika virus to negotiate better rates of medical emergency insurance covering their business travelers.

A third company which undertakes project-based work around the globe is using BTA to help price its projects, having found in the past that its margins can be badly eroded if the staff mix is such that additional costs are incurred as a result of individual’s business travel profiles. In this case BTA was used both to understand the actual cost of using particular team members, to identify the optimal mix and to track that travel is occurring according to plan so that budgets are achieved.

This third case references the use of pre-travel functionality, which enables travel scenario planning from the perspective of “If I make these trips, do I have a tax problem or need a visa?” and “In staffing this project is it better to use person A or person B?” Similarly for immigration purposes it can help identify whether a traveler is in compliance before departure or whether they shouldn’t make the trip. Both employer and employee need to take responsibility in this area. Although the obligation to be compliant resides at an individual level, employers can also face heavy penalties if they are not mindful of a country’s regulations.

Particular industries may also have their own specific and granular tracking needs—for example, highlighting the need for local financial services authorization for particular travelers to certain countries.

One of the lessons from these examples is that companies building a business case for investing in business travel analytics should involve as wide a stakeholder base as possible to tease out such multiple benefits. Even if implementation is modular with BTA components added over time, it is helpful to see the full potential from the start.

What does the future hold?
With data increasingly available and the authorities getting ever more serious about policing the tax, social security and immigration compliance of business travelers and their employers, business traveler compliance should be on the agenda of every multinational. The good news is that modern analytics capabilities mean it need not be just a compliance exercise but can make a positive contribution to cost and opportunity management.

No doubt the future holds even greater challenges as tax authorities will potentially move on to the ‘virtual business traveler’—the people using technology to work remotely, earning money in one jurisdiction while sitting in another. Different sources of data may be required to identify and quantify the exposures of “stationary” business travelers, but if this potential threat becomes a reality, BTA solutions will be able cope.

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Contacts

To understand more about how Deloitte's Business Travel Analytics service can make a strategic impact on your organization as a powerful tool for workforce management, cost control, budgeting, and long term resource planning, please contact:

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