

# The Key Ingredients For The Ideal Expatriate Payroll Recipe

“Expatriate payroll”. Two words to make many a Payroll Manager shudder. When a person temporarily moves to another country for work reasons (for example, an assignee, a commuter or business traveller), their compensation package is commonly adjusted to incentivise the move and with this, complexities in tax and social security treatment, regardless of the location, arise. Throw in tax equalisation policies, the need to gross-up some compensation elements and cross-reporting and the payroll cycle can become a real challenge for payroll teams.

Some of these challenges can often be put in the ‘too difficult box’ and can take up a disproportionate amount of time and energy, even where there is a relatively small population of assignees, compared with the wider domestic population.

None of this is a negative reflection on your payroll team or outsourced payroll provider. But the reality is, if you don’t have your house in order and provide the right data to them in a timely manner, and instruct in a clear, practical way, then the probability of meeting compliance requirements reduces significantly. Even the most experienced expatriate payroll teams need the key ingredients to deliver to expectations.

## What Are The Key Ingredients?

How can you set up your expatriate payroll model for success? Based on our experience of working with organisations, we have identified ten key areas that should be considered:

- 1) Tracking.** As a starting point, you need to be able to know which employees are where and what type of compensation policy underpins how their income is delivered (for example, home, host or split payroll delivery). You also need to know when certain payments need to start and stop or change. This is one of the key foundations of an efficient expat payroll programme and often gets neglected. You can’t capture payroll for an assignee that the business is simply not aware of.
- 2) Data Sources.** You need to know who earns what, what benefits they receive

and where you can obtain that information in a timely manner. Is it the home payroll team? The host Accounts Payable team who approve the accommodation and car costs? The Reward and Benefits team who sign them up to the international medical plan? Map it out and identify the individuals that you need to talk to first and get them onboard (this links to point 4 below). Equally you will need to understand each of the data sources; for example, what currency are payments in, what earnings period do they cover, how have they been calculated? You don’t want to unwittingly gather incomplete or incorrect data.

How can you set up your expatriate payroll model for success?

- 3) Calendar And Deadlines.** You need to know when data will become available and when the payroll teams need it (recognising that this may differ from location to location), providing them enough time to comfortably review, process and check it before the payroll cycle cut-off. Consider holidays and annual leave, what accelerations need to take place? What payroll cycles are involved (weekly, bi-weekly, monthly?) and are there timing mismatches? Do you need to operate a month in arrears?
- 4) Roles And Responsibilities.** Good old ‘R&R’. If no-one knows who is responsible for specific critical tasks (the ‘what and how’), such as transferring files - and is not engaged in the process of doing so - then the process may fall apart. Invest time in clarifying roles, responsibilities and equipping and engaging stakeholders at the outset and this will help solidify your process.

**5) Clear Process And Escalation.** Once you have clarified roles and responsibilities, you need everyone to understand the process and what your route of escalation will be should something go awry. Who doesn’t love a good process map for clarity? An email notification can work just as well for a simple setup. The key is to ensure that there is no ambiguity on who is doing what.

**6) System Of Record.** Ideally you need a common system of recording data, particularly if you want to then use the data at a later time for data analysis and global management reporting. This has the bonus of being able to provide the tax team with all that they need for the tax return process too.

**7) Secure Data Sharing.** Compensation data, coupled with employee names and social security numbers, is one of the more sensitive categories of personal information. Therefore, it is critical that such data is transferred securely. Time pressure inevitably places teams under strain, and this may lead to a temptation for those individuals to share data in a less secure way. Accordingly, implementing clear protocols for data transfer will help mitigate this risk.

**8) Controls.** Fail-safes. Checks. Whatever you want to call them, you need process controls in place to validate that you are compliant and identify that errors are trapped and flagged. A seemingly small glitch can roll-up into a huge year-end challenge that can become difficult to unravel and fix in a short timeframe. In identifying a problem, it is always a good place to start with “What has gone wrong before?”. You should also consider contingency plans if things do go wrong, and perform a root cause analysis if you experience gaps or errors in the data and explore if there are alternative data sources that you can use?

**9) Flexibility To Change.** The pandemic has taught us the importance of being able to quickly adapt to new environments, and an organisation’s expatriate payroll model is no exception. Policy changes, legislation changes, staff turnover, system changes - you need to be able to flex your approach as required without impacting your overarching process.

**10) And finally - Training.** Once you have designed and implemented each of these

areas, a crucial ongoing focus should be ensuring that your team receives the necessary technical training to enable them to deliver a market leading expatriate payroll function.

The ingredients are all there, they just require the focus and desire to bring everything together. The results of your efforts will be appreciated throughout the organisation!

### Getting The Balance Right

The ten elements above will help you define your expat payroll model. The degree to which you need to refine approach and process depends on your programme, the level of complexity of the various policies that you have in place, and the tax/social security jurisdictions that your assignees travel to and from. You may need to focus on a risk basis, if your payroll teams have flagged that a payroll audit has occurred or is overdue. Finally, it might be that you have Senior Executives/VIPs in your programme where it can be particularly important that the process works smoothly to avoid any internal reputational risk.

Smaller programmes of less than 50 mobile employees may find that their model is entirely manageable in-house with very little need for specialist technology or outside assistance, but you still need to consider the above factors to maximise the success of a smooth process for your home and host payroll teams.

For medium-sized programmes of between 50-100 mobile employees you will need to implement some level of structure

within your model, albeit not always necessarily needing a full technology suite. This might mean using external specialists or knowledgeable in-house team members, and then taken forward into a 'business-as-usual' state by your global mobility and payroll teams.

For larger, more complex programmes you will need to use specialist mobility technology to track your assignees, record data within one single global database, check for gaps and errors, and instruct your data between the home and host payroll locations. We have found that any programme above 100 mobile employees means a simple spreadsheet is no longer going to be sufficient and would recommend

that for programmes of this size and beyond, those in leadership in this area look for suitable technology, and associated subject matter expertise, to serve their needs to deliver efficiency via automation.

### Enjoy The Fruits Of Your Labour

We hope that the above has inspired you to take a fresh look at your expatriate payroll processes and consider if and how you may be able to refine and improve your approach.

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