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Payroll Delivery Considerations for your Global Mobility Program

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Consider this typical scenario for a global mobility support team: You are sending your employee, Susie, on international assignment from the US to Germany. While you are busy arranging her household goods move, work permit, and cost of living allowance, she asks, "Will I be paid in dollars or euros?" Before you respond, you realize you have not considered the potential benefits and drawbacks for either approach. You then ask yourself, "What's the best approach?"

Generally, there are three ways to administer payroll for an internationally mobile employee:

1. Home country payroll delivery
2. Host country payroll delivery
3. Split payroll delivery

Below, we provide details for each payroll delivery method.

Home country payroll delivery

Overview

If a Home country payroll delivery method is used, your employee will continue to be paid from the Home country payroll in Home country currency, just as before the assignment.

For example, you send Jenny from the US to Ireland for a 4-month training project. She stays on US payroll and is paid in US dollars; she continues to participate in US benefits and US retirement plans.

This payroll delivery method is beneficial for *business travelers, employees on short-term assignments (typically up to one year), and for longer-term assignments (typically between 1 and 5 years) if the employee can remain on Home country social security and/or benefits).*

Benefits

- The employee can remain enrolled in Home country benefits and Home country social tax payments can continue to be funded through payroll.
- The employee can receive funds in Home country currency. Any savings would not be subject to potential exchange rate fluctuations / risk.
- The company can continue current payroll practices--no administrative changes in pay delivery are necessary.

Drawbacks

- The employee is receiving funds in the Home country currency, but may have to pay bills in the Host country currency. She therefore bears exchange rate risk for expenses she pays locally in the Host country. Funds for her use in the Host country must often be converted (e.g., by wire transfer or credit card), sometimes incurring costly fees.
- Tax implications in the Host country typically do not directly correspond with compensation delivery. Accordingly, all or an attributable portion of earnings may need to be reported, and the related taxes paid, in the Host country (even if the employee's pay is delivered entirely from the Home country payroll).
- Regarding medical benefits, business traveler or supplemental medical coverage may need to be purchased to ensure there are no gaps in coverage while she is in the Host country.

Host country payroll delivery

Overview

If a Host country payroll delivery is used, your employee is no longer paid from the Home country payroll, but rather is paid 100% from the Host country payroll.

For example, Wanda terminates employment with the US Company and transfers (permanently / indefinitely) to your subsidiary in Brazil. She goes on the Brazilian payroll and is paid in Brazilian real (BRL). She is terminated from US payroll, benefits, and retirement plans. She begins contributing to the Brazilian retirement plan and enrolls in Brazilian benefits.

This payroll delivery method is beneficial for *a permanent transfer (i.e., scenario where the Home country employment relationship is ended).*

Benefits

- The employee has funds in local currency to pay local expenses.
- The employee is supported in their efforts to integrate into their new location; she is paid like other local employees.
- The employee's benefit plan is locally appropriate.
- The employee begins contributing to the retirement plan of her new country, consistent with her plan to remain in the Host country.

Drawbacks

- If an employee is paid entirely from the Host country payroll and has previously terminated employment with the Home country company, she may (if she ultimately returns to her Home country) lose out on some or all of her Home and/or Host retirement benefits. Providing a credit for years of service may help soften this blow.
- The employee may have continuing financial obligations in the Home country (despite terminating her Home country employment), and she will have to manage the cash flow and bear the cost or benefit of any exchange rate fluctuation for these home-based expenses.
- If the employee is an outbound US citizen, she has an ongoing (annual) US tax-reporting obligation, and potentially a US tax liability (and balance of tax due, if any required US tax payments have not been remitted).

Split payroll delivery

Overview

A portion of the employee's pay is delivered from the Home country payroll, and a portion is delivered from the Host country payroll. The payroll delivery is thus "split" between two payrolls and two currencies.

For example, Helen is going on a 2-year assignment to Germany, after which she will return to the US. Helen’s pay would be delivered partly from the US company payroll in US dollars, and the balance from the German company payroll in euros. She maintains her participation in the US social tax system and her US company retirement plan, while receiving sufficient net pay in Germany to fund ongoing expenses.

This payroll delivery method is beneficial for *a long-term assignee with continuing financial obligations in,* ***and the intention to return to****, the Home country. This scenario is also beneficial where Host country laws require some actual Host country pay delivery.*

Benefits

- The employee enjoys uninterrupted participation in the Home country retirement plan and social tax system.
- The employee receives funds in the currency she needs, in the country where she needs the funds.
- The company can monitor cost of living in the Host country, and can adjust the delivery split for changes in cost of living in the Host location if necessary or at the employee's request.

Drawbacks

- The employer takes responsibility to administer the "split" payroll using the balance sheet approach. Management of this can be challenging without (or even with!) established procedures.
- The Home and Host country payrolls must be coordinated to ensure the payments are made correctly (and that duplicate payments are not made to the employee).
- Compensation reporting and withholding is further complicated due to payments being delivered in multiple locations.

Other issues to consider

Specific country regulations may limit your options when setting up a compensation delivery strategy. In some countries, the employer may prefer to deliver a limited amount of cash in the Host country currency to avoid having a large cash balance tied up in that currency (e.g., in countries with currency controls). Immigration regulations may also affect planning, as some work permits require payment of a minimum salary level in the Host country.

Further, there can be significant tax savings buried in the details of structuring and timing of the delivery of remuneration and allowances. For example, assignment length may have an impact on whether an item attracts taxation. It is not surprising that the best time to find these opportunities is before the onset of an international assignment.

Though payroll reporting is outside the scope of this article, we wish to convey that each payroll delivery method outlined above will have specific compensation reporting issues. The facts and circumstances of each country, and the individual's situation, must be evaluated to ensure an appropriate strategy is implemented.

In the end, a company will need to consider both the company and the mobile employee’s needs in selecting the payroll delivery method that is best suited for a given assignment scenario. As feasible, the company should help to ensure the employee is protected from currency fluctuations, has the appropriate currency to pay bills in both countries, and can participate in the retirement plan that best reflects their needs. Employee convenience, compliance with regulations, and risk tolerance must be considered and balanced with the company's capacity and willingness to undertake additional administrative work.

Now may be a great time to re-evaluate your organization's process for compensation delivery so the appropriate procedures and controls can be implemented. If you have questions or would like further information, please contact me at mtirpak@gtn.com or +1.713.244.5020, or visit our Mobility Tax Services page to see what assistance we can provide.

The information provided in this article is for general guidance only and should not be utilized in lieu of obtaining professional tax and/or legal advice.