



Spotlight on shadow payroll
and the increasingly
global workforce of today

Date: 1 October 2020



Meet the Speakers



CHRISTINE KEILY

Chief Operating Officer

Christine has over 20 years' experience in global payroll, taxation and social security. As Chief Operating Officer, she is responsible for the delivery of a first-class service to Immedis customers from onboarding through to live running.

A graduate of Trinity College Dublin, Christine is an AIT Chartered Tax Adviser (CTA), an Associate of the Irish Payroll Association (IPASS) and has a Certificate in the Principles of International Taxation from the Chartered Institute of Taxation (CIOT).



EMMA MEEHAN

Head of Tax Services

Emma oversees the tax compliance function at Immedis and specializes in the management of tax compliance for globally mobile employees. She also has experience in advisory tax services for international companies with focus on employment tax, social security and other global mobility tax issues.

Emma is a Chartered Tax Advisor with the Irish Tax Institute, an Associate of the Irish Payroll Association (IPASS) and previously graduated from University College Dublin with a Bachelor of Business & Legal Studies.





AGENDA

- 01** Understanding Shadow Payroll
- 02** What is Global Mobility
- 03** Practical Application
- 04** When Shadow Payroll Might Not Apply
- 05** Effectively Utilizing Shadow Payroll
- 06** COVID-19 Impact

The Global Workforce

Increased mobility of global workforce creates many challenges for employers:



Increasing requirements globally to operate payroll



Faced with managing payrolls in multiple jurisdictions



Often with dual obligations for the same employee



How does that happen & how can it be managed?

Poll question 1

Q: How many globally mobile employees do you have in your organization:

- a) 1-50
- b) 50-100
- c) 100-200
- d) 200+
- e) Not sure

A photograph of two men in an office setting. The man in the foreground is wearing a blue patterned button-down shirt and is smiling broadly while holding a white tablet. The man in the background is wearing a grey button-down shirt and is also smiling. A large yellow banner with white text is overlaid across the middle of the image.

Understanding Shadow Payroll

Shadow Payroll

What is shadow payroll?

Employers with employees working in overseas locations, usually have two main areas of focus:

1. Payroll Tax Compliance
2. Employee Tax Compliance

The term "**shadow payroll**" is mainly used in the context of employees on international assignment.

Note: shadow payroll is not always required for employees on international assignment.

When is Shadow Payroll Used?

1. The basic concept of shadow payroll is that the employer reports compensation in one jurisdiction (host location) that is physically paid in another jurisdiction (home location)
2. The employer is usually required to do this when a payroll withholding tax obligation arises in the host location
3. This obligation arises because the employee is performing duties of the employment in the host location
4. Typically the employee will continue to be physically paid on the payroll in the home location where social security and pension contributions are usually maintained
5. The shadow payroll is operated in the background in the host location to calculate and pay over the withholding taxes due in that location
6. While the employee is aware that this is happening, it should have little or no impact on them – very much a background activity

Note: No net pay is delivered via the shadow payroll to the employee, however exceptions may arise if certain assignment related benefits are paid locally.

What is Global Mobility?

Global Mobility

The term "**Global Mobility**" is used to describe the movement of a workforce or part of a workforce from one country to another



Global Mobility is very important for businesses as it helps put the best people on the job, wherever that job needs to be. It helps leadership teams understand people better, wherever they might be based and it helps us deliver better service to clients



Global Mobility will often be a key component of a company's talent strategy as it effectively opens up further opportunities for companies to engage the right talent where it is needed.



Global Mobility requires co-ordination between many parts of a business from HR to finance to payroll, tax, business unit leaders and the employees



Global Mobility strategy must consider immigration, employment law, HR, personal tax and social security, relocation, pensions and benefits and of course payroll

Global Mobility Strategy

01

When looking at Global Mobility, strategy it is good to first consider the potential categories of mobile employees. These can include permanent transfers, long term assignees, short term assignees, business travellers and commuters

02

The strategy will include numerous policies, procedures and methodologies – there is no one size fits all. Each company needs to build a strategy that works for their own business and employees

03

Policies will be required on various topics which will include tax, social security and payroll. The importance of a well drafted policy cannot be overstated - it gives stakeholders a clear picture and drives efficiencies. It helps prevent delays for the business unit and protects against employee frustrations, it keeps HR happy!

04

Communication is key – HR, payroll, tax, finance, the business area, the assignees



OTHER CONSIDERATIONS:

- How big is your global mobility need?
- Is a dedicated resource (s) needed?
- Where does global mobility sit in the organisation?
- Is it a function in its own right?
- How does it link with payroll?
- Consider where payroll is managed – is it outsourced etc?

Tax Equalization and Tax Protection

01

The purpose of these policies are basically to protect employees from hardship arising as a result of taxes imposed in a host location

The overall aim of such policies is to make sure that employees are no worse off from a net pay perspective as a consequence of the assignment abroad (with equalization also ensuring that an employee is no better off)

02

03

Sometimes employers will therefore apply "hypothetical tax" in a home location in order to pay the employee the same net pay via the home country payroll as if they had not gone on assignment

Whether or not actual taxes remain due in the home location will be dependent on the employee's resident status and the specific rules of the jurisdiction

04

05

Double taxation agreements are usually helpful in alleviating a double tax charge on the same income but payroll compliance rules do not always provide for such relief in real time

Social Security Rules

1. It is very important that the social security position of the international assignee is carefully considered prior to the commencement of the assignment
2. Domestic legislation, EU regulations and Bilateral agreements may need to be considered
3. The correct country for the contributions must be determined
4. The social security position will not necessarily be the same as the tax position
5. Usually employees on international assignment will remain in their home country social security system but it is important to ensure that the correct documentation is in place to allow for exemption in the other location

CAUTION: There is a time limitation on social security arrangements – keep a close eye on the expiry dates of any certificates

Practical Application

How it Works in Practice

Establish the home country and host country in each case

01

Consider the home country requirements:

- Expected residence status of the employee?
- Is there an obligations for payroll taxes to be withheld?
- Are any exemption applications available?
- Is there an option to apply a real time FTC?
- Will hypotax replace actual tax withholding?
- Will social security be applied?

02

Consider the host country requirements:

- Employer and employee registrations?
- Is there a payroll withholding requirement, is a shadow payroll appropriate?
- Are the correct credits and deductions being claimed?
- Are there any specific expat reliefs available, is there a deadline for application?
- Will a re-gross calculation be required?
- Will social security be applied, are the appropriate retention certificates in place?
- How will you manage the payroll tax filings and payments?

03

Consider relocation, travel & subsistence rules in both locations:

- Tax exemptions
- Review periodically, e.g. if assignment is extended
- Other assignment related allowances, consider payroll treatment, are they paid net or gross?
- Keep up to date with legislative changes in host countries
- Per diems, different treatment in different countries

04

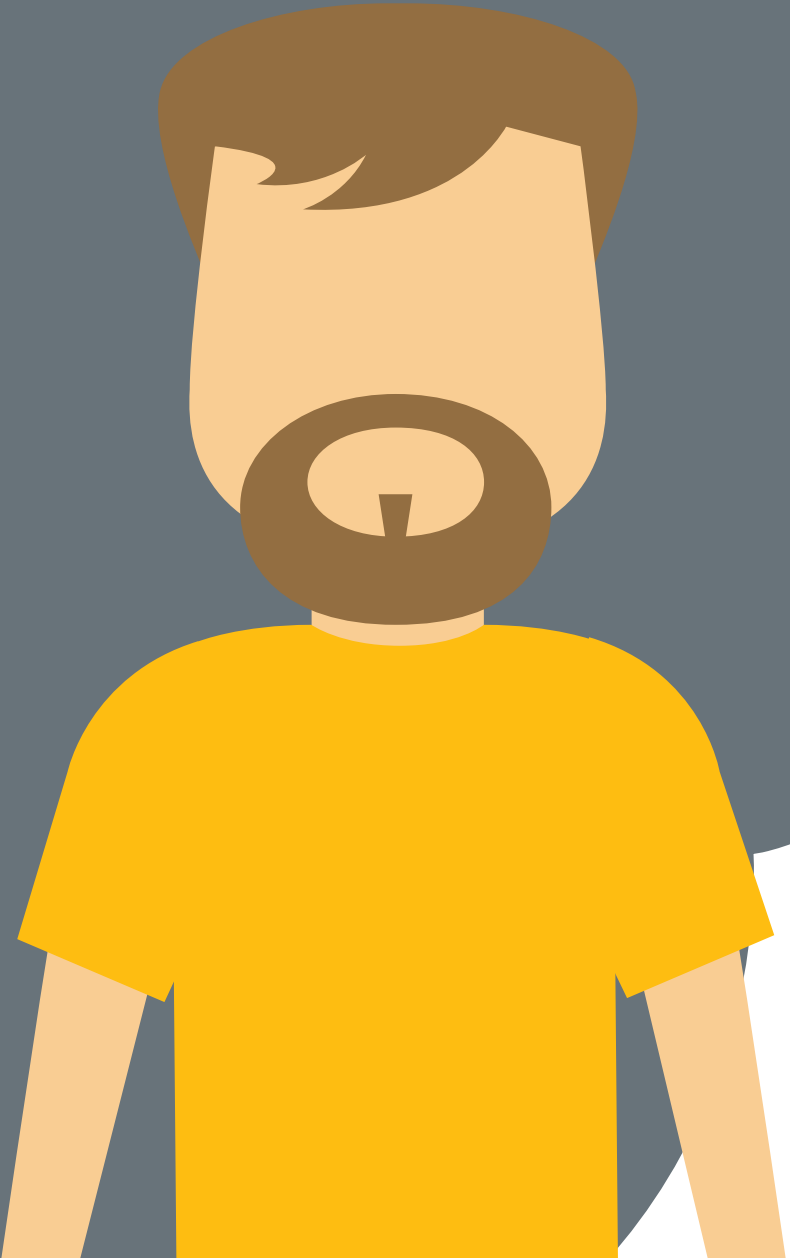
Consider the year end obligations:

- Y/E payroll tax reconciliations
- Y/E payroll tax filings in home & host countries
- Employee y/e tax filings in home & host countries
- Tax Equalisation y/e calculations
- Settlement of final tax positions

Case Study 1

Philip is assigned for 2 years from country X (in the EU) to country Y (in the EU)

1. Country X rules that Philip is exempt from payroll withholdings once a certificate of exemption is in place
2. Country Y rules payroll withholding must be applied
3. **Social Security position:** An A1 is obtained from country X in order to retain Philip in the social security system of country X and provide exemption from social security in country Y
4. Philip registers and obtains a tax ID number in country Y
5. Philip is added to the country Y payroll for shadow payroll purposes
6. A hypothetical tax calculation is done in country X
7. Philip is paid via county X payroll with social security, pension and hypotax deductions meaning his net pay is the same as if he were continuing to work in country X
8. No actual taxes are paid over for Philip in country X – hypotax used by employer to fund host taxes
9. Philip's salary and benefits are reported via the shadow payroll in country Y. An after-tax deduction equal to the net pay ensures that Philip is not physically paid in the shadow payroll location



Case Study 2

Barry assigned for 9 months from country X (in the EU) to country Y (in the EU)

1. Country X rules – payroll withholding must continue
2. Country Y rule - payroll withholding must be applied
3. Country X rules – real time foreign tax credit – application and approval required
4. Social Security position - an A1 is obtained from country X in order to retain Philip in the social security system of country X and provide exemption from social security in country Y
5. Barry registers and obtains a tax ID number in country Y and makes the real time foreign tax credit application in country X
6. Barry is added to the country Y payroll for shadow payroll purposes
7. Barry is paid via county X payroll with social security, pension and actual tax deductions.
8. Actual tax is reduced by real time FTC and therefore a hypotax deduction is required to maintain same net position as if he was working in country X
9. Barry's salary and benefits are reported via the shadow payroll in country Y. An after-tax deduction equal to the net pay ensures that Barry is not physically paid in the shadow payroll location



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When Shadow Payroll Might Not Apply



The local hire expat

Depending on the employer and employee's circumstances sometimes it might be possible for an employee to move fully to local terms in the host location

This would mean that:

- 01 The employee would cease employment in the home location and take up a new contract in the country of assignment

- 02 The localised employee would move to the social security system of the country of assignment and move to local benefits etc

- 03 There would be no need for him to be retained in home country systems

- 04 He would be physically paid on the payroll of the assignment location

- 05 **No shadow payroll requirement**

Case Study 3

Martin assigned for 5 years from country X to country Y

1. The employer and employee were happy for this to be on local terms
2. Cease employment in country X – exit criteria for country X – leaver docs
3. New employment contract in country Y
4. Tax registration in country Y required
5. Martin is added to country Y payroll and is paid via this payroll after the deduction of tax, social security and country Y pension
6. All ties with country X are broken
7. Potential tax filings in both locations – might be some benefits to be gained – consider policy
8. Assistance might be required for employee
9. When does it make sense to do this – lock stock and barrel move...
10. Other supports – sometimes there may be additional relocation reliefs available
11. Can often be the least expensive option for the employer





Exemption in host location

01 When an employee moves to a new location the domestic legislation of the jurisdiction and any double taxation agreement must be considered

02 The duration of the assignment, the employer presence in the location and the recharge arrangements in place must be considered

03 Sometimes it can then be established that the employee is exempt from tax in the location

04 It is important to obtain advice and make sure that the exemption extends to the employer's responsibility to withhold i.e. employee exemption under a treaty does not necessarily extend to the employer obligation - check

05 Sometimes upfront applications will be required – e.g. dispensation

06 **No shadow payroll requirement**



No Option for Foreign Employers

- 01 Not all jurisdictions require foreign employers to operate withholding taxes
- 02 Some jurisdictions have no provision for foreign employers to register and pay over withholding taxes
- 03 The employee taxation position still needs to be addressed
- 04 Sometimes in these circumstances the taxes are paid over with the employee's year end tax return (similar to how a self-employed person pays taxes)
- 05 Sometimes there may be a requirement for the employee to move to local terms (as mentioned above)
- 06 **No shadow payroll requirement**

Case Study 4

Mary assigned for 2 years from country X (in the EU) to country Y (in the EU)

1. Country X rules – Mary is exempt from payroll withholdings once a certificate of exemption is in place
2. Country Y rule – no facility for foreign employer to register and taxes must be settled by employee by annual personal tax filing
3. Social Security position - an A1 is obtained from country X in order to retain Mary in the social security system of country X and provide exemption from social security in country Y
4. Mary registers and obtains a tax ID number in country Y
5. A hypothetical tax calculation is done in country X
6. Mary is paid via country X payroll with social security, pension and hypotax deductions meaning her net pay is the same as if she were continuing to work in country X
7. No actual taxes are paid over for Mary in country X – hypotax used by employer to fund host taxes
8. Mary prepares and files (with employer assistance) a tax return in country Y at year end and the employer uses the hypotax fund to pay over the resulting tax liability
9. A tax return may also be required at year end in country X



Effectively Utilizing Shadow Payroll

Poll question 2

Q: How are you currently tracking assignees?

- a) Manual process
- b) Via technology
- c) Via a service provider
- d) A mix of tools
- e) Not sure

Preparation

Key Considerations

1. Important to review the global landscape and establish current and anticipated staff movements globally
2. Consider the reason/motivation for such movements – business related or to facilitate personal needs
3. Level of staff mobile
4. Grade of staff
5. Corporate presence in these locations
6. Social security rules
7. What are the options available as a foreign employer?
8. Expense management
9. The accidental assignee
10. Tracking

Building a Shadow Payroll Framework



01



02



03



04



05

Establish Guidelines & Procedures

Identify a process owner

Determine the processes and procedures required

Consider all compensation and understand the implications of that compensation

Define who is accountable for each step of the process

Define where the critical data is coming from and where it needs to go

Controls & Audits

Evaluate how and what data is collected

Compare that to the specific requirements for each country

Record Keeping & Reporting

Ensure record keeping procedures are in place to retain payroll records required by each jurisdiction

Consider requirements for regulatory reporting and compliance audits

Remember that fiscal year countries may have a year end different than the calendar year end

Training for Key Employees

Reduce non-compliance by ensuring that employees responsible for every step of the process are trained

Periodic and frequent updates should be standard to ensure new requirements in each country are known

Succession planning for key contacts is needed

Technology

Implement a system to assist with compensation and withholding calculations as well as reporting capability to meet requirements.



01 Non-compliance leading to fines in home and host locations

02 Incorrect treatment of assignment related benefits on actual and shadow payroll

03 Social security errors can lead to serious issues for employees in accessing benefits

04 Overpayment of home and other country taxes – often not recovered

05 Lack of clarity regarding employer tax policy can result in very unhappy employees and employer loss of revenues

06 Lack of capabilities of payroll provider to support requirements

07 Presumptions made when it comes to treatment of benefits

Requirements to Getting it Right



Country Requirements: It's vital to understand the specific requirements in host countries as these effect a number of key areas including the **compliance reporting** that will be required, and the **payroll process** itself whereby processing and frequency may differ in each country.



Operational Controls & Technology: Setting up a process and/or system to validate data inputs that is coming from multiple data.



Compensation Accumulation: Gathering data from multiple countries and multiple sources to meet deadlines that could vary by jurisdiction requires a combination of people, processes, and technology to succeed.



Cross-Functional Communication: Clear communication between Payroll/HR/Finance and any other functions involved in your global mobility programme is key. There should be regular communication in relation to new assignments and changes to any current assignments that may be extended or cut-short.



Employee Engagement: Employees should be made aware of relevant policies and given an understanding of the arrangements that are in place, why these are required and an understanding of the taxation on benefits they are being paid.



Technology: Business applications that support the process may have limited or non-existent integration, and local data privacy law may restrict ability to integrate.

Summary of Considerations

01

Payroll Withholding Obligations

These may exist in various locations. It is essential to consider both domestic rules double taxation agreements where applicable.

02

Personal Tax Implications

Personal tax implications may arise for employees where they need to submit personal tax filings. Domestic rules and double taxation agreements must be considered.

Social Security Compliance

All applicable domestic legislation, EU rules, and bilateral agreements must be reviewed. While people may have a preference, it is not a choice, and the rules dictate the final answer.

03

Corporate Tax Implications

Does the presence of the employee create a corporate tax presence and has a permanent establishment been made? Domestic rules and double taxation agreements must be considered.

04

05

Employment Law

Dictated by the jurisdiction, These change from country to country.

06

Classification of Employee

Decipher if the employee is an assignee, cross border worker, local hire, or other.

Employer Policies

Should you consider tax equalization so the assignee pays no more / no less tax than they would have at home or tax protection so that the assignee is reimbursed any excess taxes.

07

Risk Factors

Sometimes a lack of clarity in a location may mean that the risk-averse employer may have to invest a lot of time and money in liaising with authorities to get rulings.

08

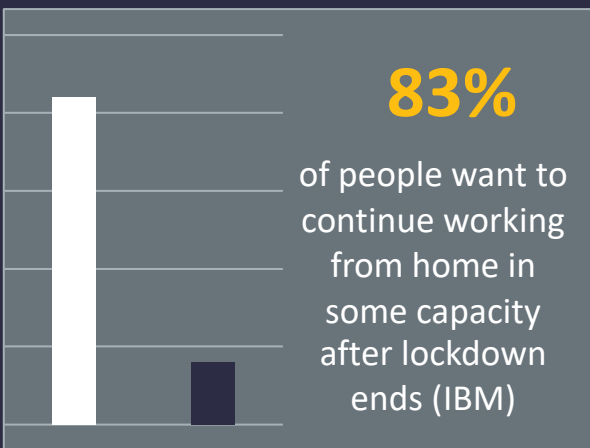
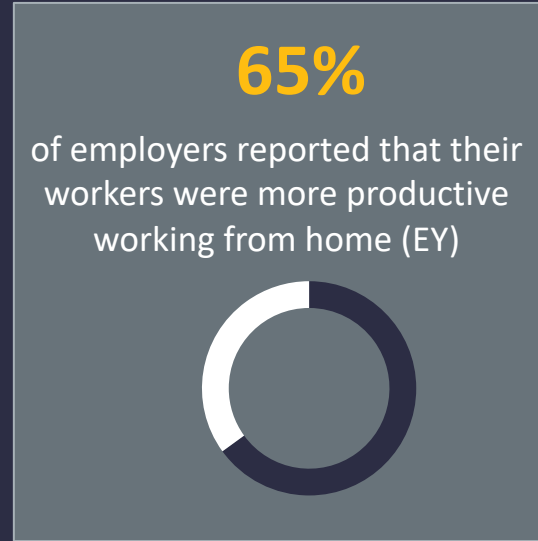
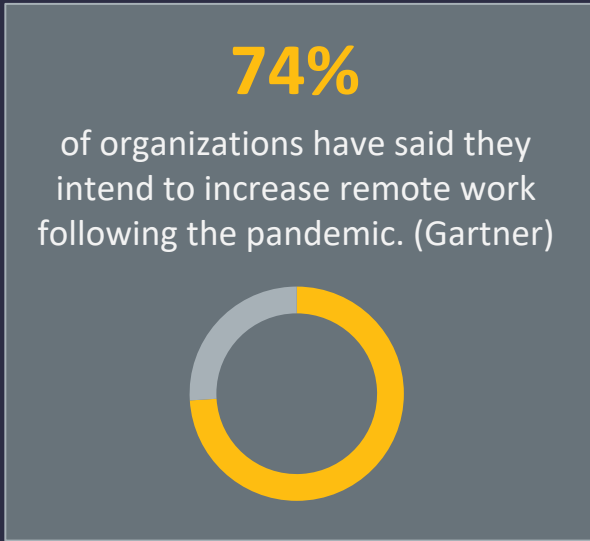
A man with a beard and glasses, wearing a dark blue shirt, is sitting at a desk in a modern office. He is smiling and looking towards the camera, with his hand resting on his chin. In front of him is a silver laptop. The background shows a whiteboard with architectural drawings and a blurred office environment.

COVID-19 Impact



Dashboard ► COVID-19 Trends

An estimated **2.7 billion people**, or more than four out of five workers in the global workforce have been effected by lockdowns and stay-at-home measures (Deloitte)



COVID-19 Impact

Key Considerations

1. Global lockdowns had an immediate impact on physical location of employees
2. How has the future landscape for global mobility and shadow payroll changed?
3. Global payroll compliance becoming more important than ever
4. Is there an increasing need for shadow payroll processing? Or is this a perception?
5. What other actions do employers need to consider?



The Impact in Detail



Impact on the assignee populations

- Assignments shortened resulting in early repatriation
- Employees stuck in a location resulting in assignment extension

&



Impact on workforces globally

- Working from home
- Employers now having to becoming more flexible
- Virtual assignments – a thing of the future?

Assignees Returning to Home Countries

- 01** The immediate impact of COVID-19 on global mobility was the return of globally mobile employees to their home countries
- 02** This meant that many assignments ended early, with employees returning home to work for their actual employer
- 03** Some assignments continued albeit remotely i.e. from home
- 04** It is important for employers to carry out a review of both the home and host country impact of assignees returning to home countries

Ongoing review of arrangements essential, what was relevant in month 1 of lockdown, may not be relevant in month 6



Case Study 5

Early repatriation – Maria assigned for 2 years from country X to country Y

1. Withholding exemption in place in country X, also retained under country X social system
2. Maria was placed on a shadow payroll in country Y
3. Assignment ended early and Maria returned to work for her employer in country X
4. Payroll taxes in country Y ceased immediately, potential refund of tax
5. Review options in country Y to seek refund via shadow payroll or through filing of personal tax return if taxes were overpaid
6. Payroll withholding is re-instated in country X
7. Review of the entitlement to withholding exemption in country X
8. Authorities in Country X had announced Force Majeure provisions would apply so as not to adversely impact Maria or her employer
9. Advisable for Maria to file tax returns in country X and country Y to close her tax positions

Assignees Extending Time in Host Countries

- 01 Depending on personal circumstances, many assignees may have decided to remain on assignment during pandemic
- 02 Due to worldwide travel restrictions, this may have led to some remaining in host country past the intended end date of the original assignment
- 03 It is important for employers to carry out a review of both the home and host country impact of assignees extending time in host countries

Ongoing review of arrangements is essential while the assignment continues:

- Could there now be a withholding obligation in the host country that didn't exist under terms of the original assignment?
- Treatment of assignment related allowances and benefits in home and host countries may change
- Look to demobilize or localize?

Case Study 6

Assignment extended – John went on a short-term assignment from country X to country Y

1. Country Y was locked down, but John agreed with his employer to remain in country Y to continue his assignment there as planned
2. John remained on the payroll in country X and payroll withholding continued to apply as usual
3. There was no obligation for John's employer to account for payroll taxes in country Y, no shadow payroll requirement
4. Due to lockdown periods being extended, John was not allowed to return home on the actual assignment end date
5. Impact on his actual tax residence position
6. Employer now required to operate payroll taxes in country Y via a shadow payroll, tax registrations, filings etc
7. No force majeure or COVID-19 reliefs available in country Y
8. In country X, a review of John's year-end tax position will be required to determine if a refund of taxes will be due
9. Advisable for John to file tax returns in country X and Y to close out tax positions



Work From Home (WFH)



With more employers now required to facilitate a WFH option for employees globally, we see an increasing trend in employees WFH in countries outside of country of actual employment



Increasing trend, not only to facilitate needs of employees, but more importantly for employers to maintain essential business continuity



Important considerations for employers in the WFH country;

- Payroll tax and social security
- Corporate tax presence?
- Local employment law
- Emigration, work permits, visas etc.
- Impact of cost to employers



Virtual Assignments

What is a virtual assignment?

Increasing trend of 'virtual assignments' which facilitate employees to carry out their assignment virtually i.e. remaining in home country whilst providing service for host country entity.

Will this be a way of the future?

- Virtual assignments will potentially redefine what we mean by global mobility into the future
- Reduced mobility costs as compared to traditional assignments
- Immigration matters still to be considered
- Will other benefits for the company be lost?
- Brings new set of concerns for employers, redefining HR and GM policies

Living With and Beyond COVID-19

Landscape for Global Mobility and Shadow Payrolls is changing rapidly

- **Flexibility** is now key and option to WFH will need to be addressed in HR policies for employers with globally mobile employees.
- Consideration of **contractual arrangements** will be important in determining the actual and shadow payroll obligations.
- Employers should also be considering the **tax and payroll obligations** in jurisdictions where an employee is working from home.
- **Corporate tax considerations** also come in to play.
- **Tracking employee movements** around the globe is now more important than ever.
- **Remote working** can bring great benefits but also costs .

THANK
YOU



QUESTIONS?