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It All Adds Up—

Expatriate Compensation Collection and Considerations for Consistent Program Compliancy

BY CHRIS PARDO, GMS

Can your organization pinpoint how much actually is being spent on expatriate assignments? The 2009 Ernst & Young, Zurich, Switzerland, "Global Mobility Effectiveness Survey" revealed that "only 20 percent of companies know their true expatriate costs, with 58 percent having only an approximate cost."

Even more than the issue of not knowing "your full spend," many organizations lack the ability to identify, quantify, clarify, capture, and report mobility spend effectively—leaving them at risk of being non-compliant with global taxing authorities.

While there are many words that begin with C-O-M-P, none are sweeter than "C-O-M-Pliant" to the ears of any global mobility program manager—especially those on the finance compensation side. A standard cost projection for a family going on a long-term expatriate assignment signifies an abundantly apparent corporate investment. In addition, when summing up the grand total of all expatriate assignments within the average corporate global mobility program, one begins to C-O-M-Pute the risk of not being able to C-O-M-Pile all those expatriate costs, many of which translate into expatriate C-O-M-Pensation.

Multinational companies are aware that there are many assignment-related expenses that require gathering and reporting through their local payroll departments as taxable compensation. So why are 80 percent unable to track those costs? Lee Schilling, tax manager at Global Tax Network (GTN), Palo Alto, CA, says that, "the ability to collect, analyze, and report the detail on a timely basis to be in compliance is a challenge. The knowledge base within organizations in regard to expatriates is greater today than it was 10 to

Based on recent studies of employers, few organizations truly understand the costs of their expatriate programs. Pardo looks at a few key areas that affect a compensation collection program and provides "best practice" considerations for structuring a consistently compliant expatriate expense accumulation program, one that leverages expertise and that executes properly.

15 years ago, so there is an awareness that something needs to be done, but it is still a matter of technical knowledge and execution.”

DEFINING A PROJECT MANAGER

Source: Plus Relocation Services, Inc.

The Recent Economy and Its Effect on Expatriate Compensation Programs

The global recession forced many companies to seek alternatives to long-term expatriate assignments. Most every recent survey will show that during the past 18 months, the mobility industry has seen increased extended business travelers, short-term assignments, “permanent” transfers, “hybrid assignments,” and localizations, with significant decreases in traditional long-term expatriate assignments. This inevitably has lowered overall program costs. However, many corporate global mobility teams are facing new challenges with the changing authorization dynamics.

For example, one challenge many organizations face is monitoring extended business travelers. Each passing day of an unknown extension could move the company and stealth employee into risky tax and immigration compliance situations.

In a January 2010 Worldwide ERC® “Global Benchmarking Survey,” only 16 percent said they were not concerned about stealth expatriates, 77 percent only discovering these stealth expatriates by chance, while 95 percent stated that tax compliancy costs were their greatest potential for negative cost impacts.

The increased need for cost reduction has led many companies to reevaluate their entire expatriate programs. Looking again at the 2009 “Global Mobility Effectiveness Survey,” we see that 81 percent of companies are looking to take measures to reduce costs. Many companies have worked through partial or full expatriate policy reviews looking for cost reductions in their global mobility programs.

During the policy review, benefits that normally would be collected and reported as compensation are drastically reduced and, in some cases, eliminated. Examples of assignment benefits most commonly targeted for reducing program expenditures include housing allowances, mobility/miscellaneous allowances, transportation allowances, cost-of-living allowances, and most forms of “mobility incentive” allowances. In a February 4, 2010, article by Josephine Woolley, “Reviewing Mobility Policy,” on ECA International’s website, their research noted, “in response to cost-containment directives, the current trend is toward reducing allowances and the value of assignment benefits provided. We have seen that a higher proportion of companies are now applying negative cost-of-living indices and cost-effective indices.”

Stricter guidelines and new expectations on employee contribution are part of the “new norm.” The overall effect of reducing these types of taxable benefits is an increased savings on tax costs, which, ultimately, further lowers expatriate compensation and global mobility program costs.

The Devil Is in the Details

Although we have seen both a reduction in the number of long-term expatriate assignments and in the assignee benefit packages, companies still incur significant costs related to assignment benefits. Given the wide variety of home-host country combinations, and the need to structure compensation delivery in the most tax advantageous manner, expatriate assignment benefits most likely will be paid from multiple sources. Collecting all the compensation items paid out to or on behalf of the expatriates can become a "lesson in herding cats." After internally identifying and approving the elements to be included in the pay and benefits package, there is usually a reprieve as activity switches to a focus on the "getting there" stage.

The "getting there" stage typically includes support services that help the expatriate and family "detach" from the home location and "attach" in the host location. Homefinding trips, orientations, and settling-in services are coordinated and expensed. Some expenses may be reimbursed by the home country accounts payable (AP) or paid directly by the relocation management company (RMC). Travel costs may be billed directly to the corporate travel department.

These expenses are followed by "on assignment"-related benefits, including host-country rent payments, cost-of-living allowances, school tuition payments, and host-country tax payments that may be paid in multiple currencies by the host country finance team and RMC—all of which are occurring while home-country payroll possibly is providing the ongoing salary, bonus payments, and home housing norm deductions in the home country currency.

With multiple currency payments and deductions being made from multiple locations, it is critical to keep track of the details of your global expatriate expense program. One might suggest "the devil is in the details" as an appropriate motto for an efficient and effective global expense accumulation program. We would agree that "compliance" certainly is in the details.

Best Practice Considerations

One of the greatest challenges corporations face is creating an efficient and effective program for capturing, auditing, and reporting expatriate compensation to the proper entities in a timely and consistent fashion.

"I think that there are some common reasons why companies cannot put their finger on their total spend," said Debbie Haynes, SGMS, manager of global mobility at JDSU, Milpitas, CA, "in my experience, the three biggest roadblocks that prevent consistent expatriate compensation accumulation are: a decentralized mobility program; a variance between regional finance expense reporting systems and technologies; and a lack of understanding regarding compensation reporting processes and requirements by regional financial managers"

The following seven key steps will help your organization develop processes to get you on your way to a compliant, clearly accountable program.

1. **Identify resources and stakeholders.** *Identify global resources and key stakeholders including global mobility leaders, internal finance controllers, payroll departments, global tax providers, and relocation management companies (RMCs) and incorporate their feedback and expertise into the program.*
2. **Define a project manager.** *Define an individual who owns the program and process—assuring all stakeholders understand their role and responsibilities.*
3. **Centralize payments.** *Centralizing payment of assignment costs—the more decentralized an organization is and the more stakeholders involved, the higher the risk of compliance, cost, and control issues.*
4. **Evaluate and document.** *Review where and how assignment costs currently are being managed—evaluate responsibilities and processes to improve auditing and facilitate collection.*
5. **Create quality tools and resources.** *Create program guidelines, process maps, responsibility checklists, expatriate census and reporting tools—assure that all the stakeholders have reviewed, approved, and understand these processes.*
6. **Audit carefully.** *Build in ample time for policy audits, clarification, and thorough review of all data collected by the tax provider—this will assure compliance and save you from adding excess cost to your program.*
7. **Collect quarterly.** *Request costs from stakeholders on a quarterly basis—doing this quarterly allows participants more frequent opportunities to go through the process and reinforces consistency.*

Compliance

A quality expatriate program will have a compensation collection program that is built on a platform of key program stakeholders, and focuses on the collection, analysis, and consolidated reporting of worldwide expatriate compensation to support global compliancy. As taxing authorities around the world tighten their monitoring of global mobility programs, it is imperative for organizations to develop processes that allow them to produce consistently compliant expatriate compensation reporting. Identifying key steps to the successful development of a compliant program will make your task less overwhelming and realistically attainable. ■

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