



International
Payroll Compliance:
**Risks and Best
Practices**



EXECUTIVE SUMMARY

As more and more companies look outside the U.S. for expansion opportunities, global payroll is becoming a fundamental requirement for organizations across a range of industries.

In today's business environment, companies that fail to manage global payroll properly face limited growth prospects because they are unable to rapidly respond to international business opportunities.

But international payroll compliance isn't easy. Language barriers, country-specific employment laws and administrative complexities can make global payroll management a frustrating experience for companies that do business abroad.

The consequences of getting global payroll wrong are significant. Suboptimal systems and workflows result in wasted staff time that could be spent on more important tasks. Mistakes can be costly. From a risk perspective, non-compliance with local and regional labor regulations inevitably leads to fines and penalties.

And when international employees aren't paid, morale plummets—threatening the organization's ability to retain talented workers in offices outside the U.S.

Ineffective payroll systems and processes jeopardize employers' ability to convert international investments into bottom line profits. To avoid disasters, companies need to understand the international

payroll compliance risks and overcome payroll-related challenges in three key areas: legal, accounting and HR administration.

But industry leaders understand that compliance isn't enough. To make the most of their international expansion initiatives, savvy multinational companies implement best practices that allow them to leverage a combination of local expertise as well as globally standardized systems and processes.



INTERNATIONAL PAYROLL: WHAT'S AT STAKE FOR YOUR COMPANY?

As companies race to expand overseas, incidents of non-compliance with global payroll regulations are becoming increasingly common. For most companies, non-compliance isn't intentional—it's the inevitable result of systems and processes that aren't designed to manage a complex set of country-specific payroll requirements.

Whether it's intentional or not, non-compliance due to poor payroll management routines for international workers can severely limit your organization's ability to expand operations overseas. Common consequences of non-compliance can include:

Increased Risk

Global expansion is supposed to create additional opportunities for your business. But too often, expansion results in increased exposure to payroll compliance risks. Without the right systems and processes, businesses face the possibility of fines, legal action and the unauthorized disclosure of sensitive employee information—risks that threaten the company's reputation, legal standing and bottom line performance.

Higher Costs

In addition to fines for non-compliance, inadequate global processes can increase costs by causing payroll and HR process inefficiencies, especially if international payroll

systems aren't standardized or if the organization is forced to rely on multiple in-country payroll partners. Since greater complexity can easily translate into less efficiency, the total cost of international payroll can quickly dwarf the cost of payroll processes stateside.

Limited Growth

Today's business climate rewards companies that are positioned to nimbly respond to global business opportunities. When companies struggle to manage international payroll requirements, agile global staffing simply isn't realistic. In a worst-case scenario, payroll becomes the bottleneck that prevents the company from taking advantage of global business opportunities.

Employee Dissatisfaction

Payroll snafus send the wrong message to employees, especially if the company has asked the employee to relocate overseas. Payroll complications can present serious problems for international workers who aren't familiar with international banking systems and are unable to secure access to cash. If payroll problems persist, the end result is high turnover rates and the inability to retain talented workers.



PAYROLL COMPLIANCE IN LATIN AMERICA

Employment Contract Law 20,744 (LCL)

Applies a wide-ranging set of employment regulations to employers in Argentina. The LCL requires employers to immediately register employment relationships with workers in a Special Payroll Book that may be monitored by the Ministry of Labor. Companies that fail to meet the provisions of this legislation could be forced to provide significant compensation to employees.

Salary Increases and Employee Termination

As in the U.S., most Latin American countries have a minimum wage. However, in Latin America, annual wage increases are required and are based on inflation rates that are determined by governments in various Latin American jurisdictions. Also, although no South American countries adhere to the at-will termination policy that is common in the U.S., most countries allow employers to terminate workers by providing a severance package.

UNDERSTANDING GLOBAL PAYROLL CHANGES

Non-compliance with global payroll requirements is not an option for growth-minded companies. The risks are too great and global expansion is too important for companies to be held back by payroll workflows and processes that aren't up to the task.

Streamlined and simplified global payroll is within the reach of most organizations. But to get there, HR and payroll decision-makers need to understand and overcome the challenges that companies face when they expand internationally.

Legal

From a legal standpoint, global payroll is a minefield of rules and regulations that vary by country and jurisdiction. Rules that apply in one country or region may not apply in others, even if the countries are in close geographic proximity.

For example, some countries require employers to track religion or social insurance numbers. In other countries, it can take months to establish a

business number or fulfill other payment requirements. In the U.K., it takes 3-7 months just to open a bank account.

Likewise, country-specific HR laws can impact payroll routines. In London, sick leave regulations require employers to start paying employees on the fourth day. However, most U.S. employers aren't aware of this fact and begin sick pay from day one.

To make matters worse, country-specific laws and regulations are constantly changing. In fact, some countries are changing their employment laws in response to the growing number of businesses expanding overseas.

Case in point: in 2014, an administrative tribunal in the Australian state of Queensland ruled that employers with operations in Australia risk breaching discrimination and privacy laws if they ask job applicants and employees to

Accounting

Geographically diverse payroll requirements also introduce a new layer of complexity into the organization's accounting systems. The unique rules and regulations of various countries can significantly impact payroll-related accounting procedures.

"International payroll carries many hidden pitfalls that can distort profitability trends," says John Galvin, founder of the international accounting, tax and payroll firm, Galvin International. "For example, in certain countries employees can receive thirteen or more

provide personal information that is standard in other global jurisdictions.

To mitigate the confusion around country-specific legal requirements, some companies have created homegrown, piecemeal global payroll networks of in-country payroll partners. But more often than not, the in-house development of provider networks has made the situation even worse because in-country providers haven't been properly vetted.

monthly payments rather than twelve. This requires a double payment in certain months of the year. The challenge for the accounting team, particularly if they are in a remote location, is to understand the nature of the payroll payments."

It's not practical for most small and medium-sized businesses to manage accounting for international payroll in-house because each country has its own set of filing, recordkeeping and GAAP requirements. So, businesses are often forced to turn to local accounting suppliers. And once again,

PAYROLL COMPLIANCE IN EUROPE

Working Time Directive (WTD)

Provides blanket rights to employees through the European Union, including a recommended workweek of 48 hours or less. Although WTD legislation varies by country in the EU, similar directives can be found in other parts of the world.

Data Protection Directive

Regulates the protection of personal data under a National Data Authority in EU member countries. U.S. firms are required to self-certify on data protection practices through the U.S.-EU Safe Harbor Framework.

PAYROLL COMPLIANCE IN THE ASIA PACIFIC

Labor Law of the People's Republic of China

Address working conditions, wages, work hours, training, employment contracts and more. In many cases, provisions are extremely detailed, increasing the risk of non-compliance for foreign firms with workers in China.

Social Insurance and Housing

In China, social security is legislated by the central government, but administered at the local level. Although necessary, the disparity complicates payroll because social insurance and housing regulations vary from region to region.

local vendors present serious threats to payroll compliance and efficiency.

In many cases, local accountants lack the level of sophistication and competency that global companies expect and need to comply with internal policies and procedures. Furthermore, the use of multiple international accounting suppliers usually means that companies must navigate a diverse set of accounting systems and solutions, rather than an efficient and integrated accounting platform.

Treasury management is another global payroll challenge that companies must address. In

addition to managing country-specific payroll reporting and filing requirements, companies that expand overseas need to manage currency rates, exchanges and other treasury-related concerns.

The possibility of tax audits presents an additional concern for companies that do business in foreign countries. "It is a safe assumption that employee taxes can be heavily scrutinised and subjected to tax audits in every country where a company operates. Tax audits are performed by local tax authorities, who have sweeping powers to conduct detailed financial investigations often many years after the event," says Galvin.

Companies that fail to maintain their international payroll records in line with local record retention requirements risk fines for non-compliance with local regulations and tax authorities can impose penalty tax assessments in the absence of sufficient data to prove otherwise.



HR/Administration

From an administrative perspective, the confusion surrounding global payroll requirements can make it difficult for HR teams to optimize payroll operations and processes.

Payroll management routines that have been implemented in the U.S. vanish when the business expands internationally because the use of ad hoc, in-country payroll suppliers precludes accurate or real-time performance monitoring. In general, HR managers may have little or no visibility to payroll accuracy, timeliness and other critical payroll performance metrics.

The ability to view and understand international payroll information has implications beyond HR. One of the challenges multinational businesses face is capturing the full cost of employment for their global workforces.

“Employers rely on payroll providers to capture cash compensation and, typically, perks and allowances that are paid directly to the employee,” says Mark Juneau, vice president

and director of Global Benefits Consulting at Alliant Employee Benefits. “However, this does not tell the whole story. For example, insured benefits are typically funded with premiums that are not broken into individual costs. Long-term incentives may be valued and accounted for with a completely separate system. There are other examples like this, which makes it difficult to paint a complete picture.”

The protection of employee data is also an issue, especially for companies that use new or unfamiliar in-country providers. Although some international jurisdictions have enacted legislation to ensure the security of employees’ personal information, many have not and data security continues to be a serious concern for multinational employers.

To retain employees and increase the satisfaction of international workers, HR executives need to know that their employees are being paid accurately and on time, and that their information is as secure as it would be if the employees were working in the U.S.





INTERNATIONAL PAYROLL BEST PRACTICES

Your company can't afford to drop the ball when it comes to international payroll. The risks and consequences are simply too great. To protect your company and ensure its ability to expand globally, there are several payroll compliance best practices that should be incorporated into your global HR strategy:



Respect the complexities of global payroll.

The worst mistake you can make is to underestimate the complexity of international payroll compliance. No matter how skilled your organization is at managing payroll in the U.S., global expansion presents new challenges that threaten your company's ability to operate overseas.

By understanding these challenges, you can mitigate the risks that global payroll presents to your business. More importantly, an appreciation for the nuances of international payroll compliance allows you to position your business for rapid expansion into new territories when opportunities arise.



Leverage local, in-country expertise.

You can't properly manage regional payroll requirements from a distance. Like it or not, you're going to need local knowledge and expertise to comply with payroll requirements in foreign jurisdictions.

But securing in-country expertise requires more than an ad hoc Google search. The key to equipping your payroll system with local knowledge is to work with a payroll partner that has thoroughly vetted in-country vendors in the countries where your company staffs workers.



Standardize globally.

Although it's critical to secure local expertise, it's also important to maintain unified global processes. As much as possible, your global payroll workflows should align and integrate with your organization's existing systems and solutions.

To protect operational efficiency and management reporting capabilities, look for an international payroll partner that consolidates real-time reporting, payroll administration and treasury management functions into a solution that also leverages the support of trustworthy local providers.

NOT YOUR GRANDFATHER'S GLOBAL PAYROLL SOLUTION

If you evaluated global payroll solutions years ago and came up short, you'll be happy to hear that the state of the art for global payroll has evolved rapidly in recent years.

Today, it's not uncommon for companies to have concerns about whether a payroll provider:

- Understands their organization's unique needs.
- Has adequate geographic coverage.
- Is familiar with all applicable legal and regulatory requirements.
- Can provide robust control and governance while minimizing payroll errors.

Recognizing the gaps in the marketplace, Blue Marble Payroll set out to revolutionize global payroll with a solution that eliminates the risks and takes global payroll to a new level, creating a powerful, affordable solution that is easier to use than most domestic payroll offerings.

Firms that are concerned about compliance issues and believe that there is no better solution than in-house payroll processing would do well to take a second look at the market's newest offerings.

PAYROLL COMPLIANCE IN THE MIDDLE EAST

The United Arab Emirates' Wage Protection System (WPS)

Requires all employers to pay workers using financial institutions that have been authorized and regulated by the UAE government. The UAE Ministry of Labor maintains the ability to monitor payments made to employees in real-time, allowing them to quickly penalize non-compliant employers.

Local Employment Contracts

Across the Middle East, workers are required to enter into employment contracts with local entities. Since work permits are only granted to individuals who enter into these employment contracts, foreign companies that lack a local corporate presence may be unable to employ workers in the Middle East.

CONCLUSION

The pressure to expand globally is increasing. Across a wide range of industries, small and medium-sized companies are targeting offshore locations to access new markets and to take advantage of production advantages that continue to draw manufacturers and service providers to specific regions.

The demand for global payroll expertise is also increasing as companies realize that offshore expansion exponentially increases their payroll-related risks and liabilities. The penalties

for non-compliance with foreign payroll regulations are stiff. But foreign governments are tightening payroll regulations even further in response to the influx of U.S. firms operating in their countries.

By understanding the legal, accounting and administrative threats international payroll presents to the organization, HR executives can make more informed decisions about the processes and systems they need to leverage global business opportunities.

For many small and medium-sized companies, the key to international payroll compliance is to partner with an experienced global payroll provider. Leading providers offer access to standardized payroll processes as well as a network of proven in-country suppliers—enabling the company to enjoy the security of a robust payroll system wherever their businesses take them.

About Blue Marble Payroll

Blue Marble Payroll was founded in 2013 by a team of industry professionals who were instrumental in creating one of the leading payroll and HR providers in the United States. We believe in “Unifying the World of Payroll” and our mission is to help small and mid-sized companies streamline their international payroll processes.

Blue Marble uses the same formula internationally that led to our success in the United States. We provide industry-leading technology backed by exceptional service at a reasonable cost. This is accomplished by forming partnerships with best-of-breed providers in every country that we serve and linking them together with Blue Marble’s proprietary web-based technology.

To learn more about Blue Marble Payroll, our innovative global payroll compliance solution, visit our website at BlueMarblePayroll.com or **contact us** today.