

# A simple introduction to dealing with expats

By John Galvin, ***Galvin International***

One of the most common questions I get from clients is how to deal with expats. This is not surprising as many companies expand overseas by relocating their existing employees into the new market. There are many commercial and continuity advantages for the company having expats set up a new operation abroad. Also an overseas move gives the employee valuable development experience

However dealing with expat employees is one of the most complicated issues that global payroll managers need to deal with. Expats involve a wide range of complexities that are unique from other areas of global payroll. It is also very hard for payroll managers to get good advice on expats. Many global payroll suppliers do not advise on or even provide service for expat issues. It can even be hard to find anyone to advise you how to tackle the problem step by step.



This article aims to give you an introduction to some of the basic facts about expats. It provides simple, plain-speaking answers to many of the most common questions I get asked about expats.

Please note that the rules governing expats vary widely from country to country. It is impossible to make a general statement that applies to all countries, so you should always check the specific facts of your case with an expert.





## What is an expat?

Let's start by defining an expat. An expat is someone who is outside his or her home country. So for example a German national who works in the USA will be an expat employee while they are in the USA.

## Why does this matter for payroll?

Payroll needs to know if an employee is an expat.

Otherwise payroll will assume that they are a domestic national and they will be treated like any other local employee. Expats may require any or all of their salaries, taxes and social security to be calculated and paid differently from other domestic employees in that country.

## How long is it before an employee becomes an expat?

Usually an employee who works overseas for a ►



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one-off, short assignment does not need to be classed as an expat. This is why staff who travel overseas for a conference do not usually need to have expat payroll treatment. The rules vary around the world, but many countries say that anyone working, for example, for six months in their country will become an expat.

### **What happens if an expat breaks their stay abroad by coming home briefly?**

Usually this has no impact on the tax rules. The rules measure the total amount of time an employee spends overseas, rather than the length of any one individual trip.

As a result employees who regularly travel overseas may need to be classified as expats, or as a particular category called ‘short term business visitors’. For these employees their total time abroad and where they are working should be monitored carefully.

### **Where should an expat be paid?**

Another question I am commonly asked is whether an expat should be paid in their home country or in their new country. Many clients assume that there are statutory rules for paying salaries overseas. They are often surprised to learn that in many countries, there are no rules to govern where and how salaries are paid to expats. This may allow you to continue paying an expat their salary in their home country.

However, you should remember that you will still need to pay payroll taxes overseas irrespective of where salary is paid.

### **What about work permits and visas?**

All expat employees are subject to immigration controls in the overseas country where they are working. They will need to comply with all relevant rules for business visas and work permits.

This affects payroll in at least two ways. Firstly, the correct visas and work permits must be obtained before the expat can gain entry to and work in their new country. Often this can be arranged in advance, but in some countries, the employee needs to be present overseas before all the approvals are granted. Payroll should make sure that the immigration paperwork is completed before applying changes, as delays often occur.

These immigration rules can also affect payroll in other ways. They may specify that, for example, an expat is on a certain type of visa, which means they must be paid in full or part locally.

### **Who sets the rules for expats?**

There are three types of rules which govern how expats are treated, namely the host country, the home country and any treaties between the two countries.



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## Host country

(Where the expat has relocated to work). Usually the host country will set the rules, which govern how expats are treated. They will specify under which conditions an expat needs to pay taxes in their country. They will also determine if social security payments are also needed, which filings need to be made, the amount and timing of payments and so on.

## Home country

(The expat's usual country of citizenship and/or residence). Often the expat will still need to file and pay taxes in their home country even if they have been working abroad for the full tax year. The USA, for example, requires citizens to file tax returns based on their worldwide earnings. There is a lot of complexity relating to citizens who have lived outside their home country for a long time or have changed nationalities. Payroll should ensure they have a full understanding of the expat's nationality and tax residency status.

## Treaties between the two countries

Countries can individually enter agreements with other countries to harmonise trading and tax matters between them. These can affect the treatment of expats who could otherwise be liable to tax in both countries. As an example, double

tax treaties are agreements between two countries, which usually mean that expats only pay tax in one of these countries.

## What currency should I pay my expat in?

This normally is driven by the country where the salary is paid. So if the expat is paid overseas, try to ensure they are paid in the common currencies of the country where they are working. Otherwise this can lead to extremely complicated payroll calculations and it may not be possible for other reasons. ■



John Galvin, CEO of ***Galvin International***, provides expert, independent advice for clients setting up global payroll. He also finds clients excellent international payroll, accounting and tax partners worldwide. John heads a team of global finance experts and a worldwide network of independent payroll, accounting and tax suppliers. He has 20 year's CFO-level experience with multinational blue chips and SMEs and has successfully implemented global payroll, accounting and tax in over 40 countries. If you have any queries about the information in this article, or would like to know more, please contact John at [john.galvin@galvininternational.com](mailto:john.galvin@galvininternational.com).