

Top Tips for Managing Expatriate Payroll

By DAVID LEBOFF



Recently, I presented to a group that included two payroll specialists from a well-known consulting company. I asked them how many U.S. domestic employees they paid in comparison to expatriate employees. The answer was 25,000 domestic workers versus 300 expatriates. Then I asked what percent of their time those 300 (1%) took in a typical week. Their answer: the majority.

Those who are saddled with the responsibility for administering expatriate payrolls know all too well the reality of this statement. But ever optimistic, we hope for easy answers.

Why does this small population present such difficulty even for experienced and seasoned payroll professionals? How can we alleviate the pain? The good news is that with a little examination of the unique aspects of expatriate payroll, strategies to improve the program can be developed and implemented. Let's first define expatriate (expat) payroll administration.

Expatriate payroll administration is the set of activities that result in

- accurate delivery of compensation, benefits, and other policy-driven expatriate allowances in one or more currencies and
- compliant reporting and tax payments in one or more countries concurrently

Managers with responsibility for expat payroll administration can strengthen their performance by recognizing gaps in their technical capability and their payroll operating structure in order to design solutions that address them.

Here are a few tips that may help:

Tip #1: Develop Relevant Specialized Skills, Competencies

To effectively administer payroll, you'll need a working familiarity with:

- foreign payroll and tax law
- domestic tax law regarding international transfers
- tax treaty basics
- expatriate policy
- tax equalization
- intercompany accounting
- foreign exchange concepts
- gross-ups
- totalization (certificates of coverage)
- employment law

These important areas of focus are often outside of the training and experience of even veteran payroll professionals. If you have gaps on your team, you can get training or rely on outsourced specialists for advice until these gaps are closed. Without these skills and competencies, it is hard to imagine operating an effective expat payroll program.

Tip #2: Design and Implement a Controlled Process for Shadow Payrolls

Within the industry, the term shadow payroll is sometimes used to describe the home or the host country payroll. Either description is correct. In either case, keeping the expatriate employed by the home country company and reported via his/her home payroll often protects service time, benefits, social security, and equity program participation.

The effective interaction of the home and host payroll is critical for accurate payroll reporting, tax payments, and error-free net pay delivery to the expatriate. For example, full worldwide reporting of employer compensation for U.S. outbound expatriates will usually be required even as the host payroll often reports the same compensation. This is executed by reporting, paying, and taxing correctly in what may be two jurisdictions, two currencies, on two different pay frequencies without overpaying or underpaying the expatriate.

It can be complicated, but some basic workflow and process mapping will work wonders. This can be achieved by building a team that includes your payroll, HR, accounting, tax, and treasury functions. Once the working model is in place, it can be replicated efficiently.

Tip #3: Provide Clear Instructions for Expatriate Payroll Administrators

A fatal flaw of expatriate payroll administration is failing to provide useful direction to those on your team responsible for expatriate payroll updates. These professionals are often focused on the task of managing massive volumes of reporting in consistent ways for domestic employees. They have little time to handle issues including tax equalization payments, rent paid in foreign currency, home leave, hypothetical tax and foreign gross-ups. Asking payroll staff to make individual decisions on reporting standard expatriate pay elements will distract them from the time required to deal effectively with the majority of their pay slips.

It's critical to get assistance in translating your policy into accurate paycode descriptions with underlying general ledger logic. You can start by working with your tax department or external tax advisor to create a taxability grid that identifies how each individual policy element is to be taxed.

Tip #4: Separate Your Expatriate Employees from Your Domestic Population

Within your payroll structure, consider setting up an international division or even a separate EIN to house the expats. This allows payroll staff to separately manage the group. It allows for greater visibility of expat transactions, for easier quality control and expat-specific management reporting.

Improving Expatriate Payroll is Not Impossible

A friend of mine in the global payroll business recently told me in his slow and perfect Texan drawl: "Domestic payroll is about payin'. Expat payroll is about pain."

There is no denying that expatriate payroll administration is complicated. But with attention to training, allocation of roles and responsibilities to the right resources (internal or external) as well as structural design, dramatic improvements to your expatriate payroll operation can be achieved.

David Leboff is President and co-founder of Expaticore, a leading provider of expatriate payroll and local national payroll solutions based in New York. Dave has worked in international human resources and expatriate program management for more than 25 years.