

Expatriate Assignment Policies - The Downstream Impact On Payroll

In this article we explore the implications of expatriate policy design on payrolls and how consideration of the operational impact can assist with some of the challenges in delivering expatriate payroll.

The design and structure of an organisation's expatriate policies can have multiple impacts for the assignee, the business and the operational teams attempting to fulfil the "agreed" policy.

The main drivers in determining a policy can be summarised as the business need, business cost and the resulting benefits to the business. The ability to attract the right individual to take up the assignment at the appropriate grade will certainly always be a key consideration in fulfilling the business requirements.

So, with a policy that can ensure the business objectives of an assignment are met through the attraction and deployment of employee's with the right skillset for the task in hand, one might assume all is well? The challenge, however, generally occurs once the assignment has commenced and the payroll function is required to deliver compensation to the assignee in line with the assignment policy.

Understanding The Extent Of The Issue

Administration of the expatriate assignment is often a complex process requiring buy-in from a large number of business stakeholders, many of whom will sit within different functions or departments and won't always report to the same individual.

At the heart of the administration process is the payroll team (who may be operating on a decentralised basis or combined into one or a number of centralised shared service centres). They are ultimately responsible for ensuring the accurate and timely delivery of compensation to employees on a frequent basis (e.g. monthly, bi-monthly, etc) whilst managing the local jurisdiction compliance requirements with regard to tax and social security withholding and remittance and any accompanying regulatory and compliance returns.

Due to the nature of payroll delivery, it is at this point in the internal process

flows of information that a decision has to be taken with regard to the delivery and taxation treatment of compensation. A "maybe" doesn't work within a payroll system and as such a decision has to be made which is either "yes" or "no".

For example, do we pay the individual this amount or are we shadowing it only? Do we subject it to tax and / or social security withholding? Do we deliver it net or gross? In all of these scenarios, someone ultimately needs to make a decision (which generally must be reached within a tight processing window).

To make this process as straight forward as possible, payrolls require detailed but straightforward policies to guide them. However, as detailed in Figure 1 this is still likely to be a complex position and any form of ambiguity is a. unfortunately extremely unhelpful and b. likely to lead to errors as someone will be required to apply their interpretation to the policy.

Such an approach can quickly lead to payments being paid to assignees incorrectly with the strong potential that the issue could affect multiple assignees over a prolonged period of time.

Policy Design And The Link To Payroll

As outlined above, when determining the structure of an expatriate policy the business must decide on three key items, all other aspects will then be a sub-division of these three pivotal decisions (as detailed in Figure 2).

Conclusion on these factors allows a more detailed decision making process on a number of additional factors which will then inform the number and complexity of the policies required. This includes items such as:

- Expected length of assignments
- The prevalence of high and low tax regimes across the host locations

Figure 1: Policy complexity for payroll teams

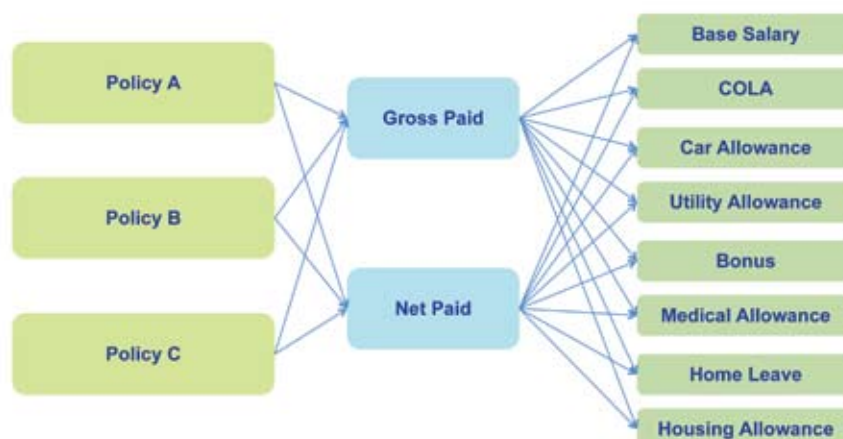


Figure 2: Consideration of the key policy points

Key policy design considerations

• The business need	→	• Why is the overseas assignment required and how will the business benefit?
• The business cost	→	• What is the cost to the business of sending the individual on assignment?
• The business benefit	→	• What is the overall benefit to the business – tangible and non-tangible?

- Whether assignees are likely to break tax residence in their home location
- Whether there are tax treaties between the home and host locations
- The ability for assignees to instigate assignments

The overall output of all of these discussions will then start to shape the size and scale of the challenge that the payroll team face delivering payroll in line with the stated policy requirements.

What Can Global HR And Mobility Teams Do To Help?

Global HR and mobility teams have a unique and critical role to play in ensuring that the end to end expatriate administration process has been carefully considered. Supporting assignees to understand the policy is a core part of the role, but it doesn't cease there. Working closely with payroll to support service delivery should be viewed with equal importance. Ultimately, clarity from inception through to execution simplifies all stages necessary in managing the process and reduces the risk of error.

If the policy makers struggle to define the policy there are likely to be significant downstream challenges when payroll teams must interpret and deliver it.

One of the likely areas of tension is with regard to the number of policies that are in existence. From a mobility perspective the general approach may be to introduce a new policy every time a new scenario occurs with regard to how an individual will be treated whilst on assignment. Conversely, this may be the exact opposite of what the payroll function desire. This is an area where stakeholder integration and dialogue is critical.

Of course, once a policy has been set it is then key that there is no (or minimal in exceptional circumstances only) deviation from it on an operational basis. In the event deviation does occur, experience tells us that the employer is likely to experience challenges during the payroll process as they will have inadvertently again introduced interpretation to what started as a carefully defined and documented process.

Where deviation from policy is required there should be a documented process for managing and communicating this to ensure that payroll don't become aware of any "special treatment" during live payroll when there is often limited time to react and manage what this means in practical terms.

Whilst every organisation is different, a core range of policies should help to

Figure 3: Typical expatriate policies

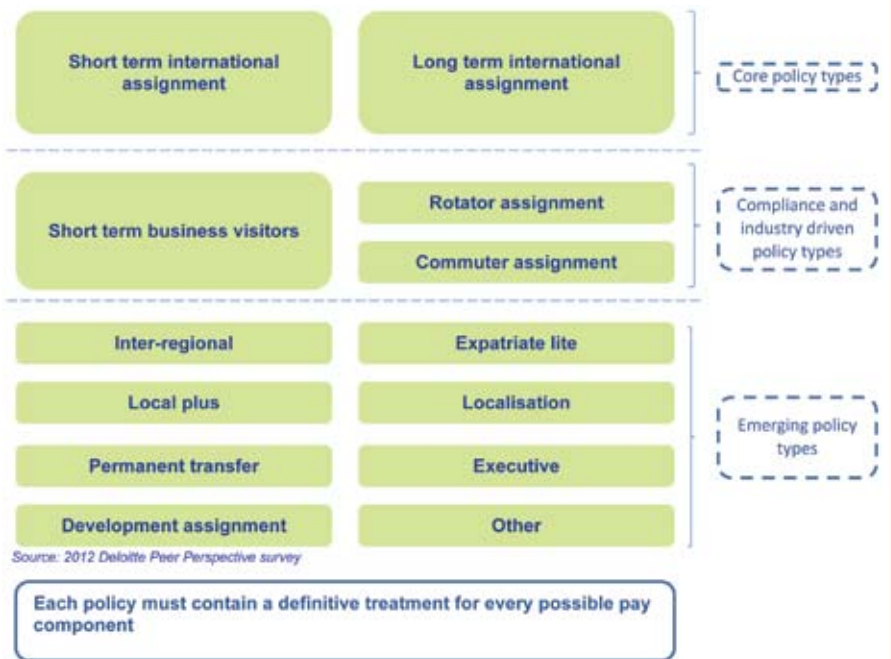


Figure 4: Centralised approach to compensation data management

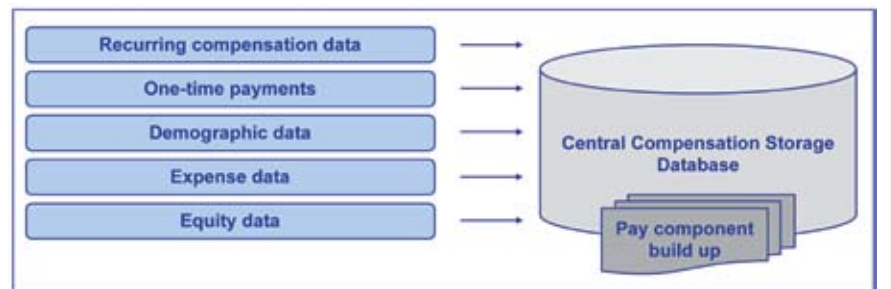


Figure 5: Enhancing the operational effectiveness of expatriate payroll

Enhancing the accuracy of expatriate payroll delivery

- Is there a defined regular process to ensure payroll components are up to date?
- Is there documented ownership and accountability for compensation data?
- Has an agreed process being implemented for managing and communicating policy exceptions to payroll?
- Do the tax team sign off that the tax / social security treatment of payroll components is correct?
- Are there sufficiently detailed process flows and work instructions to capture core regular processes?
- When policies are reviewed are payroll part of the process?

manage the majority of scenarios. The specifics will undoubtedly differ from employer to employer, but detailed in Figure 3 is an overview based on a Deloitte Peer Perspective survey.

Maintaining The Data

The benefit of operating structured and rigid policies will be quickly lost if the pay component treatment is not reviewed regularly and there is no structured process for identifying and setting up new pay components. This should be a diarised and documented task and part of the standard operating procedures of the payroll team.

Further, appointing owners of the data significantly improves the overall accuracy of the entire process. As detailed in Figure 4, linking this to a centralised compensation system should further improve the monthly payroll and reduce the risk of error whilst greatly enhancing the combined functionality of the global mobility and payroll teams.

Practical Next Steps

For many the ability to review and potentially overhaul expatriate policies is impacted by day to day workload and limited capacity to deliver standalone projects.



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