Best Practices on Expatriate Payroll Administration
Expatriate Payroll Administration Report: Background

Survey Background
In 2012, SIRVA Global Compensation and Payroll Services conducted a survey on expatriate payroll administration.

- 30 participating companies
- Participants responded to 24 survey questions, covering:
  - Expatriate population / demographics
  - Split and Shadow Payrolls
  - Calculation of Hypothetical Withholding
  - Assignment Balance Sheets
  - Payroll Reconciliations / Audits
  - Total Compensation Collection

Participant Demographics

<table>
<thead>
<tr>
<th>Total Employee Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Total = 1,138,824</td>
</tr>
<tr>
<td>- Average = 40,672</td>
</tr>
<tr>
<td>- Median = 20,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total Expatriate Employee Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Total = 9,103 *</td>
</tr>
<tr>
<td>- Average = 314</td>
</tr>
<tr>
<td>- Median = 75</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Number of Countries with Expatriates</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Total = 66</td>
</tr>
<tr>
<td>- Average = 17</td>
</tr>
<tr>
<td>- Median = 13</td>
</tr>
</tbody>
</table>

* Expatriates typically comprise <1% of employee population

Map of Survey Home / Host Countries
Participants supported expatriates in the following locations:

<table>
<thead>
<tr>
<th>Rank</th>
<th>Most Frequent Home Locations</th>
<th>Most Frequent Host Locations</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>United States</td>
<td>China</td>
</tr>
<tr>
<td>2</td>
<td>Australia</td>
<td>United States</td>
</tr>
<tr>
<td>3</td>
<td>United Kingdom</td>
<td>Singapore</td>
</tr>
<tr>
<td>4</td>
<td>Netherlands</td>
<td>Australia</td>
</tr>
<tr>
<td>5</td>
<td>Canada</td>
<td>Germany</td>
</tr>
<tr>
<td>6</td>
<td>Germany</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>7</td>
<td>Singapore</td>
<td>Korea</td>
</tr>
<tr>
<td>8</td>
<td>Korea</td>
<td>Canada</td>
</tr>
<tr>
<td>9</td>
<td>South Africa</td>
<td>Switzerland</td>
</tr>
<tr>
<td>10</td>
<td>India</td>
<td>Thailand</td>
</tr>
</tbody>
</table>
Expatriate Payroll Administration Report: Background

We Asked Participants – What is Your Biggest Challenge With Expatriate Payroll Administration?

61% Ensuring payrolls are recorded correctly

23% Understanding legislative requirements

8% Manual processes with multiple sources of input

8% Effective communication

Key Observations Based on Participant Responses:

- Key challenge is compliance
  - Payroll accuracy
  - Local legislation

- Relatively even split between work done in-house versus processes that were outsourced

- Procedures, controls and audit processes vary widely from company to company
Forty-four percent of assignments are long term and participants frequently commented that tracking business travelers remains a challenge.

Ninety percent of participants employ tax equalization in their policies.

Companies use different methods to calculate split payrolls.

Assignment Type

- Long Term
- Business Travelers
- Short Term
- Others

Tax Equalized?

- Yes
- No
- Not Sure

Split Payroll Methods

- Based on Company Policy
- Based on Employee Request
- Based on Local Legislative Requirements
- Not Sure

Payroll delivery methods and payroll frequencies introduce complexities.

Payroll Delivery to Assignees

- Home Country
- Split (Home/Host)
- Host Country
- Other

Payroll Frequency

- Monthly
- Bi Weekly
- Semi Monthly
Key Findings: Based On Participant Responses

How frequently do participants update assignment allowances?

- Semiannual: 12%
- Annually: 14%
- Quarterly: 33%
- Not Sure: 41%

How frequently do participants update assignment deductions?

- Annually: 8%
- Semiannual: 13%
- Quarterly: 15%
- Not Sure: 60%

Frequency
- Semiannual
- Annually
- Quarterly
- Not Sure

While 60% of participants produce shadow payrolls for at least a portion of their assignees, only 58% are updating their shadow payroll data on at least a monthly basis.

Shadow Updates
- Per Pay Period: 18%
- Monthly: 29%
- Annually: 24%
- Quarterly: 29%

Which methods do participants use to ensure zero net pay delivery?

- System Calculates Net Zero Offset: 13%
- Manual Intervention Required: 18%
- Pay Calculated in a Separate Non-paying Company: 31%
- Pay Added in Adjustment Payroll Run: 38%

Shadow Payroll - Creating Net Zero Pay
- System Calculates Net Zero Offset
- Manual Intervention Required
- Pay Calculated in a Separate Non-paying Company
- Pay Added in Adjustment Payroll Run
Key Findings: Based On Participant Responses

Hypothetical Withholding – Participant Processes

Not all compensation changes over the life of the assignment can be projected with 100% accuracy; consequently, hypothetical withholding amounts are often re-calculated when certain events occur.

The table below highlights which events trigger a recalculation, based on participant response.

<table>
<thead>
<tr>
<th>Hypo Re-Calc Event</th>
<th>63%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonus</td>
<td>5%</td>
</tr>
<tr>
<td>Commission</td>
<td>11%</td>
</tr>
<tr>
<td>Overtime</td>
<td>91%</td>
</tr>
<tr>
<td>Salary Change</td>
<td>67%</td>
</tr>
<tr>
<td>Family Change</td>
<td>15%</td>
</tr>
<tr>
<td>Regulatory</td>
<td></td>
</tr>
<tr>
<td>Equity</td>
<td></td>
</tr>
</tbody>
</table>

Hypothetical Withholding – Success Rate

We asked participants how successfully their processes estimate the amount of hypothetical withholding due at tax preparation time.

What is the gap between hypothetical withholding deducted and actual amount of tax due?

- About Even: 77%
- Underpayment: 12%
- Overpayment: 11%

Process Audit

53% of participants reported that they audit their processes on a regular schedule.

<table>
<thead>
<tr>
<th>Audit Type</th>
<th>Every Pay Period</th>
<th>Month</th>
<th>Quarter</th>
<th>Year</th>
<th>Responsible Party</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assignment Balance Sheets</td>
<td>19%</td>
<td>44%</td>
<td>12%</td>
<td>25%</td>
<td>Payroll</td>
</tr>
<tr>
<td>Split Payroll Delivery</td>
<td>15%</td>
<td>54%</td>
<td>0%</td>
<td>31%</td>
<td>Payroll</td>
</tr>
<tr>
<td>Shadow Payroll = Zero Net</td>
<td>9%</td>
<td>36%</td>
<td>8%</td>
<td>47%</td>
<td>Payroll</td>
</tr>
<tr>
<td>Total Compensation Collection</td>
<td>16%</td>
<td>32%</td>
<td>24%</td>
<td>28%</td>
<td>HR/Global Mobility</td>
</tr>
</tbody>
</table>
Key Findings: Based On Participant Responses

Providing Self Service

Participants do not always provide self-service, leaving a gap in the information provided to assignees.

- **Is ESS available in the home country?**
  - Yes: 85%
  - No: 15%

- **Is ESS available in the host country?**
  - No: 75%
  - Yes: 25%

Functions Participants Were Most Likely to Outsource

- Hypothetical Withholding Calculations: 75%
- Assignment Balance Sheet Updates: 50%
- Global Cost Estimates: 48%
- Shadow Payroll Reporting: 40%
- Split Pay Calculation / Auditing: 40%

Functions Participants Tended to Keep In-House

- Letters of Assignment: 75%
- Payroll Reconciliations: 74%
- Initial Balance Sheets: 68%
- Instructions to Local Payrolls: 68%
- Total Compensation Collection: 64%
Best Practices on Expatriate Payroll Administration

Influencing Methods for Split Pay Delivery

- Basing the split on company policy is the simplest method
- Some host countries will mandate split delivery
- Effective split pay administration requires global oversight of pay delivery

Collect and Reconcile Your Payroll Data Frequently

- Reconcile local payroll results
  - Confirm assignment-related amounts are delivered accurately
  - Monitor for supplemental payments that may require additional hypothetical withholding
  - Verify local taxes / deductions are withheld on a consistent basis
- Collect TOTAL compensation frequently – include non-payroll amounts

Communicate

- Track business travelers –
  - Days in country
  - Reason for stay in country
- Communicate with international assignees –
  - Give notification in advance and explanations for changes in compensation
  - Give visibility to compensation delivered in both home and host countries

Overall Conclusions

- Best-practice administrative programs require continuous improvement
- Key to success: simplify and standardize processes across the enterprise

Shadow Payroll Administration Requires Planning

- Assess shadow payroll reporting requirements and frequency – consult your tax partner
- Agree on currency exchange rates
- Agree on method and frequency of communication
- Establish audit procedures

Shadow Payroll Processing Requires Auditing

- Shadow payroll reports should be produced on a per-pay-period basis
- Shadow payroll processes should be audited monthly to ensure:
  - Reports reflect total liability
  - Exchange rates are properly applied
  - Shadow payroll process produces ZERO net pay

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