



Fully Managed Payroll

Your guide to international payroll

Handling payroll in-house
for organizations with
overseas employees.

IRIS. Look forward

1.0 Introduction



Organisations need to find a consistent and effective way to manage all global payroll requirements.

While organizations are well aware of the difficulties created by language barriers, different educational qualifications and cultural differences, diverse employment legislation means it is extremely easy to fall foul of local requirements and pay a significant penalty.

From statutory working hours to annual leave entitlement and contributions to health provision and state pensions, every country has very different employment policies.

Add in the challenge of managing holiday and sick pay, plus the cost of currency fluctuation, and overseas employee management can become a major headache.

IRIS FMP is an international payroll and HR provider, processing payrolls for clients in over 135 countries.

With an in-depth understanding of the challenges of global payroll in both mature and emerging international markets our specialized approach delivers boutique solutions to international businesses with small, valued teams spread across the globe.

A fully outsourced solution removes the worry of payroll processing and legislative compliance in each country, from initial input to funds settling across all your business jurisdiction.



2.0 Implications of a Global Employee Base

Certainly in the majority of countries it can be difficult to make payments to both local and US citizens unless the business has registered a branch, representative office or subsidiary with local authorities.

In addition, to undertake business, recruit and pay staff, an organization will require a local taxpayer ID in some countries.

For example, in Australia organizations require an Australian Business Number (ABN) in order to run a payroll, as this is required for Pay As You Go (PAYG) tax purposes.

To obtain an ABN, the organization must either set up a new company legal entity in Australia with foreign ownership, or register the overseas entity as a foreign company running a foreign business in Australia.

Essentially, it is both expensive and complex.

In Spain it is also essential to describe the company activity within the country in full detail, as this affects Tax Office and Social Security Office registration, the value of social security contributions payable, the collective bargaining agreement applicable for employees, the contents of their employment contracts, and payslips.

Simply getting started can create more barriers than companies will have considered.

Some big in-country differences:

- > **Italy:** Expectant mothers must not work for two months before the birth, and then three months after the birth
- > **Belgium:** A written employment contract must be used for the employment of students
- > **Serbia:** Maternity pay is payable at 100% of normal pay for the full 365 days of leave
- > **Germany:** From the beginning of pregnancy until 4 months after giving birth, the employer is not allowed to give notice to the employee
- > **Spain:** At least 12 hours must elapse between the end of one working day and the start of the following working day
- > **Switzerland:** There is no requirement for a written employment agreement and no statutory minimum wage
- > **Portugal:** Usually, all employees in Portugal receive a bonus equal to one month's salary in June and in December

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3.0 Establishing your overseas presence

Avoid errors and expensive penalties

Each country has different expectations and requirements when it comes to HR and people management, so it is vital that you avoid falling short of what is necessary to remain legally compliant. Seeking HR consultancy advice beforehand could avoid potential pitfalls with in-country legislation, thus avoiding expensive penalties later down the line.

Areas that US organizations looking to expand overseas must pay attention to include:

- > Visas and work permits
- > Appropriate compensation and employee benefits and in-country benchmarking
- > Preparing and translating employment contracts and HR documents
- > Employee incidents such as disciplinary issues and grievances
- > Dismissals, redundancies and severance payments
- > Statutory leave, vacation & sick pay

All of these is likely to be very different overseas compared to the US, so due diligence must be exercised; something that can be a challenge if you are not based in the country in question, or if you do not have first hand experience with its employment protocol.





How do you remain compliant?

Every country's revenue service has a number of standard requirements for all employees - such as personal reference numbers - and this will include US nationals.

In Spain, for example, it is illegal to employ any foreign individual without a Foreigner's Identity Number (NIE) and new employees must be registered as company workers with the Social Security Office before they can commence work. In addition, late registration has a negative effect on certain employee rights.

However, every country has a very different take on employment contracts, including working and CBAs, which can be extremely difficult for US firms to navigate. Indeed, labor laws comprise the body of laws in Italy, with administrative rulings and precedents which oversee the legal rights of and restrictions on employees and their organizations, encompassing minimum wage, holiday and maternity entitlement, ergonomics, unions and disability.

In France virtually all contracts of employment are set for an open term (contrats à durée indéterminée) and while short term contracts (contrats à durée déterminée) are permitted, they are subject to stringent conditions and may not be renewed more than once.

There are a number of potential pitfalls for US companies, especially those that like to use a rolling short-term contract model for overseas employees.

4.0 Getting on top of time zones

Managing your global footprint can be hard, particularly when you are not in the same time zone as many or even any of your employees.

Buying expensive dedicated HR systems for a first foray overseas might not be practical, so keep employee detail up to date with simple cloud-based HR software solutions that empower in-country staff to feel connected wherever they are.

No matter how your employees' working hours correlate with management's, each individual must know they are a valued, engaged member of the team.

Taxation variation

For US organizations looking to deploy staff overseas, it will be important to recognize the potential impact of a higher - or lower - taxation regime on their earnings.

While Federal Tax rates in the US vary from 10% to 39.6%, in Italy the minimum rate is 23%, rising to 43% for the highest earners, with additional taxes due at both local and regional level.

In Germany the model has additional complexity because in addition to social security contributions, employees must pay payroll tax and a solidarity surcharge, as well as church tax to the German tax office.

Furthermore, the amount of income tax payable depends on the amount of taxable gross income, the tax grade and the number of dependent children.

Understanding the taxation regime will be essential to ensure employees receive comparative salaries globally.

There are huge discrepancies in tax rates from country to country. Understanding this is crucial to legally compliant, comparative and competitive salaries for all employees.

Minimum wage differences

The French model:

The standard French working week is 35 hours. However, the measurement can be based on days per year or hours per month, as well as hours per week. There is also a statutory requirement for an uninterrupted period of one day's rest per week, which in principle should be on a Sunday.

An employee must have, in principle, a minimum of 11 hours of consecutive rest per day.

The Spanish model:

The cornerstone of employment legislation, which establishes the minimum basic right for workers, is the Workers' Statute (law). Over and above the Workers' Statute, CBAs are established for specific sectors of activity.

Salary tables are published annually, usually including increases based on the cost of living/consumer price index, with a slight additional increase. They are effective from 1st January.

The Australian model:

In Australia, National Employment Standards cite a maximum of 38 hours per working week and general employment regulations include Awards (CBAs) which set the minimum wage and conditions to which an employee is entitled.

The statutory minimum wage only applies to those not covered by an award, current \$16.87 AUD per hour.

With the introduction of the gig economy and zero-hour contracts, the ability to track hours worked and compliance to minimum wage requirements has become ever more critical.

Expectations of daily, weekly and monthly working hours vary greatly across the world.

Many governments have also set minimum wage requirements which are subject to increasingly stringent assessment by revenue authorities.

Annual leave and paid sickness

While in the US there is no statutory minimum paid vacation or paid public holidays, with employers able to determine their own paid vacation offers. The vast majority of industrialized nations have very clear requirements for paid vacation - in the UK, for example, almost all employees are entitled to 5.6 weeks' paid holiday per year (known as statutory leave entitlement, or annual leave).

Many countries also have a number of paid public holidays. For example, Hong Kong specifies 12 statutory holidays that must be granted to all employees who have been employed continuously for three months and work at least 18 hours a week.

Paid sick days for short-term illness of an individual or family member are also not required within the US but must be taken into consideration overseas. In Germany, employees can receive a continued payment during his/her sickness for a maximum of six weeks, after which there are sickness benefits.

Organizations need to be able to effectively track and manage employee absence - from vacation to sickness.



5.0 Contributions

Social services/health contributions

Diversity leads to complexity

Without doubt, one of the most complex areas of payroll is managing the diverse social service and healthcare contributions.

Whilst in some countries the process appears fairly transparent - such as Australia where the current social security rate stands at 11.5%, plus a 2% Medicare Levy on the employee's taxable income - for others, it is somewhat more challenging.

French nuances

All employees in France are covered by the nationwide social security system. Employers in France pay defined contributions to settle their liabilities for health insurance, retirement and unemployment, with contributions between 40-50% of gross payroll, while the employee share is between 20-25% of gross pay.

Other payroll taxes (contribution to housing construction, apprenticeship programs, on-going training) are 2.45% of total cash payroll.

German contributions

In Germany, employers must ensure that employees are both electronically registered for social insurance and are insured at the Accident Prevention & Insurance Association ('Berufsgenossenschaft').

Employer and employee share contributions to social security equally, although employees have to pay an additional 0.9% of their gross wage for health insurance.

Even employees with "marginal employment" or short-term employment have to be registered and must complete a DEÜV registration certificate in Germany.

Pension contributions

Increasing pension contributions

Given the ongoing global scandals regarding depleted pension funds, governments have become increasingly demanding when it comes to employer and employee pension contributions.



Chinese enrolment

In Hong Kong, the Mandatory Provident Fund (MPF) Schemes Ordinance requires all new employees to be enrolled into a registered pension scheme - including both full-time and part-time employees who are at least 18 but under 65 years of age within the first 60 days of employment.

Both employers and employees contribute an amount equal to at least 5% of an employee's salary (up to a maximum of HK\$30,000 per month) to a pension scheme that is registered as an MPF scheme.

Australian pension contributions

In Australia, superannuation - the Australian pension - is mandatory and is supported by the Australian government by way of tax benefits.

Both employers and employees have minimum contribution amounts.

Employer's contribution rate has been 9.5% since 1st July 2014, but is planned to increase gradually in 2021, rising to 12% by 2025.

The ability to track and analyze both current and future pension contributions is key to managing and forecasting payroll costs.

Payroll logistics

As if the legal pitfalls surrounding global payroll were not challenging enough, there are a number of logistical issues that can catch the unwary.

Timing is a prime example - in France it is not possible to have a 15th monthly payroll because the civil law states that each payroll month is 4.33 weeks and the period runs from the 1st to the 31st of the month. Payment is therefore typically made at the end of each month, although this can be brought forward as early as the 25th of the month.

In Spain employee payroll tax is paid quarterly by the 20th of the month, following the respective quarter. All companies and all employees are subject to Social Security contributions payable to the State and payments are processed by the employer on their own behalf and on behalf of employees, monthly, in arrears.

Add in the challenges of currency conversion rates - especially with current levels of volatility - as well as the need to track payments across multiple borders, and the logistics of global payroll are extremely challenging.

6.0 Checklist

When setting up your overseas operation remember these key steps:



Understand your legal standing in the host country



Ensure your employment contracts are compliant



Ensure taxes meet in-country legislation



Understand nuances on pay, leave and sickness



Find out about pension and social security payments



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IRIS offers the greatest range of specialist accountancy, financial management, human resource management, payroll and education solutions, delivered as a choice of integrated on premise and cloud-based applications. These are managed under the leading IRIS, PTP, KashFlow, Keytime, Taxfiler, Cascade, PS Financials, Results Squared and Earnie product brands.

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