



# **Global payroll management**

February 2019



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## Introduction

Over the past decade, international employee movement has significantly grown. With economies, knowledge, capital, trade and technology being highly interconnected, no business can survive without a global connection. Hence, there is a greater need for talent movement to ensure that the right people are available for the required jobs at the right places and at the right time.

## India story

In the past five years, India has seen a tremendous growth in almost all economic parameters. This is coupled with the Indian companies going

global which has fuelled employee mobility in India. Specifically, the reasons contributing to such trends are:

- **Significant increase in outbound investment** over the past few years. The growth is seen not only in the quantum of investments, but also the geographical spread that has expanded across sectors. Earlier the investment flow was directed towards countries with rich resources or countries that offer tax breaks. Now, there is enhanced interest towards countries in which new markets could be tapped.

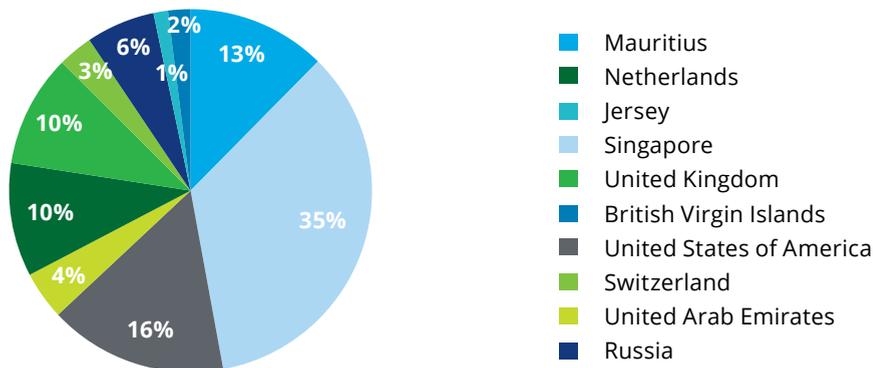
As reflected in the below statistics, the outward investment has moved from

US\$ 6.8 billion in the financial year (FY) 2014-15 to US\$ 14.8 billion in FY 2016-17.

### Fact sheet on Overseas Direct Investment (ODI) From April 2014 to December 2017 (Updated up to 31 December 2017)

ODI During: (figures in US\$ mn)	
Financial Year	Actual ODI Outflow
2014-15	6,800.85
2015-16	10,620.21
2016-17	14,801.20
2017-18 (up to 31 December 2017)	7,324.33
<b>Total</b>	<b>39,546.59</b>

### ODI (In US \$ Million) 2017-18 (upto 31 December 2017)



Source: Reserve Bank of India/ Department of Economic Affairs



- **Going global:** With globalisation, the businesses are no longer under the confinement of one jurisdiction. Increasingly, the corporates are looking to expand their footprints outside the home country to be successful. More and more Indian companies are getting into overseas ventures by looking at acquisitions for capability enhancement or

establishing overseas presence through subsidiaries and branches/ joint ventures. Thus, identifying new markets, exploring expansion opportunities, and increasing the global footprint seems to be the order of the day.

- **Shortage of employable talent** in developed countries and availability of an aspiring labour force in India has helped bridge the gap.

Developed countries face shortage of working people due to lower birth rates and ageing working population.

- **Talent growth through overseas assignment** is one of the key expectation of most employees. Most companies encourage this for greater knowledge collaboration and skill transfer within the group.



## Employee movement: types of moves

The types of move are determined by factors such as the nature of job, duration, immigration restriction posed by countries, employee preference, company policy, etc. Keeping in mind some of these factors, the employer may send employees for different purposes such as business travels, short-term/long-term assignments, etc., and the company would need to take care of tax and payroll aspects.

In the case of **business travels and short-term assignments**, the payroll may not shift to the host overseas country. Thus, the employer will have to ensure that the payroll-related compliances are abided in both countries. The key would be to manage compliances, while optimising the costs.

In the case of **long-term assignments**, the employers may either continue with home payroll or have a payroll split where they pay salary in both countries. In such cases, payroll compliances need to be taken care in both countries. Generally, a payroll shift is preferred to optimize compliances in both countries or address various tax considerations.

The recent trend shows that a payroll shift is being looked at closely especially in case of **permanent transfers**. However, the employee may need to give up the benefits of social security in home country that he would have otherwise enjoyed.

In situations where the employer continues payroll in both countries and where the employer may not have an overseas entity (branch, subsidiary), taking care of payroll compliances could be a challenge.

While there is a need for such companies to be cognizant of the payroll and compliance requirements for such mobile population, the challenges faced by them are immense.

## Challenges in Global Payroll Management

Organisations are increasingly becoming borderless. However, countries are becoming more and more conscious of the tax revenue that they are entitled on account of people working within their boundaries. Generally, employers are held responsible for employee tax withholding irrespective of whether they have presence in the overseas country or not. Failing to do so can encompass fines and penalties. Achieving efficiency, effectiveness, and accuracy at an optimum cost would be a challenge for any organisation.

- Global surveys indicate legislative compliance as the biggest concern for employers.
- Frequent changes in tax laws followed by adhering to payroll processes and finding the right global vendors are other challenges that employers grapple with.
- Incorrect withholding and under/over reporting are the most frequent payroll errors.

The common challenges that the companies face when dealing with multiple country compliance are:

- **Accurate and timely compliance:** Inaccurate and insufficient data may have significant variation in taxes and companies may face litigation along with possible penalty and interest.  
  
Worldwide, most revenue authorities are conscious of this compliance gap and hence, scrutinise payroll data closely. Employers struggle with compliances and reporting timelines in different tax jurisdictions for the same source of income for e.g.: some countries permit deferral of income and their taxation while others like India, in most cases, would generally tax income in the year it accrues and is due to the employee even if it's received later. Deferred incentive plans, stock award schemes, and benefit/perquisite accounting have been identified as areas of tax leakage in most countries.
- **Real time reporting/data sourcing:** Due to different fiscal years and different pay dates across countries, there is a delay in reporting between countries, as data may not be readily available or complete.



- **Vendor management:** Having a different vendor as per location creates coordination issues for the employer. There may be issues in understanding and interpretation, which may lead to inaccurate reporting and penal consequences. The cost of execution when multiple vendors are involved is likely to increase.
- **Data security** is another challenge, which the employer needs to address. The employer is required to use e-rooms or transfer data through secured platforms to ensure that data reaches the intended recipient. Considering that the regulators are taking data privacy laws seriously, data protection is becoming increasingly important.

Different requirements, due dates, and taxation of components makes payroll compliance across jurisdictions challenging.

## Options in Global Payroll Management

As organisations continue to grow, the quest for addressing recurrent challenges in payroll compliances persist. In such a scenario, the alternatives that the company has at its disposal are:

### Develop in-house teams

Employers having a significant employee movement to specific locations may look at developing in-house teams to run payroll for its overseas employees. Wherever home country runs the actual payroll, the host country would need to run a shadow payroll. Developing in-house teams could be challenging as there is lack of knowledgeable and experienced staff geared to learn, interpret, and implement the regulations in foreign jurisdictions. While some countries have a simple pay structure and tax system that is easy to follow, others may have complex calculations and heavy compliances that would be difficult. Western European countries such as Italy, France, Belgium, Germany, etc., have complex payroll processes. United States levies a high penalty for any missing details/shortfalls. Changes in tax laws, processes, and multiple interpretations add to the misery. At times, the language (e.g., Chinese/Russian/European, etc.) would also be a challenge.

To develop in-house teams, it is necessary that the teams are constantly updated on the changes and ensure that due processes are followed.

### Multiple country payroll vendors

Most companies, especially, those exploring emerging markets connect with payroll vendors in the various locations to cater to local country requirements. By doing this, they ensure that there is clarity in interpretation and timeliness in operations.

However, this may turn out to be a costly affair if there are no volumes to economise. Further, since the information has to flow to the vendors, it is possible that information may slip through the cracks. Dealing with multiple vendors, providing information in specific formats and in a timely and accurate manner can be cumbersome, and hence a team may be required for managing such correspondence.

### Hybrid method

Some companies find a midway and hire payroll vendors for complex, low-volume jurisdictions, while others are managed in-house.

### Global Payroll vendor

In many countries such as the Netherlands, Belgium etc., a possibility for eliminating the need to file tax returns<sup>1</sup> could be explored if the tax authorities are fairly satisfied of the accuracy of tax withholding and an agreement is reached with them. It is expected that with automation and use of technology, payroll processing could be a recurrent and fairly streamlined process. Hence, more and more HR teams are considering to outsource this function and concentrate on more challenging and value enhancing jobs.

A global service vendor offers a unique solution for the tax and social security compliance related issues by providing payroll services for most countries across the globe. The limitation of “number of employees per location” or getting updated information on amendments in laws and connecting with several vendors is taken care by a single vendor. With the help of technology tools and automated data uploading and dissemination, the payroll gets processed in minutes accurately. At the same time it may cater to the shadow payroll process in the host country. Thus, the employer moves away from a fragmented uncoordinated system to a unified solution where the data collation and distribution is coordinated in line with the specific country requirements.



<sup>1</sup> Certain additional conditions to be met

## Conclusion

While companies grapple with multiple payroll compliances, the optimum solution is dependent on facts such as the scale of operations, the countries that are covered, and future potential of growth. With a limited mobile population to specific countries, connecting with multiple vendors in host countries may work-out, especially, at the exploratory stage. Once the establishment has operations beyond a certain level, it would be extremely difficult to manage. In such cases, there is a need for automated process to take

care of the processes at the central and local levels.

Traditionally, most Indian businesses relied heavily on developing an in-house team, but lately this has become challenging for reasons mentioned above. In such a case, a unified payroll solution with automated processes could help in minimizing challenges for the company like centralised data collation, analytics, accurate and timely payroll compliances, data protection cost optimization.

In choosing a global vendor, the top three considerations are cost, global capability, and technology platforms.

Employers expect more from their vendors – more automation, reduced data transmission errors (automated data upload), and analytical reports on talent management. Early triggers for potential exposures in tax related areas and solutions to address the same are also expected.







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