

INTERNATIONAL PAYROLL 2010



Guide to global solutions

Supplement to
Pay & Benefits

Proudly sponsored by



iiPAY
integrated
international
payroll



iiPAY Provides A Single System To Centralise All Of Your International Payrolls

Global Payroll Management System



Collate



Control



Consolidate

- **Collates all your data**
- **Controls all your in-house and outsourced payrolls**
- **Consolidates every item, on every payslip, for every employee, on every payroll, in every country, indefinitely**



Pay&Benefits

EDITORIAL

Editor

Kavitha Sivasubramaniam 020 8662 2042
kavitha.siva@lexisnexis.co.uk

Assistant Editor

Dawn Lewis 020 8662 2011
dawn.lewis@lexisnexis.co.uk

ADVERTISING & MARKETING

Head of Recruitment Advertising

Stuart Cousins 020 8212 1997
stuart.cousins@lexisnexis.co.uk

Sales Executive

Stephen Gill 020 8662 2007
stephen.gill@lexisnexis.co.uk

Marketing Manager Rakhee Patel

PRODUCTION

Production Manager Angela Waterman

Advertising Production John Woffenden

Senior Designer Katy Mok

PUBLISHING

Publishing Director Simon Collin

ENQUIRIES

LexisNexis, Quadrant House,
The Quadrant, Sutton, Surrey SM2 5AS
tel: 020 8686 9141 fax: 020 8212 1988

Website: www.PayandBenefitsMagazine.co.uk

UK subscription: £129 per annum

Overseas rates: £159 per annum

For further subscription details
please contact Customer Services on:
tel: 0845 370 1234 or fax: 02890 344215

© Reed Elsevier (UK) Limited 2010
Printed by The Manson Group, St Albans,
Herts AL3 6PZ. This product comes from
sustainable forest sources.



All rights reserved. No part of this publication
may be reproduced, stored in a retrieval system,
or transmitted in any form or by any means,
electronic, mechanical, photocopying, recording or
otherwise, without prior consent of the publishers.

The official journal of
Payroll Alliance
part of LexisNexis®

SOLUTIONS FOR KNOWLEDGE-DRIVEN PROFESSIONALS
Client Development Research & Knowledge Solutions Practice & Productivity Management Risk & Compliance

Contents

Overview

2

An international payroll project is about more than just paying people. It should involve working out what processes you already have as well as what you hope to achieve, say *Tristan Woods* and *Piers Lambert*.

Expatriate payroll

7

The PAYE regime has become stricter in recent years as HMRC has attacked loose practices and sought to penalise employers who repeatedly get it wrong, explains *Philip Crossman*.

International benefits

11

Nikki Ferguson outlines how to achieve a consistent international employee benefits solution and the key issues to consider.

Project management

15

Ashley Carter asks if one size fits all when it comes to multinational payroll and HR outsourcing.



2



7



11



15

A JOURNEY OF

An international payroll project is about more than just paying people. It should involve working out what processes you already have as well as what you hope to achieve, say *Piers Lambert* and *Tristan Woods*.

Paying staff internationally is generally perceived to be a greater challenge than it actually is, irrespective of if it is outsourced or managed in-house. Compliance and risk management are becoming more important as organisations extend their operations globally and striving to be more efficient is a constant for all companies. Putting in place strong processes, centralised vendor management and taking a co-ordinated approach to technology will result in a successful delivery of international payroll.

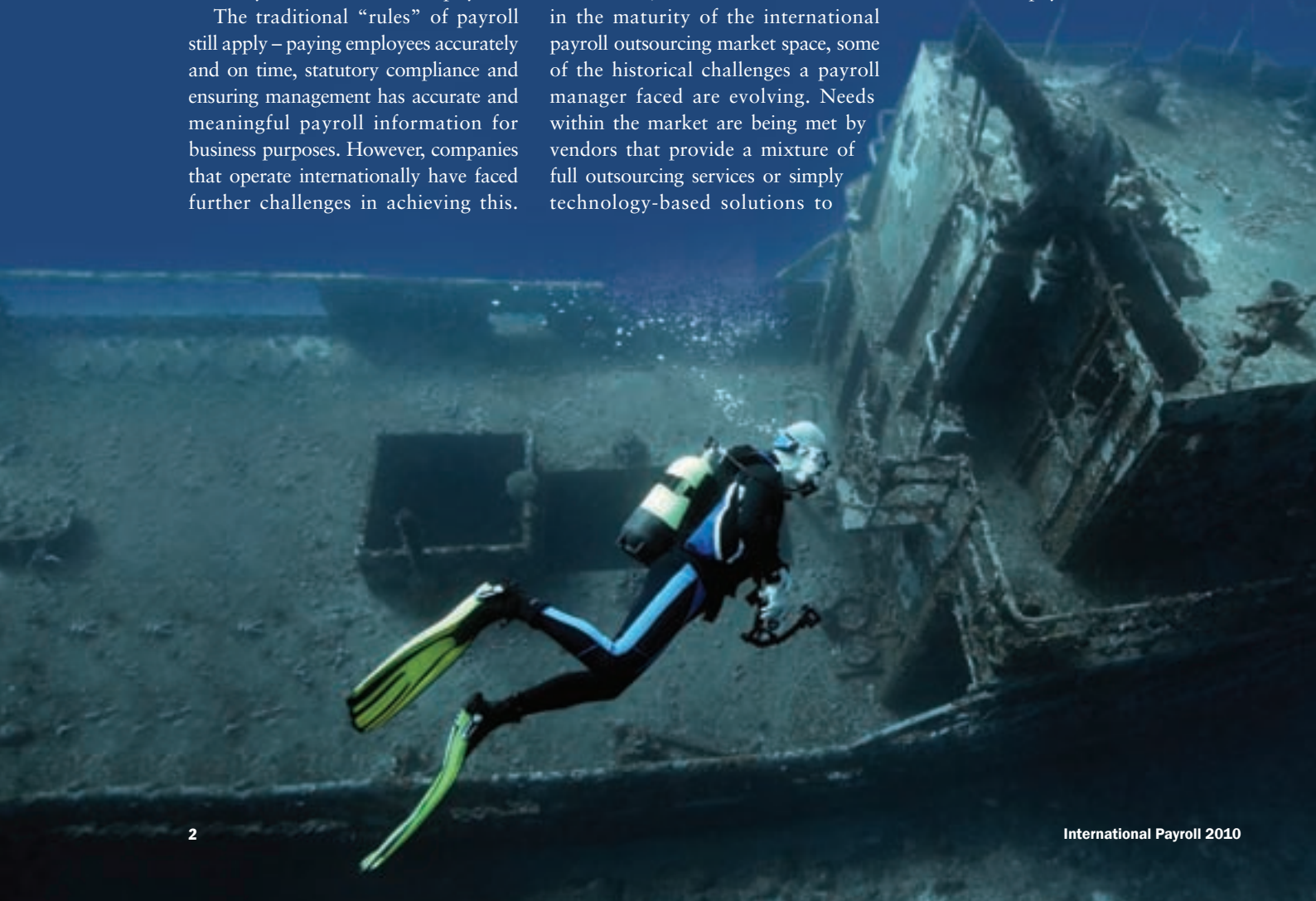
The traditional “rules” of payroll still apply – paying employees accurately and on time, statutory compliance and ensuring management has accurate and meaningful payroll information for business purposes. However, companies that operate internationally have faced further challenges in achieving this.

Multiple sources of data, multiple languages and time zones – let alone the myriad regulations in different countries – have led to fragmented payroll processes, lack of useful and meaningful payroll data and multiple payroll processes.

Multi-country payroll has evolved dramatically in the last three years from what was once a manual and time-consuming process fraught with uncertainty to a more organised and consistent service to employees. Largely thanks to the availability of technology and vendors, combined with an increase in the maturity of the international payroll outsourcing market space, some of the historical challenges a payroll manager faced are evolving. Needs within the market are being met by vendors that provide a mixture of full outsourcing services or simply technology-based solutions to

enable the process to be simplified and streamlined. Large Business Process Outsourcing providers are deploying Enterprise Resource Planning-based solutions for companies of the “right” size, while others are providing full “tech enabled” outsourcing services to companies of all sizes and sector. When embarking on an international payroll project, it’s important to have a clear vision to work towards, understand your options and choose solutions that cater for your needs today, as well as tomorrow.

International payrolls often grow and develop to a point where there are locally agreed vendor contracts, methodologies and processes. This has always “got the job done” but lacks the scalability or control from a regional or international headquarter level, leading to a need to review the payroll process. There is never a good or bad time to start changing your international payroll environment but



DISCOVERY

there are normally a few key drivers that lead to it. You might be changing your HR or time and attendance system, or perhaps your finance applications. All of these will have an impact on payroll and give you a good opportunity to review what you do today and bring it in line with the company strategy, enabling payroll to be more of a proactive business function, supporting management decisions and ensuring you have best practices in place. Ideally you should be constantly improving the service both internally and externally but inevitably organisations hit a point where it becomes essential to commence a restructuring of their international payroll delivery model. So where do you start?

Identifying areas for improvement

It is essential to stand back from the detail and take a holistic view of the international payroll delivery model,

putting it into context with the business environment within each country or region. There are techniques to assess the current state of the international payroll environment which will highlight the core issues and offer a comparative analysis between countries, regions and functions. Alternatively, undertake an internal “discovery” process. To move forward you need to understand where you are today so take a deep view, understand your processes, your strengths and weaknesses and develop an element of understanding of what is causing those. Produce process flow diagrams and gain understandings of your different sub-processes, eg the journal entry process, as by doing so you will have a much clearer indication of your current state. By analysing process flows you should also gain a clear idea of where consistencies of process exist. These need to be aligned to any new systems that

might be introduced, eg HR or finance, to gain an understanding of how processes can be made more efficient or perhaps centralised, depending on your strategy.

The wide variety of payroll processes that has grown up across the myriad countries makes it very difficult to form a clear and consistent global view. However, it is likely that this situation has developed precisely because there is no common plan or framework for the countries to work within. This is why your discovery work is key. Understand your business today and where it needs to be tomorrow and you will have the knowledge to “bridge the gap”.

Business environment

Before you embark on transforming your processes and systems it's vital that you understand the business strategy and therefore the business requirement. Is the company going to be expanding rapidly in certain markets? Perhaps specific countries or regions are going to be downsizing or moving production to other countries or regions? It is essential to understand from your executive management what the plans for the business are if you are not aware of them.

There are a number of global factors that need to be considered. If your organisation is going through significant changes – establishing service centres, restructuring, mergers or acquisitions – this drives the need for a more flexible and scalable solution to your international payroll and will affect the type of solution you will be looking for. Therefore, understand where your business is going internationally and then address how best you can capitalise on these processes. For example, a company which is on the acquisition trail is going to have different needs (in terms of scalability and extensibility) than one that will be divesting business units or optimising its headcount.

There are also the local factors to consider. Many companies have organically grown their domestic payroll provision which leads to constraining factors such as having to change people's

Planning your project

Once you have established what you are going to do and how you intend to do it, there are some considerations to factor into the project planning element of the migration which are listed below.

1. Roll out your country changes in waves or phases based on where the biggest problems lie or where big benefits can be achieved quickly.
2. Build your waves or phases based on resources, existing vendor contracts in country and other IT projects.
3. Make sure you have contingency time factored in – this can be removed later but be realistic about what your teams can achieve.
4. Do not set a deadline unless it is based on a sound and achievable project plan but do keep the plan flexible; project managers will want to understand how the implementation timeline can be reduced.
5. It is often good to start with an “easy” country first and do not expect to go live or have a parallel run in August in Europe as people will be on holiday.
6. Understand the countries' statutory requirements, eg going live in November in France will require a rebuild of the entire year's payroll history which is time consuming, costly and often provides minimal benefits.
7. Don't underestimate the “getting to know each other” time that all good projects require and make sure you build review phases in – ie after each go live phase review how you can improve quality, efficiency, timelines etc for the next phase.
8. Communication and change management: internally with your relevant stakeholders but particularly *local* in-country stakeholders is key – you will need support which generally means you need buy-in from your local teams so ensure you engage them in the process and understand their needs. This can be a balancing act but fully centralised decision making can cause other issues further down the line.

practices, inheriting established contracts with local providers and employment law restricting the organisational change needed to make improvements. The biggest “in country” inhibitor to change is culture and the resistance of local staff to new practices. Payroll in a country may be one task of many provided by a local accountancy firm and so becomes hard to change; however streamlining the surrounding processes can enhance the service through the incumbent provider. The challenge is to empower the local staff to be part of a bigger strategic operation and get their buy in. This sometimes depends on the company’s culture but should not be discounted as unimportant – whatever you do, you will need support of local stakeholders.

Getting executive commitment

Internal sponsorship for a project is key. The outcomes at the point of raising such sponsorship is unlikely to

be known, but you should be able to summarise (from your discovery) that you believe you can improve efficiency by X per cent, or that you will be able to increase accuracy by Y per cent. Gaining sponsorship can be difficult but a strong business case will help.

While you will not have quantifiable results when you wish to start a project, you need to ensure that sponsorship is available. This may be possible from your direct reporting line, or perhaps a tier or two above. Present a case for initiating the project based on 1) the three to five-year plan of the company, 2) the current known problems or weak points that can be solved by it and 3) the tangible results you expect to be able to achieve.

There are other solutions

In many situations there may not be a single “magic wand” to solve all of your problems. There will be different problems in different categories in

multiple geographies. Often there is a high dependency on service providers and they will have a major role to play in the resolution of the challenges. Again, this should feature in your discovery. What roles do the internal or external organisations play and how might that look in the future?

Vendor management has a cost so if you want to manage a mixture of in-house, a blend of local or regional providers then considerable focus should be paid towards standardising processes, data collection templates and IT systems to support the reporting and management of the corporation’s payroll data. Be honest about this internal management cost before evaluating the benefit of implementing a management system or outsource provider. If unit cost of delivery is a key factor of your project then it’s key to ensure your internal cost analysis is accurate – think beyond software, stationery and support



Case study: Control Components Inc

Control Components Inc (CCI), part of IMI plc, is a manufacturer of severe service control valve solutions for use in the power industry. In 2009 CCI re-evaluated its HR and payroll delivery model to ensure better management visibility of data and an enhanced employee service. CCI was moving its HR organisation towards shared services and following a detailed review of the marketplace decided to outsource its international payroll delivery to SafeGuard World International (SGWI). Some of CCI's problems prior to the project were a lack of centralised payroll reporting, lack of consistency in payroll processes and many local vendors or software in each country. CCI wished to capitalise on its investment in HR shared services to "drive" the international payroll processes, ensure common auditable processes for all countries and ensure that management had meaningful useful information to aid business decisions.

SGWI undertook the deployment from end to end in five months for a "go live" in January 2010 – including multiple parallel payroll runs for each country.

CCI now has a more accurate payroll process operating under a common framework internationally, combined with detailed payroll analytics available 24/7 covering all 2,500 employees spread across 35 countries. The new framework also enabled CCI to harmonise its financial reporting for payroll and will enable further process improvements as other business systems are implemented, such as HR.

contracts – what about headcount, office space, training, telephones and so on. All these feature and your cost analysis should lead to a Total Cost of Ownership figure that includes anything involved in paying your employees on time.

Consider your options carefully – in-house, outsourced, partial outsourcing are all increasing in availability in the international payroll marketplace so do not be deterred by thinking wider than "what we do today" as a way of fixing current problems and preparing your firm for the next phase of its strategy.

Vendor selection

Vendor selection is an art in itself – going out to tender is the last stage of your process; the goals of the project are absolutely clear, you have an established business case and you should now be aware of the potential solutions. It is now time to share the detail and find out what is available. Ideally you should do this early on in your project simply to understand your options, as these may help shape your approach. If you have researched the market, you can save your organisation significant time going only to those suppliers that can offer the right solution. The biggest "tip" would be to ensure you share information with prospective vendors, and do not restrict how they present solutions and pricing to you. Many vendors will price solutions in different ways – only companies with very

large headcounts (thus a larger spend) will be able to negotiate on how commercials are constructed at the contract level.

Ensure you have your success measures defined – are you scoring vendors and if so how? Are you releasing a quantifiable questionnaire to seek direct answers to questions? Make sure you know what you have and what you want – it's not helpful to say to vendors "tell us what is best for us" unless you have a detailed understanding of what you have today. Typically vendors will tell you what they can offer as opposed to what they can't.

Ensure any documentation you release gives a good overview of:

- the current state
- the desired future state or the "problems" you would like solved
- the in-country specifics – if you have five entities in each country make sure this is included in your headcount matrix. Give the vendors as much granular detail as you can in order to ensure they have the right information to be able to construct and price the solution correctly
- your current system landscape and the plans for the coming years, such as a change of HR system
- your business case – make sure that you understand the likely budget constraints that you might face – typically companies go through a Request For Information (RFI) process to get an indication of possible solutions and likely costs before going to Request For Proposal (RFP).

Again, seeking external advice and networking with industry professionals who have done this before is advisable.

A holistic and logical approach

International payroll projects require detailed analysis and understanding of the current state, a structured but strategic approach to the future and a quantifiable process to get you there. Taking a holistic and logical approach and following some of the pointers above will help ensure you meet your project objectives and solve your problems along the way.

Piers Lambert is Operations Director at Integrated International Payroll and Tristan Woods is Head of Professional Services at Safeguard World International; www.iipay.com and www.safeguardworld.com

Do you pay overseas employees?

Payroll Alliance
part of  LexisNexis®

- Practical Introduction to Irish Payroll

"A good foundation to Irish Payroll. Raised issues we should be aware of"

Lorra Howarth Payroll Manager

- Advanced Practical Guide to Irish Payroll
- Practical Introduction to EU Workers
- Payroll for Global Employees

"What areas were of most benefit? All areas, as no previous experience"

John Lee, Capita Group

For further details or to book a place visit our website:

www.payrollalliance.com

Telephone: **020 8401 1828/29**

**Book
your place
NOW!**

SOLUTIONS FOR KNOWLEDGE-DRIVEN PROFESSIONALS

Client Development

Research & Knowledge
Solutions

Practice & Productivity
Management

Risk & Compliance



LexisNexis®

A RISKY BUSINESS?

The PAYE regime has become stricter in recent years as HMRC has attacked loose practices and sought to penalise employers who repeatedly get it wrong, explains *Philip Crossman*.

This article sets out some of the most important recent changes and offers some ideas about how to protect or improve your company's risk rating in this tougher environment.

The move to e-filing for employers

HM Revenue & Customs (HMRC) has introduced a significant number of changes to the compliance requirements for employers in recent years, each of which imposes greater obligations on employers when dealing with domestic and expatriate employees. Coping with the latter is already known to stretch HR and payroll teams.

For example, from 2009 employers seconding staff into the UK must notify HMRC using form P46(Expat). Form P86 has been withdrawn. HMRC now refuses to accept a 64-8 authority form or issue Taxpayer Self Assessment numbers (UTR) for secondees into the UK without having received one of these new forms. This helps HMRC to link Pay as You Earn (PAYE) and Self Assessment compliance in a national dedicated office (Personal Tax International or PTI), but it creates more work for the payroll administrator.

The requirement – also introduced on 6 April 2009 – to complete a P45 form when an assignee leaves a Modified PAYE scheme assists HMRC with the automated operation of their systems but introduces a further administrative burden for payroll. There is actually little point in submitting it at the time the employee leaves in-year because the figures will be estimates. The most logical time is once the “in year” review of compensation has taken place, after which the pay and tax details should be more credible, and this is accepted by HMRC.

Table A identifies the key employer compliance submission dates.

From 6 April 2011, all employers will be required to submit year-end documents electronically – either by using dedicated third party software or via input on the HMRC website. This is part of a wider move to compel employers to provide increasing amounts of data in electronic format to HMRC, reflecting its increased capacity to process and store such information electronically, for instance in the National Insurance (NI) and PAYE Service (NPS) computer system, and its determination to reduce staffing costs.

Table A	
Form	Submission date
P46(Expat)	within 30 days of arrival of a seconded employee
P46	upon joining payroll (where no P45)
P45	upon leaving payroll (local employees)
	following in-year review to adjust initial estimate (for MPAYE); usually at year end
P14/P35	19 May
P11D(b)/P11D	6 July (non-MPAYE)
	31 January (MPAYE)



Table B		
Number of late payments in a tax year	Penalty percentage charged	Amount to which penalty will apply
1	No penalty (as long as payment is less than six months late)	Total amount of late income over the course of the tax year (excluding the first late payment)
2-4	1%	
5-7	2%	
8-10	3%	
11 or more	4%	

New PAYE late-payment penalties

HMRC has also moved to tighten up on the timeliness of monthly PAYE and NI contribution (NIC) payments. With effect from 6 April 2010, a new penalty regime has been introduced for late payment of PAYE and NIC withholdings which is highlighted in Table B. Any payments that are six months late in settlement will carry a five per cent surcharge, with a further five per cent penalty if a balance remains outstanding after 12 months.

Timing is everything

HMRC is quite right, of course, to bear down on persistent late payers, but these are automatic penalties that will apply where there is not a “reasonable excuse”, which is narrowly defined. Sometimes, for instance when delivering remuneration under employee share schemes, it will be difficult for employers to account for PAYE remittances within the statutory period following the end of the income tax month. HMRC has recently gone on record to say that earnings arising in connection with securities cannot be treated as “marginal pay items” that can be treated as having been paid when they come to payroll’s attention. This means that late notification of such income (ie in a month after the realisation of the income by the employee) would require an employer to reopen the payroll month to correct the underreporting considered to have taken place.

For example, if an employee exercised unapproved share options on 28 July, HMRC would expect an employer to account for this in July’s payroll cycle, and pay over any tax and/or NIC by 19 or 22 August. Any failure would result in an underpayment in the month concerned.

Such an underpayment would be considered a default under the new

penalty regime. Consequently, an employer with regular share awards option exercises, who processes the notional payments in the following tax month (because the payroll cut-off was on 25th) could therefore find themselves with 12 defaults in the year and subject to the maximum penalty rate of four per cent on all late payments.

While HMRC has said that it will not issue any automatic penalties for 2010/2011, it intends to target employers on a risk basis. Employers with large or complex share schemes may be classified as high risk in this regard.

To modify or not to modify

For tax equalised (UK inbound) assignees, the case for utilising the flexibility of Modified PAYE (EP Appendix 6) and NIC (EP Appendix 7A) schemes remains a compelling one, even considering the additional compliance requirements now required for these schemes.

The flexibility of Modified PAYE and Modified NIC arrangements – the ability to use estimates of income with a formal review later in the tax year and a post year-end true up – could provide a significant cost saving to employers in avoiding the PAYE interest charges that could otherwise fall if pay items have been missed in the course of the year.

UK outbound assignees, whether tax equalised or not, are also able to benefit from a Modified NIC scheme (EP Appendix 7B).

While these schemes are not payrolls – more estimated tax and social security calculations – there is some scope to operate these arrangements in conjunction with delivering a net salary to employees; whether through in-house resource or via an outsourced provider.

Remaining resident while abroad

Whether HMRC is re-interpreting the residence rules or applying them more strictly, there is certainly an increased risk that staff seconded abroad will be found to remain UK resident, leading to more double withholding situations, with a consequential impact on cash flow – either for the company or assignee.

A potential solution lies – under the right circumstances – in the operation of a “net of foreign tax” withholding scheme (EP Appendix 5) which allows for reduced UK PAYE withholding to be applied in the instance that an

overseas location requires “at source” withholding on the same income. While originally it was only applicable where an employee was impacted, HMRC has now accepted that the scheme can also apply where the employer meets the initial withholding obligation on the employee’s behalf.

The outsourcing option

With the extra administrative responsibilities comes an increasing resource cost – especially when dealing with expatriate tax matters – and there is always a temptation for a company to take the “outsourcing” route for their payroll operation.

While outsourcing can offer advantages in terms of raw cost savings, the cheapest “cut down” solution is not necessarily the best alternative and may not provide the most cost-effective option in the longer term.

Ultimately, a key consideration must also be to ensure that the outsourced provider is able to deal with the complexities and nuances of your company’s set-up and (if necessary) be called upon to provide a suite of other services when dealing with more complex payroll matters around termination payments, equity income, etc in order to ensure that the payroll remains compliant (for both home and host locations when considering expatriates).

This would require robust processes and a strong two-way relationship to offer the comfort that you are both pulling in the same direction in order to ensure that all items of employee compensation are being identified and picked up for reporting and taxation purposes.

This new environment will pose real challenges for companies in the area of payroll compliance. Navigating the new rules will be testing and risky with the tougher penalties involved. Balancing this, HMRC has left the door open for companies to take a more practical approach through Modified and Net of Foreign Tax Credit regimes. It is clear that given the additional complexity, many companies will seek expert assistance and there is likely to be a continuation of the trend to outsource payroll compliance.

Philip Crossman is a Director in the global employer services group in the tax practice at Deloitte; www.deloitte.co.uk

Our clients manage their business, not their payroll

- global coverage across all continents
- coordinated implementation
- state of the art technology
- certainty
- complete visibility and control

For further information please contact:

David Wright

Tel: +44 (0)20 7509 9470

Email: dwright@cvcdfk.com

Managing International Payrolls

www.cvcdfk.com



Payroll Alliance Gold Membership

comes with free access to

PAYROLL DIRECT ONLINE RESOURCES



At the click of your mouse Payroll Direct offers an unrivalled breadth of payroll information.

Gold Membership

- Expert Payroll Helpdesk
- Pay&Benefits Magazine
- Working Meetings
(2 places twice a year)
- Payroll Key Series
- Payroll Fact File
- NIC Handbook
- Pay&Benefits Manual
- 15% Discount on Training
- 10% Discount on payroll qualifications
- 20% Discount on Payroll Recruitment
with industry partners
- **Access to Payroll Direct
Online Resources**

For a free trial to Payroll Direct please visit:

www.payrollalliance.com

Bookings Hotline: 020 8401 1828/9

Fax: 020 8401 1811 E-mail: payroll.alliance@lexisnexis.co.uk

www.payrollalliance.com

A WORLD OF OPPORTUNITY

Nikki Ferguson outlines how to achieve a consistent international employee benefits solution and the key issues to consider.

International flexible benefits – is it possible? In short, absolutely. The idea that because a company's operations are spread far and wide and therefore delivery of a consistent employee benefit solution across those geographies isn't possible simply is not true.

Historically the task of implementing an international employee benefits package posed somewhat of a headache for companies, with issues such as tax and social security structure, consistency of the benefits offering and the software to support a scheme all being cited as difficulties. However, advances in modern technology combined with a greater openness within the marketplace to share knowledge and experiences ensures that a more harmonised approach on a worldwide basis is achievable.

There are employee benefits schemes available that provide both fixed and flexible, international and local solutions. They can offer a web-based platform on which to run a scheme, the tax and social security knowledge, plus the payroll software and banking capability to ensure the employee receives the right amount, to the right account, at the right time.

The options available

Ultimately the options are endless so the first priority is to really understand a company's major objectives through the introduction of an international flex scheme; is it harmonisation or cost reduction? Is it to aid recruitment and retention or perhaps to introduce total reward? Once this is established the next priority is to address the employee's needs. To go through this whole exercise



and not identify their needs and wishes is a fundamental mistake.

The needs of one company are very different from those of another. Company culture, geographic location, existing employee benefits, contractual arrangements and budgetary requirements to name but a few, all play a significant role in the ultimate design and implementation of a scheme. By introducing flexibility and creating a base template, a consistent and geographically equal approach to benefits and reward is achievable. This then genuinely delivers global harmonisation and standardisation.

Whatever the final design, there is appropriate web-based software available that allows employees and administrators to access data anywhere in the world, at any time of the day or night.

By creating a base template, a consistent and geographically equal approach is achievable

Tax implications

As the saying goes, there's nothing more certain than death and taxes. Operating an international employee benefits scheme is no exception to this, with the requirements varying from country to country. Some systems allow the tax and social security implications of any employee benefits scheme in any country to be established. In turn, this information is then written in to the respective web-based system rule set.

Consequences of global implementation

The phrase "communication is king" should be key, whether working with a client in the same building or a client in Hong Kong, Nigeria or Dubai. Obtaining employee support or "buy-in" to a scheme is vital to its overall success. The use of online surveys, group employee presentations supported by explanatory material coupled with the offer of one-to-one meetings work exceptionally well in ensuring employee understanding.

However, the size of company may make group presentations logistically and financially unpractical. In such cases, it might be simplest to use technology such as web broadcasting, online system demonstrations and teleconferencing, all

of which provide the same results, albeit on a partially virtual basis.

Some systems offer employees the same user platform, regardless of their location and literature, which can be provided in multiple languages. Equally ongoing administrative support is given both electronically and telephonically via a dedicated account management team.

Reporting of data

An employee benefits package and the financial impact it represents, both as a cost (benefit premium) and saving (tax and National Insurance), are a key aspect of any benefits scheme. Again, based on the premise of flexibility, companies need to know they can rely on regular data submissions as well as the ability to generate a bespoke report if required. Once the data reporting requirements have been established, these are fully automated with data being uploaded directly on to benefit provider sites and/or straight to the designated client contact.

Costs

The cost of a benefit scheme is driven by a number of factors.

The key questions that can help tease out what the likely costs will be are:

- what is the company's objective as an outcome for implementing an international benefits scheme
- where do they want to be positioned in the marketplace
- does it need to be a scheme that sits within the upper quartile of schemes offered by their competitors
- is it to aid an initiative to become an "Employer Of Choice"
- what budget is available? This may sound an obvious statement but this provides the template of how best to cut the cloth.

Trends in the market

The ability to introduce international flexible benefits gives the impression that only the largest global corporation can achieve this successfully; this is just not so. There is no reason whatsoever that a company with, for example, two employees in Ireland and 15 in the UK or seven employees in Gibraltar and 188 in the UK, cannot have flex. It is about objectives, desire and budget.

The challenges

Companies, regardless of location, face the constant challenge of increased

competition and the need to retain a productive and contented workforce. Outside of this, what challenges are faced in physically implementing an international flexible benefits scheme? There are a number of factors including: location, headcount, mandatory requirements, culture, communication and time.

By starting a project with your "eyes wide open" plus an acceptance that these challenges are there, you will be one step ahead of the game and can plan how to overcome the issues and risks associated with each of these from the start of the project.

Case study

A company based in the UK and Gibraltar set a defined objective of their commitment to focusing on the skills and development of their employees. Part of this commitment involved providing employees with a modern and rewarding employee benefits programme that set industry standards, recognised their employees' needs and requirements and provided a structure that could grow with the company as it expanded.


By focusing on this objective in June 2007 a flexible benefits scheme was launched to both the UK and Gibraltar employees which not only achieved the company's objectives but provided a cost control mechanism by setting a flexible benefit spend based on a percentage of base salary and the employees overall understanding and appreciation of their benefits has increased year on year.

What it means for payroll

Whether benefits are employer funded as a core benefit or employee funded via salary sacrifice or net deduction, the implications for payroll are significant. Ensuring the appropriate local tax and National Insurance/social security are levied each pay period is a basic obligation for an employer; as are year-end returns; as such, the interface between employee benefits and payroll needs to be a very close one.

In summary, anything is possible. The success of any scheme is dependent upon distilling a company's strategic objective and, in doing so, formulating an action plan which provides the most appropriate flexible solution.

Nikki Ferguson is Director of Q&A People Matter; www.qnapm.com

- 
- ➔ Financial Education
 - ➔ Human Resource
 - ➔ Total Reward
 - ➔ Payroll Services
 - ➔ Expatriate Management
 - ➔ Employee Benefits

Services that really matter to your people

We offer the rare combination of HR, Payroll, Employee Benefits and Personal Financial Services that enables you to offer extra help to your employees – the people that really matter to your business.

➔ Please contact Nikki Ferguson on:

+44(0)845 470 4918
+44(0)7870 588 550

➔ or visit our website:

www.qnapm.com





BDO COMBINES GLOBAL REACH WITH EXPERT LOCAL RELATIONSHIPS

BDO is the world's fifth largest accountancy network with 1,100 offices in 110 countries.

WE SPECIALISE IN HUMAN CAPITAL SERVICES:

- **International payroll** – BDO specialises in global coordination so you can manage your most challenging international payrolls through one portal, one point of contact and one Master Services Agreement.
- **Expatriate Tax** – BDO focuses on keeping client costs under control whilst allowing employees/executives to work abroad without the distraction of personal tax issues.
- **International Share Schemes** – the BDO team designs, implements and advises on international stock plans. Mistakes can be very costly. We advise how to minimise the risks of non-compliance and help you rectify existing shortfalls.

For more information please contact:

Simon Watson Partner, Globally Managed Payroll & Compliance on **0118 925 4400** or email simon.watson@bdo.co.uk

Andrew Bailey Partner, Expatriate Tax on **0207 893 2946** or email andrew.bailey@bdo.co.uk

Amanda Flint Partner, International Human Capital on **0207 893 3019** or email amanda.flint@bdo.co.uk

www.bdo.co.uk

BDO LLP and BDO Northern Ireland are both separately authorised and regulated by the Financial Services Authority to conduct investment business.





A FITTING SOLUTION

Ashley Carter asks if one size fits all with multinational payroll and HR outsourcing.

Does one size fit all when it comes to payroll and HR outsourcing? For some companies the answer is “yes”: one size and just one model for HR operations will work everywhere. If that’s your company then rejoice, but there’s no harm in reading on just in case economic growth or merger takes your staff beyond your own, or your supplier’s comfort zone.

The Pareto principle

For many multinationals, particularly those with high value staff in outlying countries, the Pareto principle unfortunately strikes again. One size is quite likely to fit neatly around 80 per cent of their workforce. It’s the final 20 per cent where the problems become disproportionately large.

In 1906 Italian Vilfredo Pareto observed that, among many other things in economics and nature, 20 per cent of the peapods in his garden contained 80 per cent of the peas. It is now an accepted rule of thumb in business, eg 80 per cent of your income comes from 20 per cent of your clients. Many readers probably know that 80 per cent of their multinational payroll issues come from less than 20 per cent of their employees. Unfortunately Pareto didn’t have an immediate HR answer to the conundrum, so three case studies are used here to help you formulate options and select the best model when one size won’t fit all.

Why so? Because complex regulation and poor economies of scale make it difficult for in-house teams and business

process outsourcing (BPO) companies to operate efficiently. This undermines the business case for saving for one size fits all. Worse still, they risk falling foul of local employment regulations and tax legislation, and there is no reverse economy of scale in non-compliance. A breach for one employee can have serious consequences for the company and its directors, as well as for the employee.

It is important to ensure you stay on the right side of this diverse and ever changing regulation. It’s a complexity that frustrates even the biggest BPO providers as well as global multinational clients. Therefore, having a globally managed service for the complementary activities of payroll, statutory accounting and tax compliance is essential. None of

the regulations, nor the solutions, are a secret. The challenges include scoping your requirements accurately. This challenge shouldn't be underestimated. From experience the 80:20 rule isn't far off applying to understanding exactly who is currently employed, where and on what conditions.

Partnering with one or more supplier(s) to deliver a compliant and efficient solution that gets you closer to the elusive final 20 per cent without falling foul of the tax man, the regulator, or Signor Pareto is another challenge.

So what makes the final 20 per cent so difficult? The three case studies illustrate where regulatory complexity gets in the way of strategic simplicity.

Case study number one

A global technology client's determination to pool all international support services into a shared service centre in just one country. It is an increasingly common option to create just one or two such centres when for strategic, economic

and keeping up to date with changing regulation are the sort of big internal challenges driven by small employee communities that would bring a knowing smile to Pareto's face.

The technology client did consider relying on their global tax adviser to keep them up to date with local changes while in-house teams remained responsible for delivery. It's not a bad idea and there are four very large accountancy firms delighted to charge for such advice. But breaking the link between responsibility for advice and responsibility for delivery doesn't always work well.

So they asked their very large global tax adviser to take on delivery responsibility, only to find that the scale wasn't attractive and that there were internal constraints on treasury services that restricted their ability to offer a comprehensive service. It was also quite likely that the adviser didn't want to create a potential conflict of interest that would preclude them for bidding for much larger contracts such as the audit.

Fortunately for the client, it was still possible to create a healthy competition in which cost and an unconstrained service offering were key selection criteria. The key differentiator in this case turned out to be the added value of complementary services, such as expatriate tax advice and in-country statutory account preparation.

Case study number two

A pharmaceutical company decided to outsource HR across the globe so that it could focus on developing, producing and marketing drugs. More than 80 per cent of their employees are in large production facilities in mature economies: a perfect match with its BPO partner's capability.

The result is great service majority of employees and impressive cost savings in the production countries. But the BPO provider was the first to admit that they didn't have the expertise or in-country capability to support R&D (research and development) and marketing staff in a significant number of smaller economies.

The client and the BPO provider were faced with the options of:

1. Selecting one-off providers in each country – which can work well if both client and BPO provider take great care in selection. But at what ongoing price for administering a multitude of sub-contractors?
2. Retaining in-house staff in the most difficult jurisdictions – which defeats

the strategic aims of focusing on core business and cutting costs.

3. Creating BPO capability in the missing jurisdictions – which achieves the client's strategic aim for focus but at an inescapable cost that the client will inevitably carry in the long run.
4. Partnering with an international professional services/accountancy firm that already offers tax compliance, accounts preparation and company secretarial services, giving it the scale to nurture expertise in local regulation in each country. Even better if that firm has centrally controlled technology and processes to relieve the client and BPO provider of local supervision.

In this instance, with more than 70 countries out of comfort zone for the BPO provider, the business case for option four was robust. As were the results of the due diligence to make sure the expertise and scale were sufficient for these small, yet business-critical clusters of staff.

Case study number three

This worked in the reverse direction for a global software house. The client had very carefully pre-selected professional services suppliers invited to pitch in a Request For Proposals process. Global coverage was the critical criteria. However, it quickly became clear that their massive scale in a handful of countries would overwhelm all of the contenders and fail to deliver sustainable savings. So they chose the opposite of option (2) and kept in-house teams in the major countries but outsourced the payroll service delivery in the smaller countries. Head office now manages just one contract for the smaller business units that had less than 20 per cent of the staff but caused 80 per cent of the problems every month.

These three case studies inevitably simplify much more complex sourcing and operational decisions. Even if Pareto was wrong, and just 10 per cent of employees generate 90 per cent of your problems, it doesn't alter the overall conclusion that no one solution, no one size will fit all in the diverse and ever changing regulatory environment in which we all strive to deliver excellence in international payroll.

Ashley Carter is a Director at BDO; www.bdo.co.uk

No one solution, no one size will fit all in this diverse and ever changing regulatory environment


or cultural reasons outsourcing is not considered suitable for the operational bulk of HR, finance and IT activities.

As a director in Norwich Union Central Services soon after the merger with Commercial Union and General Accident, the author has first-hand experience of rationalising a shared service centre that, if taken to initial public offering, would have made it straight into the FTSE 250.

Shared service centres often excel at serving the internal customer. Staff move between business and support roles, bringing all the benefits of understanding how it feels to be on the frontline and sharing a common goal of great service. Simple internal Service Level Agreements replace complex BPO contracts. Everyone can focus on cost cutting rather than profit margin protection. Given strong commercial skills and sufficient scale, in-house teams should deliver exceptional value for money.

But what about the regulatory risks on the periphery? Career structures

Managed payroll with a true **local** feel and masses of **global** appeal



SafeGuard World International provide managed payroll in over 80 countries, ranging from the fast paced US and the culturally diverse regions of Europe to the laid back tropics of the Caribbean.

Features of our international services include:

- One point of contact globally
- Compliance worldwide
- Bespoke reporting locally and central reporting to your headquarters

Our unique technology system automates the entire payroll and payments process, while ensuring global compliance and security of data transmission onto any system worldwide.

Whether you're looking for a complete global solution, managed payroll in just a few countries, or simply a standalone UK service, we'd love to help - please contact us to speak directly to one of our payroll experts

Call us on 01270 758020

W: www.safeguardworld.com

E: enquiries@safeguardworld.com

Our Vision: To be the principal payroll provider worldwide

SafeGuard
World International

YOUR PAYROLL IN SAFE HANDS

0208 144 8760
www.iipay.com



iiPAY
integrated
international
payroll

iiPAY Harmonising Your International Payrolls

Global Payroll Management System



Consistency



Compliance



Visibility

- Consistent data, process and reporting
- Improved compliance through validation and monitoring
- Instant visibility

