



As globalisation becomes a reality for many payroll departments, *Ian Thompson* looks at the complexities of running an expatriate payroll.

All around the **WORLD**

Hard-pressed payroll managers, in common with many other professionals, may find themselves attracted by the idea of working overseas, living the well-paid ex-pat lifestyle glamorised by the media. After all, who wouldn't want lunch in the shade on the clubhouse terrace?

Ex-pat migration is seldom speculative

The desire to escape grey skies is seldom the reason that ex-pats choose to

leave their homes (but not always their families) behind to seize a good opportunity in foreign climes; it usually comes about because the person has been asked to work overseas on something that requires a special skill-set that cannot be obtained locally. In fact, the skills needed may be so important or hard to find that the employer offers large inducements to get the right person, especially where the appeal of the destination country is questionable.

From the payroll perspective, there are two types of expatriate: those who

migrate overseas with no intention of returning, and those whose job takes them abroad for a period of time before they come home.

Because those who are only there for a set amount of time are normally still considered resident in the UK, the tax status of these employees when overseas is quite different to those of straightforward immigrants. Moreover, their pay is not coming from the country where they are temporarily residing – it is paid to them from the country they left.

Climbing the corporate ladder

Many people become expatriates as part of their climb up the corporate ladder; spending some time overseas, getting to know a country, its economy, the in-country people or their clients.

Because people taking an expatriate posting are considered to be valuable assets to their employer, they are generally looked after very well, especially at senior level. This might include:

- rent-free or subsidised accommodation
- utility/phone bills paid
- household/gardening staff provided
- clothing allowance
- entertaining allowance
- car(s)
- chauffeur(s)
- school fees paid
- club subscriptions paid
- free or subsidised flights home.

The payments of such benefits are often subject to both tax and National Insurance contributions (NICs) and it is important, therefore, that payroll is included in discussions regarding payments to be made and receives a copy of the contract, including amendments.

They may also need to correspond with their counterpart in the host location to ensure that local payroll obligations are being met on a timely basis.

Cost of living allowance

Perhaps this is why the ex-pat lifestyle is considered to be so glamorous. A cost of living allowance can be interesting – it can be so much more expensive to live in a Scandinavian country, for example, than in the UK, so expatriates receive a “top up” to cover the perceived difference. In many cases this will be taxable and will need to be included in payroll and grossed up to ensure that the expatriate does not see his top up being eroded with taxation. Sometimes though, fluctuations in exchange rates can mean that the top up can suddenly become a very significant sum and fluctuations during the year can result in too much being paid. This can be adjusted for by carrying out a “negative gross up” which is a very complex payroll calculation indeed, and not for the faint-hearted. In such situations, PAYE will be overpaid and can only be adjusted “in year” by putting negative pay through payroll. In my experience, not all payroll systems

accept negative adjustments and in such situations the only solution may be to reduce other taxable pay items to correct overpaid PAYE. Correcting the payroll is often not the only challenge, explaining these changes to the expatriate to help them understand what is happening often takes a lot of time and early communication to head off the confused expatriate can save time.

Expatriates can be paid in more than one currency, and often need more than one bank account – one in the temporary country of residence, and another at home. Where there are no fluctuations in pay and deductions and clear instructions are given by the expatriate, this should be manageable. Any change to pay and corresponding deductions needs to be communicated to the expatriate, who may have fixed amounts paid into his UK bank account to meet fixed expenses, such as mortgage interest payments, to allow him to make other arrangements.

Long-distance information

It is perhaps for these reasons that expatriates might not be as well served as they wish when it comes to the detail of how their employers actually deliver on the promised remuneration package – especially when trying to sort out discrepancies from a different time zone. It may not be all that easy for the employee to call the payroll department or gain an email response.

Managing the employee’s expectations before he leaves, by meeting with him and providing some sample calculations, can help to avoid potential problems – as can working with your counterpart in the overseas location who can be a “go to” person for the expatriate when he has an urgent question that he needs help with out of UK working hours.

Knowledge

Nor is it easy for payroll managers without experience of running expatriate payrolls to deal with queries as quickly as they might wish. It is a highly complex area where expert advice may be needed. Of those items listed above, do you know which are taxable? How many are paid net and the gross has to be calculated? What the NI implications are? How you calculate pay in multiple currencies and pay it into more than one account?

The outsourcing option

Many companies outsource the calculation of their expatriate pay – quite often to their accountants. However, regulatory constraints may prevent some firms from providing payroll services, while others are more enthusiastic about providing payroll services than others. A number of payroll outsourcing companies also deal with expatriates. But growing globalisation means that smaller companies are looking for expatriate expertise and specialist tax knowledge, yet they don’t have the luxury of large budgets and are turning to smaller firms.

“In our experience, more companies talk to firms like ours for our deep specialist expatriate tax knowledge that we apply at a more reasonable cost than the Big 4. We often find that the problems result where management in smaller companies try to implement complex arrangements involving payrolls in home and host country and hypothetical taxes, without a complete grasp of what they are getting into. My starting point is always to understand the objective of such arrangements and find a simple solution, such as one payroll in one currency,” says Struan Mackenzie, a Director of Buzzacott Livingstone.

Equally, most general payroll software cannot deal with expatriates, with payroll staff having to carry out complex additional calculations in spreadsheets to (hopefully) arrive at the right answer. It is perhaps no coincidence that 17 of the top 20 accountancy firms, along with others such as Liberata CSL and LogicaCMG, all use the same payroll software, relying on its optional module for expatriate calculations.

Payslips can also be problematic. Just because your software can turn a payslip into a PDF doesn’t make it tamper-proof. It is easy to turn a PDF into a Word or Excel file. Let’s add an extra zero or two, shall we? Therefore being able to view a payslip on a secure website is a bonus. It can be called up and printed, anytime, anywhere, but it cannot be edited in the same way as a PDF. The website should also keep previous payslips to reduce the likelihood of calls and emails to the payroll department asking for duplicate payslips.

Training for this area of payroll is not on the radar of most payroll training companies; consequently, those who have good knowledge of the subject are in demand and command a premium salary. HMRC understands that for many employers who have only a few expatriates this represents a complex area and are only too willing to help companies get it right and will give advice by phone. Otherwise some of the major expatriate tax advisors run courses over one or two days covering the basics.

Global market

Certain types of work have always featured in the expatriate world: oil companies, banks, shipping, and so on. But as globalisation spreads and more companies see the world as their marketplace and become established in more locations, the number of expatriate opportunities is growing. This means more people with knowledge of ex-pat payroll and HR issues are needed.

It isn't just a question of people leaving the UK. Many foreign companies are represented in the UK and have staff from the home country based here for a period of time. Between them, merchant banks in the City have thousands of expatriate pay calculations to do each month. Strangely, other likely areas, such as football clubs (who have a few very well-paid non-nationals on their books), seem to have little interest in considering their expatriate payment arrangements.

When employees arrive in, or leave, the UK for a period of time different rules can apply for tax and NICs. For example, employees arriving in the UK may not have to pay NI for the first 12 months and different rules apply to those coming from EU than those from outside. The UK has entered into Totalisation Agreements with various countries around the world and under such agreements, where an employee is assigned either from or to the UK, he has the right to remain in his home country social security system. So a UK national assigned to another EU country can continue to pay NI for one to two years by applying to the HMRC Centre for Non Residents in Newcastle on form CA8421 for a Certificate of Continuing

Example

An employee is paid a gross salary of £60,000 per annum and receives net cash benefits of £24,000 per annum.

	Annual (£)	Monthly Salary (£)	Benefits (Company covered) (£)	TOTAL (£)
Salary		5,000.00		5,000.00
Taxable salary		5,000.00		5,000.00
Benefits	24,000.00		2,000.00	2,000.00
Net pay		5,000.00	2,000.00	7,000.00
Gross up			1,333.33	1,333.33
Total salary/ Benefits		5,000.00	3,333.33	8,333.33
Tax		1,311.18	1,333.33	2,644.51
Employee receives		3,688.82	2,000	5,688.82

Coverage E101. On the other hand, a US citizen assigned to the UK can apply to the US Social Security Administration to remain in US social security for five years, during which period he will not be subject to NI. For the payroll manager, this means checking that the certificates are in place and setting up a tracking system to monitor when certificates expire or to seek extensions, unless the payroll or HR software they use does so for them.

Employer considerations

When an employee's pay consists of a mix of gross to net and net to gross calculations (see example) the employer can choose whether the employee or the employer gets the advantage of the lower rates of taxation and allowances. This will, of course, depend upon whether tax-free pay and lower tax rates are available. In most instances, the employer will usually let the employee take advantage of the lower tax rates and the employer gross up will be at the higher rate as in the example.

Employee considerations

For NICs, the payroll department must identify an employer's NIC exemption for a particular employee. This can be done by asking where the employee has come from, is he being employed locally or on assignment, does he have a certificate of continuing coverage to social security in his home country or is he from a country where there

is no Totalisation agreement and he is exempt from paying NICs during his first 52 weeks in the UK. Once the exemption has been noted, the payroll manager will need to monitor the period of exemption – perhaps through the payroll or HR software – or if no facility exists, in a diary or spreadsheet reviewed at the beginning of each month. They must set the date of arrival for the employee, as the department will need to know when the employer's NIC liability will re-start 12 months hence.

An employee who is not ordinarily resident can have a percentage of their income relating to work done outside the UK exempted from tax when he receives a S690 ITEPA 2003 determination from HMRC.

Don't worry, be happy

Needless to say, companies must have the right ex-pats with the right skills in the right place – and the right arrangements to handle payroll administration and processing.

Fortunately, payroll managers need not go it alone. They can call on professional advisors, in addition to expatriate specialists – as well as guidance from HMRC at: www.hmrc.gov.uk/pdfs/nico/ni132/ni132-01.htm and www.hmrc.gov.uk/cnr/osc.htm.

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