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Managing Global Payroll Risk

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If you are part of a global company, chances are good that your organization has mobile employees traveling to and from different parts of the world, undoubtedly generating various related expenses. Chances are also good that there are payroll reporting and withholding requirements related to these expenses in both the employee's Home and Host locations.

It is critical companies have the proper processes in place to consider the global reporting and withholding requirements for these relocation expenses. With year-end fast approaching it is a great time to revisit internal payroll processes to make sure your company is compliant and properly managing payroll risks.

Reporting for relocation expenses

While most US companies have procedures in place to properly handle the payroll reporting and withholding for their employees' US relocation expenses, it is often more challenging to properly handle these requirements on a global basis. There are several factors creating these challenges for US payroll departments:

- Although it is likely that the Home and Host countries will allow certain moving expenses and relocation allowances to be paid in a tax-free manner, the rules may not be the same. For example, some locations may have limits on the amount of tax-free moving expenses that can be provided. In the UK, up to GBP 8,000 of moving expenses can be reimbursed on a tax-free basis.
- Domestic payroll rules can change in the Home and Host locations. Consider the changes passed late last year as part of US tax reform: moving expenses that were previously excludable from US taxable income are now includable, with consideration now also needed for tax withholding / gross-ups depending on company policy. As difficult as it can be to keep up on changes to US tax law, how is your US payroll department staying up-to-date on changes to law outside the US?
- Because not all countries treat the taxation of relocation expenses in the same manner, it can be challenging to provide the correct expense details to Host country payroll or to obtain the necessary detail for any expenses paid in the Host location. For example, the Host location may not have a process in place to track expenses that are not considered taxable in that location.

Create a relocation taxability matrix

Proper planning can assist multinational companies in addressing these challenges. Here, a tax matrix for each country where you have transfers (to or from) may be helpful. This matrix should include all relocation or transfer-related benefits and an indication of their taxability. You may wish to review the following questions for each country combination.

- How does each Home and Host country payroll department receive relocation/assignment benefit details?
- How are locally paid expenses provided to the employee (e.g., paid directly to third-party, reimbursed from expense report)?
- Do the local payroll teams require assistance in determining taxability in their location for items included in the relocation/assignment benefits report? It has been our experience that most local teams need assistance with determining the taxability of specific relocation items. Typically, initial payroll reports do not include this information.

Once each country's payroll needs are determined, the following steps should be taken to gather information needed to create the taxability matrix:

- Review the company's relocation policy to identify the types of relocation and assignment benefits that may be paid and whether there are corresponding tax gross-up requirements.
- If a policy is not available, a list of relocation and assignment benefits that are most often offered to your employees should be created.
- Obtain information to identify the reporting and withholding obligations for each relocation expense and benefit in the Home and Host country.

At GTN, we have extensive experience in working with companies to develop tax matrices which list specific reporting and taxability requirements for relocation expenses. We also can assist and review relocation policies to help ensure they cover your employee population and your company's relocation objectives. You can schedule a free, 30-minute consultation with one of our specialists here.

Once the matrix is complete, we recommend a complete review of paid relocation and assignment benefits to ensure that reporting is appropriate in each country. Depending on your policy, it may also be necessary to prepare tax gross-ups for those relocation items that have been determined to be taxable. Your relocation policy will generally drive whether a tax gross-up is appropriate for the type of relocation benefit.

A review of internal processes related to reporting relocation and assignment benefits in each location should be done periodically to ensure they continue to be followed on a global basis. Contact me if you would like more information about how to develop a taxability matrix or to learn more about the calculation of tax gross-ups for relocation benefits.

Review of global compensation

With year-end fast approaching, it is also a good time for global mobility teams to focus on a thorough review of global compensation items for the full calendar or fiscal year in the Home and Host countries. This review will ensure that all taxable items have been collected, coded for taxability, and reviewed for applicable tax gross-ups in accordance with the company's relocation policies.

Each country may have its own deadlines for compensation reporting so it is important to:

- Prepare a timetable with input from all parties who will be involved, including key dates:
  - When does the payroll department require the final year-end payroll adjustments?
  - Confirm the final date that the company (or relocation provider) will make payments or expense reimbursements to the employees. Generally, a date prior to year-end is used as a cut-off date to help with the administration of reporting for reimbursements.
  - Based on the timing established in the above two points, work backwards to establish the necessary due dates for other process steps.
- Obtain a list of employees for whom reporting is required.
- Know where assignment letters or employee relocation packages are maintained to help reconcile what should be reported.
- Have a copy of the relocation policy on hand to be aware of the relocation and assignment benefits and corresponding tax gross-up requirements.
- Use your relocation/assignment benefits taxability matrix to determine and crosscheck all taxable items.
- Verify any other reporting requirements for miscellaneous reportable data in the Home and Host locations with your tax provider (e.g., employer match or payment of 401(k), medical benefits).
- Obtain all business expense details by employee. Reimbursement of some business expenses may be considered taxable in the Host country.
- Collaborate with your tax provider to ensure that all local tax payments are captured and reported appropriately. This includes Home and Host tax payments and the calculation of tax gross-ups, if needed.

The above list is certainly not all-inclusive and will vary based on your population size and locations. The important thing is to develop a process for the collection and reporting process, document the process that works best for your team, and track the progress so that deadlines are met.

Each year our service teams work closely with our clients in the year-end process. Because of this, we have extensive experience in year-end planning and would be pleased to discuss and review a process that would work for your team. For additional tips and a more detailed discussion of year-end planning, please see our October 2016 newsletter.

If you have questions or would like further information, please contact me at pschwan@gtn.com or +1.650.485.4075, 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.