

Unlocking Global Potential

The Rise of U.S. Companies Hiring Globally and the Role of Global Payroll Professionals

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In today's interconnected world, the business landscape is undergoing a profound transformation. U.S. companies, both large and small, are increasingly expanding their horizons beyond domestic borders to tap into the vast potential offered in global markets. Opportunity to fill the labor deficit experienced over the past few years, access to new and diverse talent with firsthand cultural knowledge of an international client base, and the chance to cut costs while taking advantage of 24/7 operations over multiple time zones are major drivers toward international expansion – all of which help to foster growth and competitiveness. However, with global expansion comes a myriad of complex challenges, especially in the realm of managing a global workforce and ensuring compliance with diverse tax and labor regulations.

“Global business and international employment are hot right now. There's no way around that,” says Daniel Grace, Director of HR Consulting for IRIS Software Group. “But it's a complex issue and there are risks.” The success of such initiatives hinges on the ability to manage payroll and compliance on a global scale, seamlessly.

As businesses seek to harness the benefits of a global workforce, the intricacies of international payroll management become increasingly critical. Navigating the nuances of tax codes, labor laws, and cultural differences across borders can be daunting. This is where global payroll professionals come into play as invaluable assets to employers looking to thrive on a worldwide scale.



Global payroll professionals are the linchpin that ensures the smooth and compliant payment of employees scattered across different countries and legal frameworks. They possess the expertise required to navigate the complexities of international payroll, from understanding varying tax regulations and currency fluctuations to managing cultural nuances and time zone differences. Their role extends beyond processing paychecks; they act as strategic partners, offering insights and solutions that enable companies to optimize their global workforce strategies.

We will examine the challenges faced by U.S. companies expanding globally and explore best practices for achieving seamless and compliant global payroll operations. By understanding the pivotal role of these professionals in the ever-evolving landscape of international business, organizations can position themselves for growth, mitigate risks, and harness the full potential of a worldwide workforce.

FIVE FACTORS TO CONSIDER

Hiring internationally and managing global payroll can be complex processes for U.S. companies. Here are five key things to consider:

01

EMPLOYMENT REGULATIONS AND COMPLIANCE

Understanding the employment laws and regulations in the target country is crucial. Compliance with local labor laws, tax regulations, and immigration requirements is essential to avoid legal issues and penalties.

02

WORK VISAS AND IMMIGRATION

Expanding internationally may necessitate relocating U.S.-based employees to a different country to set up operations, familiarize foreign staff with company procedures and policies, and get things rolling. In such cases, employers may need to sponsor work visas or permits depending on the length of time a domestic employee will remain abroad. The process can be time-consuming and expensive, so planning and budgeting for these expenses is essential.

03

TAXATION AND WITHHOLDING

International payroll involves navigating different tax systems and withholding requirements. You must be aware of tax treaties and social security agreements and ensure proper withholding of taxes for both the company and the employee.

04

CURRENCY EXCHANGE AND PAYMENT METHODS

Dealing with multiple currencies can lead to currency exchange rate fluctuations, impacting payroll costs and affecting an employer's profit margins and bottom line. Experienced and reliable global payroll and international banking services are a must.

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GLOBAL PAYROLL PROVIDERS

While it all may seem overwhelming, there is help! Partnering with a global payroll provider can simplify the process significantly. These providers specialize in managing payroll across multiple countries and can handle compliance, tax calculations, currency conversions and more.

These factors will play a significant role in your success in expanding and hiring abroad. So, let's dive deeper ...

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EMPLOYMENT REGULATIONS AND COMPLIANCE

Employment regulations and compliance are paramount when hiring internationally for U.S. companies. Each country has its unique labor laws, some more stringent and complex than others.

“France is one of the most legislatively complex areas in the world regarding employment law,” Grace says. “And Germany has some unique labor laws as well.”

Understanding and adhering to these regulations is crucial to avoid legal and financial repercussions and to ensure a peaceful and productive working relationship with foreign employees. And it starts with making sure you’re hiring the right employees. If not, you’re stuck!

“In the U.S., a company can hire someone, but also fire them for any reason. In France, you cannot do that,” Grace says, noting a stark difference between the U.S.’s liberal “at-will” employment laws and Europe’s policies that are far more protective of workers. “Once you hire someone, they have a probationary period of just a month or even less. Once that is done, you’re effectively locked into that employment relationship, and it becomes very difficult to dismiss an employee without the court’s approval.”

While employment contracts typically are required only for higher-level workers in the United States, they are the foundation of the employer-employee relationship and, in many countries, are required for all employees. They outline the terms and conditions of employment, including job responsibilities, compensation, benefits, and notice periods for termination. Depending on the country’s labor laws,

these contracts can be highly standardized or may allow for more flexibility. Failing to draft compliant employment contracts can lead to misunderstandings and disputes that may harm the company’s reputation and legal standing.

Regulations regarding working hours also vary widely across the globe and can be stringently regulated. In some countries, there may be strict limitations on the number of hours an employee can work per week, while others may allow more flexibility. Additionally, certain industries or positions may have specific overtime pay and rest periods rules. For example, Germans can only work five or six days a week for a maximum of 48 hours and no more than eight hours daily. Between shifts, they must be allowed at least 11 consecutive hours of rest. If that rest period is interrupted due to business reasons, the 11 hours will start back from zero. Employers cannot allow pregnant and breastfeeding mothers to work between 8:00 PM and 6:00 AM. And Germany’s Hours of Work Act mandates that most stores close on Sundays and public holidays.

Minimum wage laws dictate the lowest amount employers can pay their employees. Of course, we have those laws in the United States as well. But here, states, counties, and even cities can set their minimum wage rates, and the nation has no legal requirement to review and adjust minimum wage periodically. In many other countries, minimum wage is set by or according to national law. At least 80 countries have an explicit requirement to revisit rates every so often – in most cases, annually or once every two years. Failing to pay employees at or above the minimum wage can result in legal penalties and damage the company’s reputation.

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WORK VISAS AND IMMIGRATION

Setting up and maintaining an effective global operation invariably requires some travel back and forth. An employer may need to send a U.S.-based employee to the new foreign market to manage the setup and launch of operations there, which may take a few weeks or even a few years, depending upon the size, coverage, and complexity. A foreign worker may need to spend time at your domestic offices to familiarize himself with a company's operations, policies, procedures, etc.

In either case, learning work visa and immigration procedures is a critical aspect of international hiring for U.S. companies, starting with understanding the various types of visas and which ones you'll need to help employees secure. Employment visas, business visas, and temporary work permits may be necessary based on employees' roles, the nature of their work, and the duration of their stay. Misclassifying the visa type can lead to visa rejections and potentially pricey legal issues.

Applying for work visas and permits can be a complex and time-consuming process. It typically involves gathering extensive documentation, such as employment contracts, proof of qualifications, and background checks. Plus, the application process may include interviews, medical exams, and security clearances. Delays can occur for various reasons, including high seasonal demand, changes in immigration policies, or administrative issues. And, of course, all of this can come at a significant cost when you add up application fees, legal fees, and other costs associated with employee relocation and visa renewal. Any U.S. employer's best bet is to get the process started as early as possible and to connect with consultants already familiar with the nuances of the application process to ensure timely approvals.

Remember that if your U.S.-based employee's tenure in a foreign country is longer than expected, you may need to renew their work visas to prevent legal issues and work interruptions – And that can prove just as complex and costly as the initial application.



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TAXATION AND WITHHOLDING

Managing taxation and withholding when operating internationally is a multifaceted and crucial aspect of global payroll for U.S. companies. To ensure compliance and minimize potential financial and legal risks, it's imperative to grasp the intricacies of tax systems, understand international tax treaties, and execute accurate tax withholding procedures for the company and its employees.



Every country has its tax system, including income tax, social security contributions, and other levies – and they may work very differently than their U.S. counterparts. These systems can vary significantly regarding rates, thresholds, and tax brackets. Plus, many countries have tax treaties or agreements with one another to prevent double taxation and promote cross-border business activities. These treaties can affect income taxation, such as dividends, royalties, and salaries. They can come into play if an employee lives in

one country but works in another - For instance, employees who live in England but work in Scotland. That's an increasingly complex issue. Because so many jobs are remote post-COVID, many people live in one country but work in another – Such is the case for 1.3 million Europeans.

“Because people can work anywhere now, many are looking at moving to lower tax regions,” said Matt Sheridan, IRIS’s Head of Sales. “Instead of working in France or Belgium, where tax can be as high as 60 percent on salary, they’re moving to areas where taxation is a lot less and it’s cheaper to live. Employers, then are saying, ‘Well, you’re paying less tax, which means you’re getting more money, so we’re going to adjust your salary. It’s a cost-of-living adjustment, but also a cost-of-business adjustment as well.”

Some countries have bilateral social security agreements that impact the taxation of social security contributions for internationally employed individuals. These agreements can affect the employee’s eligibility for benefits and the employer’s obligations regarding contributions.

Calculating and withholding taxes accurately is vital to meeting tax obligations and avoiding costly penalties. U.S. companies must identify the correct tax rates for each employee based on their income and tax residency status. This includes understanding the distinction between resident and non-resident taxation, which can significantly impact tax liabilities. International tax compliance also involves adhering to reporting and filing requirements. These may include submitting tax returns, reports on foreign bank accounts, and other financial disclosures.

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CURRENCY EXCHANGE AND PAYMENT METHODS

Another layer of complexity arises from differences in currencies between countries. Exchange rates can fluctuate significantly, impacting the cost of hiring and managing a global workforce. Employers paying salaries in different currencies must consider the potential effects on their budgeting and financial planning. Currency conversion costs and potential losses due to unfavorable exchange rates can eat into profits, making it essential to have a well-thought-out and quickly adaptable strategy for handling currency fluctuations.



Many factors can cause exchange rates to fluctuate, including economic conditions, geopolitical events, and market sentiment. These see-saw changes can directly impact payroll costs when paying employees in different currencies. Sudden currency devaluations or appreciations can mean unexpected changes in labor costs and potentially impact the company's profitability – and that makes compliance, cost considerations, and risk mitigation all the more critical.

Assessing costs associated with currency exchange and international payment methods can be daunting. Exchange rate spreads, fees and transaction costs can vary among providers and banks, so savvy employers choose options that balance cost-effectiveness and reliability. They also seek to mitigate currency risk effectively. The best way to accomplish this is by developing and implementing proactive strategies such as using forward contracts or options to lock in exchange rates for future payments. This can help stabilize payroll costs and minimize financial uncertainties.

Of course, compliance with local financial reporting and tax regulations is key when dealing with international payments. Regularly monitoring exchange rates and adjusting strategies as needed is essential to adapting to changing market conditions.

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FIVE INDUSTRIES THAT HIRE INTERNATIONALLY

Certain industries are more suited for hiring globally than others. According to Statista, these five consistently employ the highest number of employees of U.S. multinational enterprises working outside the U.S.

Manufacturing

A primary factor for US manufacturing companies hiring globally is cost efficiency. Labor costs can be significantly lower in certain countries, allowing manufacturers to produce goods more competitively. Additionally, global supply chains necessitate skilled workers in various locations to coordinate production, quality control, and logistics.

Professional, scientific, and technical services

This sector often hires international employees for specialized skills and expertise that may not be available domestically. Many tech companies, for example, recruit software developers, data scientists, and engineers from abroad to meet high-demand skill gaps. According to the World Intellectual Property Organization's (WIPO) Global Innovation Index 2022, outside of the U.S. (which ranks second), the world's current most innovative nations are Switzerland, Sweden, the United Kingdom, the Netherlands, the Republic of Korea, Singapore, Germany, Finland and Denmark.

Retail trade

Retail companies often hire employees abroad to assist with sourcing products or materials from international suppliers or manufacturers to access cost advantages. Retailers expanding into global markets also require local employees for store management, marketing, and sales. Hiring internationally allows them to adapt to local cultures and consumer preferences.

Wholesale trade

Wholesale trade often involves the distribution of goods on a global scale. Companies may employ international workers for procurement, logistics, and distribution tasks. Sourcing products from overseas suppliers or managing distribution networks in different regions can also be more efficient with local expertise.

Finance and Insurance

Multinational financial institutions employ professionals in various locations to facilitate global operations, including banking, investment, and insurance services. Plus, insurance companies may hire actuaries and risk assessors internationally to provide expertise in assessing and managing global risks. Collectively, these industries hire international employees to optimize costs, access specialized skills, manage global operations, adapt to local markets, and tap into diverse talent pools, all of which contribute to their competitiveness and success on a worldwide scale.

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WHERE DO THEY HIRE?

Whether in search of cost-effective manufacturing, skilled labor, market access, or strategic partnerships, U.S. companies hire globally to tap into many competitive advantages. These are the countries they turn to most, research shows:

China

China's robust manufacturing capabilities and a highly cost-effective labor force make it a key player in global supply chains. It's arguably the top destination for establishing offshore production and sourcing components or finished goods.

Mexico

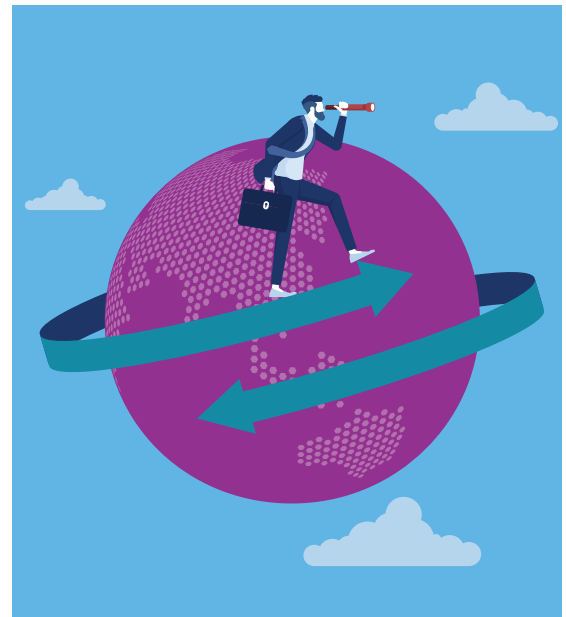
Mexico's geographical proximity to the U.S. makes it a strategic choice for employers in automotive and aerospace industries requiring ground transportation capabilities between the two. The North American Free Trade Agreement (NAFTA), now the United States-Mexico-Canada Agreement (USMCA), promotes trade, making it easier to operate across borders.

United Kingdom

The U.K. is a financial hub and home to a thriving tech scene, ranking fourth in innovation by WIPO's Global Innovation Index 2022. U.S. companies hire workers there for access to the global financial markets, fintech expertise, and as a gateway to the European market.

India

India boasts a world-class IT infrastructure and a large pool of highly skilled software developers, engineers, and customer service professionals. U.S. companies benefit from significant cost savings, supportive government policies, and a similar legal system. It's large English-speaking labor force and high-quality education system make for many top-quality staffing choices.



Canada

Canada shares a border with the U.S., and the two countries have strong economic ties. U.S. companies hire in Canada for its proximity, similar business environment, and access to the Canadian market. It's especially relevant in technology, healthcare, and finance sectors, where cross-border collaboration is common.

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CAPITALIZING ON THE OUTSOURCING TREND

Given the increasingly intricate challenges, the most forward-thinking employers are turning to experts specializing in global payroll and human resources services. Those attempting to DIY overseas hiring and payroll tend to realize quickly that they're in over their heads. Unfortunately, that realization often comes too late to dodge a hefty legal penalty or avoid an issue that halts progress and delays business.

Partnering with a proven global workforce management provider can offer legal and security advantages. Providers like IRIS boast a thorough understanding of local labor laws and regulations, even as they evolve, ensuring that client companies remain compliant and avoid legal entanglements and hefty financial penalties. Security measures are also heightened, as these providers are equipped with state-of-the-art systems to safeguard sensitive employee data in accordance with international standards.

"For employers who have invested a lot of money into growing and expanding their international reach, there is always an element of complexity that most often is unexpected," Grace says. "Our international payroll and HR services help simplify those complexities."

IRIS offers compliance, advisory, benefits, compensation, immigration, and global mobility expertise consultation services, essentially becoming a critically important member of a client company's international team. Fran R, of the Consortium for Children, a California-based organization that trains and supports child welfare professionals, can attest.

"From the first inquiry, they [IRIS] have been responsive, informative, professional, friendly, and affordable," she says. "Now, five years later, they are as great to work with as they were on day one. I'm not sure how I would have navigated the complexities of payroll in a different country without them!"

As U.S.-based companies increasingly opt for hiring across borders, the benefits of outsourcing global payroll to an experienced firm cannot be overstated. Outsourcing global payroll and HR functions ensures compliance and unlocks financial, legal, and security benefits that contribute to a successful global expansion strategy for your bureau's employer clients. IRIS can help.

"Our experts have helped thousands of businesses successfully expand beyond their borders and our company has many years experience doing this," Sheridan said.

About IRIS Global Payroll and Human Resource Consulting and Services

IRIS is a trusted partner in international payroll, benefits, payments, and HR solutions for organizations expanding globally. With the ability to deliver 'in-country' payroll, benefits, and HR solutions across 135 countries and providing a single global payroll consultant to manage all a company's global requirements, IRIS ensures timely, accurate, and compliant payroll across the world. IRIS has experience working with hundreds of global employers, enabling them to seamlessly and compliantly onboard employees into new countries to rapidly unlock the talent investment by reducing their time to value. Learn more about IRIS Global Payroll and Human Resources solutions [here](#).

[Contact us](#) today to learn more about how in partnering with IRIS, you gain an extended team of global experts.



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