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Local Plus Expatriate Policies

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When a company begins to think about sending an employee on assignment, there are many factors to consider. One of the first considerations, and top of mind for both employer and employee, is expatriate compensation. While there are several approaches a company can take when deciding on expatriate compensation, the Local Plus approach is becoming increasingly popular.

What is a Local Plus Policy?

Over 75% of U.S. multinational companies follow a Balance Sheet approach for expatriate compensation. Under this approach, expatriates are typically retained on home country salary, benefits structures, and often times, home country payroll. Additional allowances are generally given to compensate for:

- higher cost of living in host country
- housing assistance
- hardship allowance
- increased tax liability on company source income
- educational assistance for any school age children
- annual home leave

Under a Local Plus approach, transferees receive a salary based on the host country salary structure. They receive additional allowances, which can include housing assistance, educational assistance for children, and home leave. Under this approach, transferees typically do not remain on their home country benefits plans. The “Plus” elements generally vary considerably by company and location, i.e., a Local Plus package for a U.S. employee being transferred to Singapore is likely to be quite different than if the employee is being transferred to the UK. In many cases, Local Plus packages are determined by individual negotiations between business leaders and the prospective assignee.

Local Plus packages are sometimes seen as the “magic elixir” of expatriate compensation, striking a balance between local packages and expensive expatriate packages. However, Local Plus package components are still evolving and can vary widely by employer and by type of move. Differences in host country conditions make establishing consistent Local Plus policies very challenging.

Popularity of a Local Plus Policy

The Balance Sheet approach is still by far the preferred and traditional method for assignments of a limited duration, i.e., 2-5 years. However, with mobility patterns changing, the Local Plus approach is becoming increasingly popular as a strong alternative due to the increase in the number of locally hired employees, indefinite international transfers, and early career developmental assignments.

According to the *2013 Alternative International Assignments Policies and Practices Survey* conducted by Mercer, 32% of North American companies already have policies for Local Plus assignments, with another 26% in the process of developing such a policy.

Based on the survey results, Local Plus policies are most prevalent in the Asia-Pacific region, with 49% of employers having a Local Plus policy. While in the Americas, only 29% reported having such a policy. Industry differences are also significant, with over 40% of North American employers in financial services, technology, and engineering and construction having Local Plus policies, and far less prevalence among energy and manufacturing companies.

Additionally, the Local Plus approach is used infrequently for assignments to most developing countries, except in cases where employees are being transferred from another developing country.

Drivers for a Local Plus approach

Cost reduction: Depending on the assignment location, level of local salary being offered, and the nature of the “Plus” elements, Local Plus packages are, in many cases, less expensive overall than Balance Sheet packages. However, this does not always apply. For example, sending an expatriate from North America to Switzerland and offering a local Swiss salary plus housing assistance, education support, and annual home leave would almost certainly be more costly than a Balance Sheet package because of the high level of Swiss salaries.

Local equity: Maintaining expatriates on expensive, home-based balance sheet packages understandably creates a sense of unfairness with local employees. Placing expatriates on modified local compensation packages can be seen as a way of reducing or eliminating this perception.

Ease of administration: Business leaders often see a Local Plus approach as a much easier concept to understand, explain, and administer. Once a Local Plus package is established, ongoing administration is relatively straightforward and can generally be managed on a local basis. This type of decentralized approach frequently appeals to program managers.

Global Application of a Local Plus Policy

In establishing Local Plus policies, it is important to determine the type of country combinations where the Local Plus approach may be feasible. Three main scenarios should be considered:

1. **Assignments from high salary to low salary countries.** For example, transferring an employee from the United States to India on a typical Local Plus package is likely to result in a significant drop in income for the employee. This reduction in income can only be avoided by offering an inflated local salary and supplementary allowances resulting in very little difference than an equivalent balance sheet package.
2. **Assignments from low salary countries to high salary countries.** For example, transferring an employee from the Philippines to Switzerland would result in a significant increase in income for the employee, even if no “Plus” elements are offered. In this situation, a pure Local package is generally sufficient.

3. **Assignments between countries where salary levels are reasonably comparable.** To date, companies have had the most success with Local Plus approaches where they are dealing with country combinations where salary levels, taxes, and standards of living are reasonably comparable. For example, within Western Europe and a number of the countries in the Asia-Pacific region.

Critical Issues of a Local Plus Policy

For organizations that wish to establish Local Plus policies and guidelines (to apply on a global basis), there are a number of critical decisions that should be made:

- Determine what “Plus” elements are appropriate locally. This is often a daunting challenge as information on local competitive practices may be difficult to obtain or could be nonexistent.
- Decide whether all Local Plus employees at a location should receive the same “Plus” elements. For example, should employees transferring from low salary countries receive the same “Plus” allowances as employees transferring from high salary countries?
- Establish what levels of housing, education, and home leave benefits to provide and determine if they should be tiered by organization level.
- Determine the equality of policies. For example, if an employee on Local Plus is transferred to a low salary country, does it make sense to provide a salary that is far higher than the equivalent local salary level just to put the employee on a local package? In those situations, would a Balance Sheet package be more appropriate?
- Decide if and when the “Plus” elements should be phased out. For example, in Singapore, “Plus” elements are frequently phased out within three years. However, you would also need to consider if this is feasible in countries where salary levels are lower and taxes are higher than Singapore.
- Determine what should happen if an employee on a Local Plus package is later transferred to another country. This could be problematic if salaries in the new country of assignment are lower than the country from which the employee is being transferred.
- Decide how employee benefits should be addressed. For health benefits, companies generally either include the employee in the local plan or in an international health care plan. Most companies however, have not yet found long-term solutions to pension entitlements.
- Determine the role of Corporate versus Local Management. Additionally, determine to what extent reasonably consistent guidelines are needed globally for establishing Local Plus policies versus accepting a decentralized and often inconsistent approach.

In the end, it is important to ensure that differences are being adequately addressed and structured approaches to assessing the feasibility are established. Is Local Plus the “magic elixir” of expatriate compensation? The verdict is still out!

Contact Roger at rogerherod1@gmail.com for more information on Local Plus Expatriate Policies.

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