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Going Global for the First Time?

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Imagine you are sitting at your desk working diligently away and the President of your company comes to you and says, “In order to expand our business, we are venturing overseas. I would like to send Jane Smith to Germany for three years. Can you make it happen?”

In many organizations, the leap to having a globally mobile population starts in a similar fashion.

So, what basic infrastructure is required to administer and support globally mobile individuals?

Basic infrastructure can be divided into the following categories:

- Establishing policies
- Formalizing the payroll process
- Selecting vendors

Establishing policies

Before drafting a global mobility policy, consider the business needs of the organization:

- Determine the assignment types, i.e., long-term assignments (generally defined as more than one year), short-term assignments, permanent transfers, etc.
- Determine the compensation and tax structures

Oftentimes, the first global assignment for a company is a long-term assignment such as in the above example for Jane. For these types of scenarios, many companies will utilize a “balance sheet approach” for the compensation methodology, along with “tax equalization” for the tax reimbursement methodology. The balance sheet approach provides certain compensation “up-lifts” to allow a mobile employee to maintain their Home-based purchasing power. Similarly, an employee under tax equalization is held to the tax burden that would have applied had they remained working in their Home location.

Use of the balance sheet and tax equalization approaches will allow an employee to:

1. Receive sufficient funds to realize purchasing power from the employee’s current consumption expenditure pattern, reasonably equivalent to what they would have had at Home.
2. Bear a similar tax burden to what they had at Home, neither paying a penalty nor receiving a windfall.
3. Have at least the same opportunity to save, as they would have had at Home.

Various allowances may be paid to the employee to ensure a compensation package at the assignment location with an equivalent Home-based purchasing power. Paying separate allowances also makes assimilation back into the Home country compensation structure easier at the end of the assignment as these allowances are not included in the individual's base salary and can be discontinued upon repatriation.

In addition, most companies maintain international assignees on their Home country benefits program. This is consistent with the temporary nature of the assignment. In this way, the employees maintain their current level of benefits and protect their ability to participate in retirement programs.

At a minimum, we would recommend that an assignment letter detailing the compensation structure be provided to the employee even if no formal global mobility policy has been formally established.

Formalizing the payroll process

Once the type of assignment is decided, then working out the payroll process will follow. In Jane's situation, since she is going on a long-term assignment, the company will maintain her in the Home country payroll system and benefit plans.

By continuing to pay Jane out of her Home country, she will continue to have funds in Home country currency to pay ongoing obligations such as mortgage and credit cards. In addition, her payments to Home country social tax obligations (e.g., Social Security and Medicare) and retirement plans are consistent.

The employee may also need funds in the Host country currency. To accommodate this, the company may deliver a portion of the base salary and allowances in Host country currency. Note the location of payment does not, in and of itself, determine the taxability of the income. The company will need to review the payroll reporting and withholding requirements in the Home and Host location, as well as ensuring compliance with local laws.

The actual cross-border payroll process is more complicated than that of a domestic employee. For example, in an international scenario, the company will need to:

- Determine the need for allowances to address incremental employee costs or necessary incentives, typically in the form of cash or benefits-in-kind (i.e., employer-provided housing).
- Establish procedures to advise the Payroll Department (Payroll) of what to pay and when to pay it.
 - Advise Payroll of procedures, as there may be specific cutoffs for processing payments.
 - Document all instructions to Payroll in writing.
- Establish procedures to advise employees of changes to their allowances.

At year-end, the tax provider preparing the employee's Home and Host country tax returns will request a summary of the various amounts paid to or on behalf of the employee. Payroll may be unable to provide detailed information for amounts paid in addition to base salary. To avoid a last minute rush to accumulate information, it is important to meet with Payroll as soon as possible to establish the infrastructure for international assignments. It is critical to determine the capabilities of the payroll system and establish an alternative method for tracking the information, if appropriate.

Selecting vendors

The saying, “It takes a village...” is very fitting in the world of global mobility. It is very likely the following providers (among others) will be involved in Jane’s move to Germany:

- Immigration provider
- Relocation management company
- Mobility tax provider
- Language and destination services provider

Selecting the proper vendors to assist your organization can be a daunting and time-consuming process. To assist in the process, and to make it more manageable, consider reaching out to your professional network for references, checking with your local relocation council, or reviewing what relationships already exist within your organization.

While the above is not an all-inclusive process for moving your employees around the world, it can be used as a baseline – and don’t forget to seek help from your village.

If you have questions or would like further information, please contact me at jstein@gtn.com or +1.312.698.9864, or visit our [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.

