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## The building blocks of mobile workforce payroll

Part one



According to Deloitte's 2017 Global Human Capital Trends survey, 68 percent of organizations agree that "a mobile workforce is an enabler of business and talent strategies."<sup>1</sup> Yet only 11 percent of survey participants believe that they understand how to build the organization of the future.<sup>2</sup> These statistics reveal both the necessity and the complexity involved in building and managing a highly functioning workforce that is both global and mobile. One of the many challenges facing companies as they work to build the organization of the future is how to structure and manage the payroll function.

Payroll reporting and delivery is one of the most visible and complex operational processes for global organizations. Along with being the mechanism for wage delivery to the employee, payroll is also the mechanism for the timely payment of employee and employer taxes to each jurisdiction in which the company operates and its employees work. When you consider the sophisticated operational infrastructure required to manage payroll for a globally mobile workforce, it's easy to see why many organizations struggle to establish a foundation that facilitates a sustainable, efficient, and compliant process. Unfortunately, the notion that mobile employees are an "undetectable" fraction of the total employee population, and therefore the level of effort in global

payroll administration should be equally proportionate, incorrectly lingers.

In reality, the knowledge and manpower required to govern payroll operations for a cross-border, mobile workforce—including the various geographies, HRIS/payroll/mobility systems, people, and processes involved—may be exponentially more important and complex than many companies are prepared to manage. When asked to assess their organization's global payroll effectiveness in an April 2018 Deloitte webcast, only 30 percent of respondents felt that their organization had an effective global payroll operation, while the other 70 percent considered theirs to be ineffective or were unaware of the global landscape of their organization.<sup>3</sup> Just thinking about the scope of the challenge, let alone doing something about it, can be daunting.

But organizations need to be doing both in order to capture the benefits and limit the risk exposure associated with mobile employee payroll for a rapidly evolving global workforce. Regulatory compliance may be the most obvious and immediate concern, but don't underestimate the impact an agile and effective mobile employee payroll infrastructure can have on the organization. In addition to reducing compliance risk, it may help control operational spend, improve transparency,

and reduce overall noise and confusion. And with the incorporation of self-service capabilities, these fundamentals have the potential to empower employees and boost satisfaction levels.

### Complicating factors

Adding to the argument for planning and acting now is a concept that is growing in popularity and likely here to stay: the "point of no return." What does it mean? Some countries are moving away from traditional annual tax returns in favor of real-time payroll reporting. Approximately 20 countries around the world have adopted, or are in the process of adopting, this upstream wage and tax reporting approach. In Brazil, for example, employers are required to use the new eSocial online this year (2018) as part of a five-phase implementation schedule. Once they fully implement eSocial, employers will need to provide information through the portal on a monthly basis.<sup>4</sup> The move to online reporting platforms makes it even more critical to get the payroll process right from the onset, rather than relying on a last-ditch effort during year-end tax filings to resolve potential compliance gaps.

Amidst this fast-moving change comes the passage of US tax reform legislation. The 2017 Tax Cuts and Jobs Act<sup>5</sup> repeals, replaces, and alters a number of long-standing provisions for employers—and

introduces a few new rules as well. Individual tax rates and deductions are changing, as are the rules around executive compensation and foreign pensions. Moving expenses paid by individuals are no longer deductible. And those expenses paid or reimbursed by employers cannot be excluded from income; they are considered a taxable benefit and are included in employee income. These and other tax law reforms are creating a host of new issues as employees work to understand if/how the changes affect them, evaluate the specific impact, plan a course of action, implement for compliance, and track and manage these new programs.

### Start from a position of strength

To achieve an effective, efficient global payroll process for mobile employees, it is essential to establish a foundation that can tackle the many complex internal and external forces at work, including:

- Ever-changing, external global payroll and tax compliance environment
- Organizational operational efficiency to achieve cost optimization
- Varying HRIS/payroll technology platforms and capabilities around the world
- Increased demand for centralized financial transparency by the business
- Cultural shift toward enhancing the employee experience

In this perspective—the first in a series on mobile employee payroll management—we share some of the key strategic challenges and trends organizations may face in designing an effective mobile payroll operational model. It shines a light on the potentially adverse impacts of overlooking, delaying, or not considering key foundational aspects. And it proposes strategies for addressing the challenges, increasing cross-organizational collaboration, and harnessing the right resources to build a strong foundation for managing mobile employee payroll. We break it down into five essential steps, and then tackle each step by focusing

on the three I's: issue, impact, and idea (see figure 1).

## 1. Build a village of stakeholders



### The issue: Lack of awareness and understanding.

The operational complexity and ever-changing regulatory environment that impact mobile employees may be unknown to the numerous stakeholders involved in this effort. The situation can be further complicated by those who profess the existing payroll process is stable, compliant, and efficient. Yet, if the process does break down, it may suddenly get the attention and scrutiny of senior leaders across functional areas (finance, payroll, HR operations, and corporate tax)—though perhaps not with the spotlight intended. Add to these dynamics the feedback from employees who continually struggle with understanding their pay statements, and it's easy to see that bringing the right people to the table is no easy task. But it is a necessary one because although the mobility program owners may be responsible for the success or failure of the mobile payroll process, they are not single-handedly managing the process—nor should they be. Multiple functions and perspectives should be both educated and embedded stakeholders.



### The impact: The organization and its employees suffer.

Getting this process right “takes a village”—a cross-functional village, that is.

And a knowledgeable one as well. According to a recent Deloitte webcast poll, 30 percent of participants said more education and training “will enhance the effectiveness of their payroll operations.”<sup>7</sup> However, functional partners in the organization may not have the accountability, resources, or skill sets required to support the end-to-end process for a mobile employee program. This can cause serious downstream impacts including increased risk, incomplete and untimely reporting, improper financial budgeting, and employee dissatisfaction.



### The idea: Educate and collaborate across the functional ecosystem.

It is clear that this process goes beyond payroll compliance and delivery of pay—it enables an organization to dissect program costs and test the effectiveness of their mobility policies. Global mobility program owners should take great care to build and maintain a cohesive mobility village of stakeholders by:

- Providing education on their functional roles and responsibilities
- Engaging them to collaborate and deliver across the ecosystem
- Ensuring they recognize that the broader value of this process extends beyond pay delivery and compliance
- Establishing process performance metrics across all process partners—internal and external

**Figure 1. The three I's of successful mobile payroll operational model design**



### The issue

What are the key challenges to overcome?



### The impact

How does this challenge affect the organization, the business, and/or employees?



### The idea

What are the leading practices of other organizations, and where do I start?

Figure 2 depicts the top functions within the organization that have a vested interest in the mobile employee payroll process and should be part of the stakeholder village. It highlights how their engagement forms a mobility payroll ecosystem that both engages and benefits functional stakeholders, as well as the organization overall.

## 2. Identify and empower a global payroll owner

**The issue: Lack of global ownership.** Organizations tend to be elusive when it comes to establishing formal accountability for the end-to-end mobile employee payroll process. This issue also exists at the organizational level across the payroll function. There is a prevailing perspective that payroll responsibility sits solely at

the local country or regional level. This perception may inhibit the global mobility program owner's goal of running a truly global payroll process that relies on nimble and timely communication between home and host country HRIS/payroll systems to facilitate wage and tax reporting and financial budgeting.

may subject the company to a payroll audit and unanticipated excess spend. When employees are consistently burdened with payroll, wage cards (e.g., Form W-2), and individual tax return amendments and governmental notices, these challenges can impact the credibility of the global mobility program and the supporting functions.

**The impact: Confusion, errors, and credibility issues.** If each country processes their own payroll with visibility and oversight only at the local level, the complex requirements for mobile employees may not be incorporated into day-to-day operations. This may lead to downstream issues with wage reporting, tax compliance, and inaccurate pay delivery. These failures in the global payroll process can lead to large personal tax balances due at the end of the year and late-payment penalties—both of which

**The idea: Establish a global mobility payroll strategy.** It can help you better define goals and objectives, governance and controls, roles and responsibilities, and sourcing alternatives. Look to answer key questions such as:

- What are our goals and objectives, and how will we define success?
- Who will bear overall responsibility, and how are business and functional leaders engaged to support the process?
- Will vendors be used to support the process, and if so, what will their role be and who will oversee them?
- How will we clearly establish expectations and measure performance?

Many organizations are beginning to establish a global governance committee (see figure 3 on page 5) that involves global, regional, and cross-functional representatives (your village of stakeholders). While mobility is ultimately the owner, this committee will have collective accountability to build a governance framework for this process, understand and resolve global payroll issues, design long-term solutions, and monitor the performance of the end-to-end process. Organizations should establish guiding principles and consider a phased-in approach to onboard each location to the new governance strategy.

**Figure 2. The mobility payroll ecosystem**



**Figure 3. Example global payroll governance framework**

### 3. Determine the eligibility of a cross-border workforce

**The issue: A more inclusive approach is needed.** Mobility owners are expanding their coverage of payroll support to include non-traditional assignments like business travelers, cross-border commuters, rotator employees, and global transfers (e.g., one-way relocations). But historically, organizations have debated about which cross-border employees require special handling. Some organizations still assume that payroll complexity only applies to traditional long-term assignments. In reality, assignment levers like travel patterns, cost allocation, and employment and residency status tend to blur coverage lines (see figure 4). For example, employees on short-term assignments may be considered “off the radar” because they are sometimes assumed to not incur a host country tax liability and assignment-related benefits are generally limited. But have you confirmed that treaties exist and all requirements for tax exemption are met? And if that assignment gets extended, specific assignment benefits and allowances may become taxable in the home and/or host country at the time an organization’s intentions change.

**The impact: Unforeseen tax liabilities.** When mobile employees are not on the radar—or when they are not tracked for potential trailing wage and tax reporting compliance

for the appropriate period of time—employer and employee tax liabilities may be overlooked. This can result in surprise tax liabilities to the business that have not been considered. The opportunity for tax planning may be lost, travel or assignment terms may be left unexamined, and the organization may be left to pay liabilities in the form of outstanding taxes, interest, and/or penalties.

**The idea: Embrace and track global mobility.** As part of the overall strategy, it is critical to leverage a global governance committee, as well as executive leadership, to champion the education of business leaders responsible for initiating cross-border moves. This can create awareness and

momentum for partnering with global mobility and increase visibility of the cross-border movement. Technology can also play a key role in tracking and managing mobility. Select HRIS and payroll platforms have functionality that enable targeted identification of mobile employees along with the capability to create custom fields or modules. For medium- to large-sized programs, consider utilizing a global technology tool that can track and flag individuals and departments at specific junctures where assignment specifications may require review (e.g., visa end dates and treaty timelines for short-term assignees). Then incorporate a process for conducting periodic reviews of potential, active, and former assignees to understand the status of trailing liabilities that require wage and/

**Figure 4. Complex payroll issues apply to a variety of assignments, not just long-term ones**



or tax reporting. Also consider ways to collaborate with immigration or travel organizations to cross-check and/or identify frequent travelers who were not identified through the standard assignment process.

#### 4. Engage and apply specialist knowledge



##### The issue: Resource and knowledge challenges.

In many cases, there is limited access, and budget, to knowledgeable resources in employment tax, global mobility, and payroll operations. This creates challenges because payroll reporting may differ based on the employee's home/host country combination, length of assignment, citizenship, residency, and other variables that demand up-to-date information across the globe. Also at play: Local laws are constantly evolving as tax authorities look to increase their revenue and may apply broadly based on new legislation, or they could be specific to the employee based on individual facts and circumstances.

##### The impact: Costly oversights and omissions.

The lack of understanding of employment tax requirements and global payroll operations for mobile employees can drive up costs in the form of:

- Interest and penalties applied by taxing authorities

#### 5. Focus on the data



##### The issue: Dispersed data sources.

Mobility payroll delivery is typically processed by each country, incorporates several data sources from around the globe, and may be supported by resources with little understanding of mobility. Because so many different systems of record and data handlers are involved in the process, a complex hunt for worldwide compensation data ensues.



##### The impact: Data overload.

Consider this example (figure 5): You have 100 mobile employees and several compensation data sources in both the home and host country (e.g., payroll, accounts payable, expense system, third-party vendors, treasury, relocation). This data is collected, analyzed, and then reported based on country-specific and individual payroll wage and tax requirements. Now assume there are 40 compensation elements per person and 12 months of data reported between two locations. This translates into a whopping 96,000 data points each year that need to be managed as part of this process.

**Figure 5. Doing the math on mounting mobile employee payroll data**

	100	mobile employees
	40	compensation data points
	12	months of reporting
	x	2 countries for reporting
<hr/>		<b>96,000 data points each year</b>



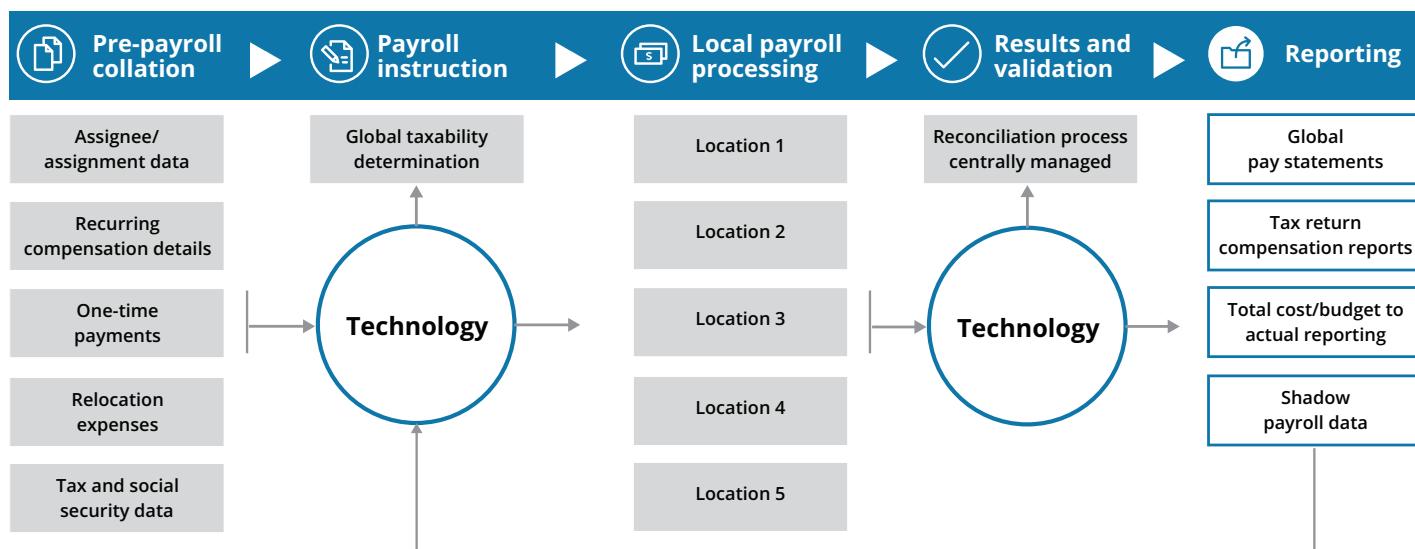
**The idea: Less (data sources) is more.** Minimize your data sources to simplify global data collection and reporting. One way to accomplish this is to deliver pay via home and/or host country payroll and leverage another payment source such as a global expense system or via a relocation partner. While figure 6 depicts the end-to-end mobility payroll process, organizations should focus first on pre-payroll collation (step 1 of the model), as there is significant opportunity to consolidate data sources up front to facilitate a more streamlined, efficient, downstream payroll process. It is important to realize that simplifying this step also aids

in optimizing other program areas, such as individual tax compliance and financial reporting processes.

Organizations continue to explore new ways of leveraging HRIS and payroll platforms to exchange the key data needed to manage the payroll process. As organizations move to update and consolidate technology systems, it is critical for mobility owners to be at the table. While nearly 43 percent of Deloitte webcast respondents believe that investment in technology will enhance the effectiveness of their payroll operations, many times there remains a gap in addressing the

“mobile” aspect of payroll compliance and operations. As a result, more organizations are proactively assessing if their payroll operations would benefit from custom mobility technology solutions to collect and house global data, as well as manage other operational aspects of the mobility program like employee self-service and workflow and case management. In the world of global mobility—where unique programs and processes are required at the global, regional, and individual levels—it is critical that the technology ecosystem is comprehensive from start to finish.

**Figure 6 . Global mobility compensation: The end-to-end process**



### Take the first of many key steps

Rather than spending time and money on cleanup, corrections, and noise control, design a comprehensive mobile employee payroll model by building a strong foundation. Define your future-state strategy, goals, and objectives. Commit to designing a sustainable delivery model that focuses on minimizing the downstream impacts like compliance risk, increased operational spend, and lack of transparency. And recognize that this is not a destination

but a complex, ever-changing journey that will require a strategic approach, extensive planning, cross-functional collaboration, and a global view. While it will come with plenty of challenges, it may not be an insurmountable undertaking as long as you start from the ground up with a clear blueprint in hand.

### Keep your eye on what's next

In subsequent installments of our mobile employee payroll operations series, we'll

talk more about preparing your organization for the “point of no return” through vehicles such as cooperative compliance agreements. And we'll examine the future possibilities in a digital payroll world—cognitive technologies, robotics, artificial intelligence, and more—and the potential implications on organizations and their mobile employees.

## Endnotes

1. Andrew Robb, Rumi Das, Shannon Anderson-Finch, Ying Wang, and Cassandra Liu, 2017 Global workforce trends: The Impact of the digital age on global mobility, Deloitte LLP, 2017, <https://www2.deloitte.com/uk/en/pages/tax/articles/2017-global-workforce-trends.html>.
2. Ibid.
3. Deloitte Dbriefs webcast, "Global payroll operations: Improving efficiency and tax compliance," April 10, 2018. More than 3,000 respondents participated in poll questions during this webcast. Respondents work in a range of sectors including technology, financial services, manufacturing, consumer products, and energy.
4. Anna Massoglia and Howard Perlman, "Countries around world implement payroll-related changes," Bloomberg BNA, January 22, 2018, <https://www.bna.com/countries-around-world-n73014474672/>, accessed April 4, 2018.
5. An Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018.
6. Deloitte Dbriefs webcast, "Global payroll operations: Improving efficiency and tax compliance."
7. Ibid.



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