



# World Mobility Perspectives: Who cares about expatriate compensation?

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# Who cares about expatriate compensation?



When you hear someone mention “expatriate compensation” do you start to walk away, or are you one of those people who gets excited about the subject and wants to hear more? Global mobility professionals who don’t work on expatriate compensation, or people who are new to our industry may know it is important, but the topic can be hard to get your head around and may not seem exciting at first.

However, there are a few groups of people who always get excited about expatriate compensation and really care about getting it right:

- **Your mobile employees**, because it has to do with having the right amount of money in their pockets. Nothing can disgruntle an expatriate more than having an incorrect paycheck
- **Your finance team**, because it affects the bottom line of the organization
- **Your CEO, business leaders and shareholders**, because it has to do with maintaining tax compliance for the organization, staying out of headlines and keeping business going in critical global locations

- **Worldwide tax authorities**, because they know that their countries’ tax revenues can increase from both compliance (receiving the taxes due) and non-compliance (with the penalties and interest added). Tax authorities around the globe are increasingly paying attention to international assignee payrolls and tax compliance for these reasons

## **The other people who love the topic are your compensation specialists!**

They may be found on your team, inside the finance group of your organization, with your tax provider or among the compensation experts on your relocation partner’s team.

This issue of Crown World Mobility’s *Perspectives* series will provide you with background to expatriate compensation. It asks: why should we care about it - and what makes it (at least a little) cool? It also defines the most commonly-used compensation terminology that every global mobility professional should be able to understand and use. It ends with 10 best practice tips for companies with respect to managing, and staying compliant with, expatriate compensation.





## Background

One of the little-known facts about expatriate compensation is that being a compensation specialist is a lot like being a forensic accountant – it involves fact-finding and digging deeper, and is a continual learning experience. Depending upon the number of payrolls, third party payments and accounts payables parties involved, it can be a very complex and cumbersome process. Don't think of it as simply collecting data, you also have to analyze the data to ensure that all relevant information has been captured.

Another interesting fact about compensation collection is that having global knowledge is key. Tax laws and requirements differ from country to country. For example, in a number of countries, including Brazil, a 13th month Christmas payment is required for all employees. Brazil also has a required annual inflation adjustment.

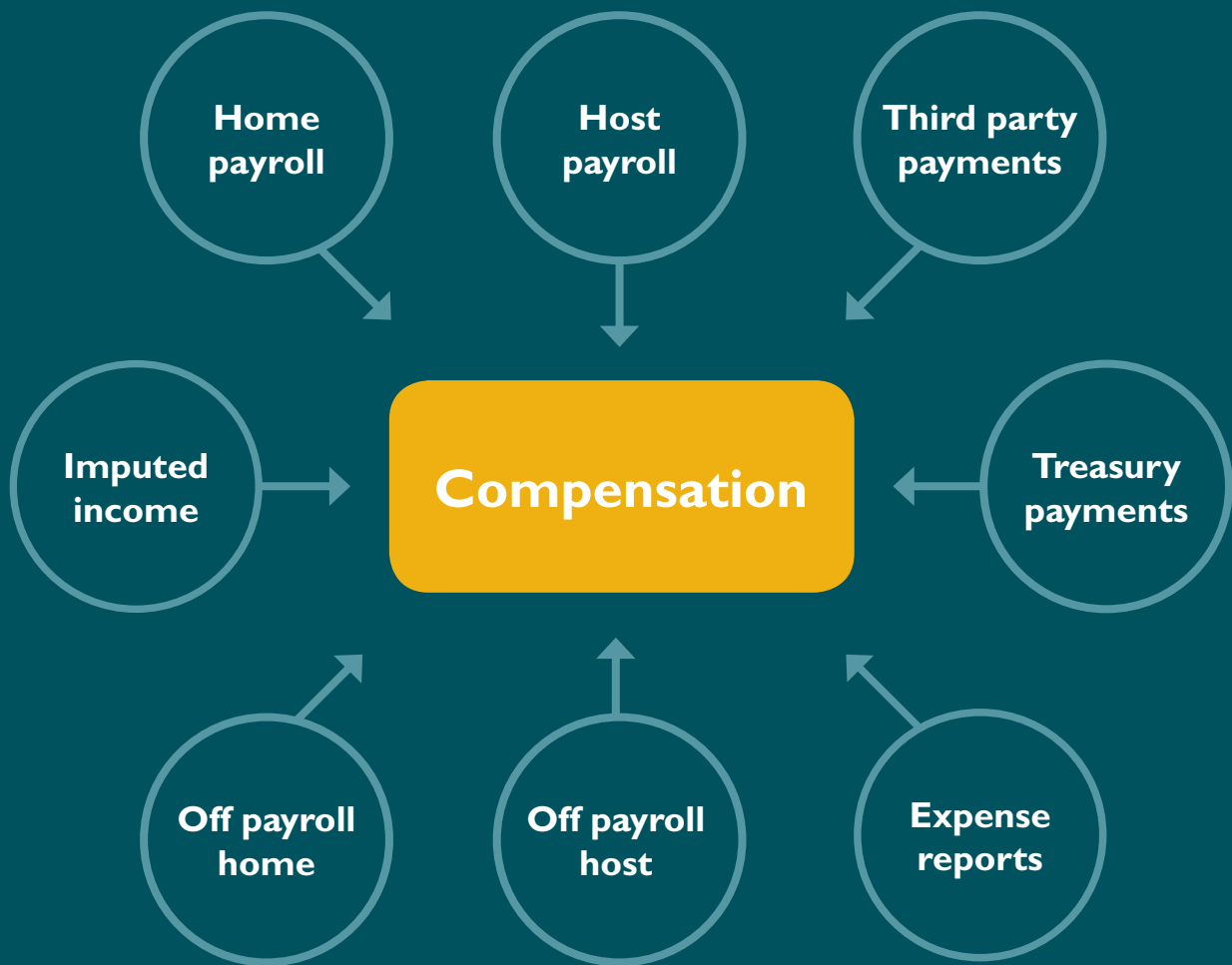
A compensation specialist has to possess country-specific knowledge and stay up to speed with tax and employment changes in the countries where their employees are assigned. Worldwide tax compliance is one of the greatest challenges that companies face and much of this responsibility rests with the global mobility team and its compensation specialists.



# How does compensation collection and reporting work?

Compensation paid to, or on behalf of, employees is likely be paid from multiple sources. Below are examples of the many sources compensation analysts must be aware of in order to be compliant in reporting:

There are many sources where compensation can be paid to or on behalf of the employee (See diagram on page 5). It is the compensation analyst's responsibility to know where to get the information, who from, how to analyze it and how to report it properly. No matter where this function sits within your global mobility program, it is a highly-specialized function that requires in-depth global mobility knowledge.



# Compensation terminology: what you should know



## Home-based payroll

There are different ways in which your employees can get paid while on an assignment, the most common of them being **home-based compensation**, where the employee remains on their home-based payroll and salary. Recent industry surveys show that 67% of companies use this approach for their long-term international assignment populations.

## Host-based payroll

The **host-based approach** to payroll is gaining popularity as companies attempt to control costs. Recent industry surveys show that about 10% of companies use this approach. There are four main types of host-based payroll approaches:

- Local market rate for salaries and benefits
- Expatriate market rate for salaries and benefits
- Local salary plus expatriate benefits
- A mixture of the above, referencing both local and expatriate market rates

The employee is taken out of the home country payroll and put on the host country payroll, typically using one of the above concepts.

## Split payroll

A **split payroll** is when a portion of the assignee's home country pay and allowances is paid in the host country. Split payrolls can be very complex to reconcile and record. Typically, the compensation consultant must reconcile the global payroll paid in order to properly record the compensation and not double count the salary components.

## Currency conversion

Part of a split payroll approach involves **currency conversions**. Payments made in different currencies must be translated at the date the payment is made. This can make consolidating files an extremely labor-intensive task.



## Shadow payroll

A **shadow**, or “ghost”, **payroll** is not actually a payment made to the employee but rather a means of capturing the income earned in the host location, but paid elsewhere. Once the income is determined, the employer or tax firm will calculate the tax payable in the host location and the employer will remit it to the appropriate taxing authorities.

## Traditional balance sheet approach

The **traditional balance sheet** approach to compensating expatriates has been used for years. The balance sheet is designed to “keep assignees whole” or ensure that they are “no worse off” during the assignment than they were at home. The goal is to provide an equivalent purchasing power in the host location to the one that the employee had at home. In simple terms, the expatriate is compensated for any differences in the cost of living between the home and host locations. The actual calculation and methodology of this approach is quite complex, however it is the standard for compensating expatriates.

## Reduced balance sheet

The evolution of a **reduced balance sheet** occurred because companies are continually looking at ways to save on expatriate packages and align the compensation with the employees’ value to the business. Trainees or younger employees willing to take an international assignment for career development reasons will typically be put on an “expat light” package, or in other words, a reduced or modified balance sheet system. Benefits that may be scaled back include housing, COLA, mobility premiums and hardship allowances.

## Net salary package

A pay concept common in Europe is the **net salary package**. The net salary package guarantees the expatriate the same after-tax income each pay cycle. The idea behind the net-of-tax salary payment is that the employee wants to be sure about the net take-home salary and does not want to be caught unaware of the tax liability in the country to which he/she is seconded.



# 10 best practice tips for comprehensive compensation collection

1. **Timing:** Compensation collection starts on January 1, not at the end of the year. Best practice is to collect worldwide compensation on a monthly basis.
2. **Educate:** Thoroughly educate your contacts who will be supplying the compensation information. Set expectations of what is needed, and when.
3. **Training:** Train the payroll and accounts payable contacts and give them the proper tools. Be consistent with your approach of what information is needed and hold quarterly meetings to exchange information and best practices.
4. **Follow up:** This sounds simple, but its importance cannot be over-emphasized. Ensure that all deadlines are met.
5. **Develop a timeline:** Send out your information request each month and state a due date for its return. This will give you ample time to analyze the data prior to producing reports.
6. **Relationship-building:** Developing relationships with your contacts is invaluable when it comes to the exchange of information. Withheld information can jeopardize your compliance requirements.
7. **Centralize payments:** When appropriate, centralizing payments with your relocation provider can simplify the collection process.
8. **Audit, Audit, Audit:** Make sure you receive back from your contacts what should have been paid.
9. **Collect everything:** Remember to collect everything. In some cases benefits that are non-taxable in one country may be taxable in the other. Make sure you collect imputed income. Company-funded pensions, employer social taxes and stock option detail can all make a difference on the tax return.
10. **Make compliance your mantra:** Reinforce the importance of compliance and why it is so critical that all information be provided, and on a timely basis.



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