



**INTERNATIONAL
EXPANSION &
GLOBAL MOBILITY
GUIDE**

Global Tax Services

WHAT WE CAN DO

We are a global expansion and global mobility advisory company specialized in assisting companies and individuals working internationally.

We assist clients with all aspects of expanding overseas and moving abroad.

1 STOP SHOP

From choosing the most suitable type of entity set-up to do business in a new host country to expat programs life cycle management.

We have years of experience helping large and small organizations as well as employees with bespoke solutions for their international assignments and global expansion needs.

We pride ourselves on servicing our clients at a fraction of the price larger firms may charge and for not outsourcing our work to cheap labor locations (often at the expenses of quality).



We understand international expansions and assignments can be difficult to manage hence we take care of all the "behind the scene" hard and complex work for you.

This means your organisation is free to focus on what it does best - satisfying customers and taking business to the next level.

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In our many years of experience in the international expansion and global mobility arena, we have often seen that when businesses begin to wonder what the answer might be to a particular question they have in mind about overseas operations in a new location, the main challenge is actually about asking the right questions in the first place.



This guide aims to help companies navigate through the key considerations to be mindful of when expanding and sending talents overseas.

At Global Tax Services (GTS) we understand no two businesses or expatriates are the same and therefore have developed a working methodology which, before starting to suggest any solutions for clients, ensures all the specific circumstances are clearly understood which is also why we offer a **free, no obligation, 1-hour consultation with one of our experts.**

Here are some examples of topics we may discuss during our 1-hour free consultation together:



HR Requirements: assignment letters, tax equalization / tax protection policies, compensation benchmarking, cost of living differentials, typical assignment specific compensation items.

Global Payroll Compliance: most suitable payroll arrangements in both home and host locations, shadow payrolls, hypothetical taxes, net to gross salary calculations, exemptions from payroll requirements.

Expatriate Benefits: assignment-specific fringe benefits and the most tax efficient way of delivering them to the expatriate population, reporting requirements, available reliefs and tax-free allowances.

Expatriate Taxation: assignment strategic tax planning for both short-term deployments / business trips as well as for medium to long term secondments in order to try to minimize host country tax and social security exposure.

Appropriate budgeting is one of the first factors companies should evaluate particularly considering crucial differences between the home country's typical costs and ways of conducting business vs those in the overseas location they are considering expanding into.



Cultural differences should not be ignored and local nuances as well as compliance requirements need to be clearly understood before businesses begin to operate internationally.

It is also crucial to develop a global mindset to budgeting as there is a multitude of expenses to consider and, without a standardized global approach and a well thought-through list of potential costs, companies could quickly find themselves in hot waters.

Below is a non-exhaustive list of expenses which might need to be considered for most overseas expansion plans.

OVERSEAS EXPANSION EXPENSES EXAMPLES

SET UP

- Legal & tax consulting fees
- Entity establishment costs
- Filings and bank account opening

OFFICE

- Office rental
- Ongoing fees and business taxes
- Equipment and supplies
- Health & safety
- Office security
- Utilities
- Licences & permits
- Maintenance & repairs
- Waste removal

STAFF

- Recruitment
- Employment contracts and translation
- Wages
- Compulsory salary and bonuses (i.e. 13th / 14th month salary)
- Mandatory and common practice pension funds, profit sharing & social security contributions
- Unemployment & health insurance
- Statutory leave (vacation, sick, maternity, etc.)
- Payroll services
- Meal and/or per-diem allowances
- Travel expenses

STAFF (CONT.)

- Tracking employee travel (to avoid triggering a PE and other tax adverse consequences for expats and short-term business visitors)
- Expat-related expenses (x3 the employee's home-country salary)
- Tax equalization / tax protection costs
- Immigration (visas, work permits)
- Employee handbook and translation
- Mandatory employee training
- Employee termination obligations (in some countries can be costly)

TAX

- Corporate taxes
- Indirect taxes (i.e. VAT, GST)
- Import / export obligations
- Accounting and auditing
- Converting accounting to US GAAP
- Transfer pricing reports and documentation
- Expat-related additional taxes and social security to be covered by the company under a tax equalization / tax protection arrangement

SALES & MARKETING

- New marketing content
- Advertising
- PR
- Lead generation
- Local language website

OTHERS

- Foreign exchange and transaction rates
- Inflation and interest rates of host country
- Ongoing regulatory expertise
- Data protection
- Hidden costs and penalties appearing unexpectedly
- Winding down operations

COMPANY STRUCTURE

The recommended best practice for considering the company structure under which to operate in the overseas target location is to bring into the discussions the main stakeholders.

This is because a structure which might work and be best suited for one particular department (i.e. Sales) may create too many drawbacks for another department (i.e. HR or Tax).

It is nonetheless very important to get the legal structure right as the option chosen will create the basis for the commercial footprint in the local market and therefore have a direct impact on the business ability to **hire and retain staff, registration and set-up timelines, employees benefits and obligations** as well as the ability to **sponsor work visas** in the target country for expat employees seconded from the home country.



It is also worth pointing out that even if initially the structure chosen may aim to avoid a fiscal presence in the target country, in case of a tax audit by the local authorities, they will likely take a “**substance over form**” approach.

This means that should a **Permanent Establishment (PE)** *de facto* be triggered by virtue of the activities (namely, business activities that generate revenues) actually carried by the company (or on its behalf) in the target country, the local authorities will likely have the power to levy corporate income and value-added taxes and other compliance obligations.

Broadly speaking, Permanent Establishment is subjective and open to interpretation by local authorities and may be inadvertently triggered by any of the following: **fixed place of business, employee commissions, revenue-generating roles, local customers, contract negotiation and execution.**



The 3 most common international entity types are:

	REP. OFFICE	BRANCH	SUBSIDIARY
Features	USED TO ESTABLISH A "LIGHT" PRESENCE IN A FOREIGN COUNTRY WITH EMPLOYEES CARRYING OUT REPRESENTATIVE ACTIVITIES ONLY	EXTENSION OF PARENT COMPANY TO SERVICE A PARTICULAR COUNTRY OR REGION	SEPARATE LEGAL ENTITY SET-UP TO CARRY OUT BUSINESS ACTIVITIES IN A FOREIGN COUNTRY
Benefits	<ul style="list-style-type: none"> • NO CORPORATE TAX OBLIGATIONS IN FOREIGN COUNTRY • FEWER REGULATIONS • QUICK TO SET-UP 	<ul style="list-style-type: none"> • NO UPFRONT SHARE CAPITAL REQUIRED • ABILITY TO ENGAGE IN FULL OVERSEAS BUSINESS ACTIVITIES 	<ul style="list-style-type: none"> • SHIELDS PARENT COMPANY FROM REPORTING HOME COUNTRY REVENUES / PAYING TAXES IN HOST COUNTRY
Limitations	<ul style="list-style-type: none"> • ONLY ALLOWED TO CARRY OUT ANCILLARY ACTIVITIES 	<ul style="list-style-type: none"> • PARENT COMPANY EXPOSED TO LOCAL COUNTRY REQUIREMENTS (INCLUDING TAXES ON PROFITS) • CAN BE AS EXPENSIVE TO SET-UP AND RUN AS A SUBSIDIARY 	<ul style="list-style-type: none"> • ONEROUS AND LONG SET-UP PROCESS • MINIMUM SHARE CAPITAL REQUIREMENTS • SUBJECTED TO LOCAL REQUIREMENTS AND REGULATIONS

In addition to these 3 common entity types in some countries it is also possible to set-up business as an NRE (Non-Resident Employer) or as a Liaison Office.

Once the entity type has been chosen, the next step in the international expansion process is to consider the staffing needs and whether the business is planning to use:

- **Contractors**
- **Expats**
- **Local hires**
- **PEO (Professional Employer Organization)**



Appropriate thoughts should be given to the fact local hires will usually require a local payroll, a locally compliant employment contract (which also protects the employer in connection with termination, notices, restrictive covenants, etc.) and compensation in local currency.

Additionally, the importance of providing the right level of benefits should not be underestimated to attract and retain talents.

Typical benefit packages (mandatory as well as “expected”) tend to vary not just between countries but often between industries / sectors and seniority levels.

A well thought-through benefit package will focus on delivering value to the employees and take into account various aspects such as **statutory requirements, market benchmark, tax efficiencies, performance incentives (i.e. bonus / commissions / stocks), non-cash benefits (i.e. company car, insurances).**



On the other hand, if the business is planning to use contractors, these need to be bona fide contractors to avoid the local tax authorities disputing they are *de facto* employees (with all the negative repercussions this might entail).

If the plan is to send expats, planning will need to be made in advance for **immigration, tax and compensation structuring**.

This is because expats will need **visa / work permit sponsorship** and typically, if working in the host location for more than **183 days**, they will also need to pay taxes on the host country sourced income either via a **shadow payroll** or through filing a **host country tax return**.

In order to make the assignment attractive for the expats, the business may well need to put in place some form of **tax protection policy** and / or structure the compensation package in a way the individual is not negatively affected by the additional tax burden arising as a direct result of the secondment.

Last but not least, when expanding internationally, companies also need to be aware of local / regional requirements for hiring / sending staff.



For instance, some EU member states have already implemented new requirements for employers to systematically record employees' working time and to disclose the secondment to the local authorities under **posted worker rules**.

There are a number of key questions to consider when sending expats in a host location.

1

Does the company have a good grasp on all of its staff currently seconded included their agreed return dates?

2

Is the company monitoring frequent / short-term travelers' trips so they can readily identify / avoid local immigration, tax and social security obligations?

3

Are the appropriate Visas / work permits secured before work is undertaken in the country foreign country by the expat/s?

4

How is the company managing the actual relocation of its staff?

5

Is there a policy in place to protect the expat/s being made worse off as a result of the assignment?

6

How is compensation for living overseas assessed in terms of COLA, housing, one-time relo payment?

7

Has the assignment compensation package been structured in the most tax efficient way possible for home and host country taxes?

8

What support is the company providing to the expat for overseas requirements such as a filing a local tax return?

9

What physical relocation support do you provide and how do you set the policy for reimbursement?

10

Will the expat remain on the home country payroll and continue to be paid 100% of their net salary through it?

11

Whose responsibility will be to ensure the expat is compliant (filing, payments, etc.) in both the home and host country and how will the company police that?

12

Does your payroll system allow to make COLA and Hypo taxes adjustments?

13

Have any thoughts been given to the tax implications in the host country for stock-options, RSUs, etc. granted or exercised while working overseas?

14

How are the assignment costs budgeted and accounted for?

15

Are there insurance policies in place in case unplanned repatriation is required due to family, sickness or death?

16

What policy is the company going to adopt for spouses, children, pets and home leave trips?

17

Is there an evacuation plan in place for high risks location?

18

Is a chauffeur provided (rather than car allowance) in locations where perhaps it is not safe to drive for an expat foreign national?

19

What agreements are in place if the assignment is terminated prematurely?

20

How is the company ensuring the expat pays back any money owed to the company?

For any assignments where it is not possible to avoid triggering host country's tax liabilities for the seconded expat, consideration should be given to what, if any, expat tax and/or social security liabilities the company will recompense.

This can be managed across a spectrum with full recompense for all additional tax and social security liabilities and full tax return preparation support at one end to no recompense or support at the other.

Some of the most commonly assignment tax policies used are:

TAX EQUALIZATION

— Advantages

Assignments are "tax neutralized" for the employee, no cash flow issues for the expat, full tax compliance encouraged and usually achieved, potential windfall for the company if sending assignees to low tax jurisdictions.

— Disadvantages

Generally, the most expensive option for employers, more complex to administer, onus on the company to be compliant.

TAX PROTECTION

Advantages

Generally, less expensive for the company than tax equalization, flexible policy in terms of the extent up to which the assignee is tax protected.

Disadvantages

May deter assignments to higher tax countries, company lose out on potential costs savings, expat may experience cash flow issues, potential compliance risks as the expat may try to under-report taxable income.

NO RECOMPENSE

Advantages

Employers can send employees on assignment at the lowest possible additional costs to the company as they would not be responsible for any taxes due in the host location, least administrative burdensome policy for the company.

Disadvantages

Potential compliance risks (with subsequent reputation risks for the company) as the expat may try to under-report (or even not report at all) taxable income, real cash flow issue for the expat, may be deemed unfair on the employee and therefore discourage them from going on assignments.

There are different methods of implementing the chosen assignment tax policy.

However, for assignments longer than 6 months, most of them usually involve the set-up of a **shadow payroll** (discussed in the next section) in the host location AND the implementation of either **“hypothetical” or estimated taxes** withholdings in the home country payroll.

Hypothetical taxes (also commonly referred to as **“hypo taxes”**) are *the taxes the expat would have paid, had they never gone on assignment* and therefore they usually cover personal income tax and social security but not taxes and social security due on assignment specific compensation items (COLA, housing allowances, school fees, relocation payments, etc).

**HOME COUNTRY US
(REAL PAYROLL)**

**HOST COUNTRY UK
(SHADOW PAYROLL)**

Gross Salary USD

Gross Salary GBP

deduct

- 401K
- Benefits
- Social Security
- Medicare, FICA
- **Hypo Taxes**
(replace actual Federal / State taxes)

add

- Assignment Allowances

**TAX
EQUALIZED**

Tax Gross Up

USED SOLELY TO CALCULATE TAXES DUE IN HOST LOCATION WHICH THE **COMPANY** IS RESPONSIBLE FOR REMITTING TO THE LOCAL AUTHORITIES ON BEHALF OF THE EXPAT (FUNDED PARTIALLY WITH HYPO TAXES DEDUCTED FROM THE EXPAT).

NO NET PAY IS DELIVERED TO THE EXPAT THROUGH THE SHADOW PAYROLL.

Net Salary (paid)

Net Salary (converted GBP)

= STAYED AT HOME SALARY + ALLOWANCES.

CALCULATED IN USD BUT COULD BE DELIVERED

PARTIALLY OR ENTIRELY IN FOREIGN BANK ACCOUNT.

Hypo taxes are withheld from the expat gross pay in lieu of actual income taxes but are NOT remitted to the home country tax authorities such as the IRS / State of California (in the US for example it is possible to stop remittance of Federal income taxes if an individual is out of the US for more than 12 months and to stop remittance of California State taxes if an individual is outside of California for more than 18 months).

Hypo taxes are instead kept by the employer in anticipation for the taxes due in the host location (regardless of whether they are due on a monthly or yearly basis).

The hypo taxes withheld from the expat home payroll gross pay will never be the same amount of taxes due in the host location (this is due to different tax rates, assignment compensations items being taxable, etc.) and for US outbounds it is quite often the case, though not always, that the taxes due in the host country are higher than those withheld from them.

Who pays for the shortfall (or benefits from lower taxes due) is a decision made when choosing the assignment tax policy under which the expat will be covered.

For instance, as illustrated in the previous section, under a tax equalized arrangement, the company is responsible for covering the delta between the taxes withheld from the individual and those due in the host location if higher (whilst also retaining the actual tax savings if the expat is seconded a low or tax-free location).

On the other hand, **under a tax protection arrangement, instead of hypos, the expat may have estimated host country taxes withheld from his home country gross salary** with a reconciliation carried out every 6 months or so to re-align estimated vs actual host country taxes.

The expat may have to cover the delta due to the higher taxes due in the host country (but also keep any gains deriving from taxes saved if seconded to a lower tax regime location) with the company offering partial tax protection by for example agreeing to paying the taxes due on assignment specific compensation items only on behalf of the expat.

**HOME COUNTRY US
(REAL PAYROLL)**

**HOST COUNTRY UK
(SHADOW PAYROLL)**

Gross Salary USD

Salary GBP

deduct

- 401K
- Benefits
- Social Security
- Medicare, FICA
- **Estimated Taxes**
(replace actual Federal / State taxes)

add

- Assignment Allowances

Net Salary (paid)

- **STAYED AT HOME SALARY IS NOT GUARANTEED IF TAXES ARE HIGHER IN HOST COUNTRY**
- **COMPANY DOES GUARANTEE NET ALLOWANCES**
- **CALCULATED IN USD BUT COULD BE DELIVERED PARTIALLY OR ENTIRELY IN FOREIGN BANK ACCOUNT**

TAX

PROTECTED

**Tax Gross Up
on allowances only**

= CONVERTED NET SALARY + GROSSED UP ALLOWANCE.

USED SOLELY TO CALCULATE TAXES DUE IN HOST LOCATION WHICH THE **EXPAT** HAS FULLY FUNDED WITH ESTIMATED TAXES WITHHELD FROM THEIR US GROSS SALARY (COMPANY MAY STILL REMIT TO AUTHORITIES).

NO NET PAY IS DELIVERED TO THE EXPAT THROUGH THE SHADOW PAYROLL.

Net Salary (converted GBP)

A shadow payroll is essentially a host country “mock” payroll run in parallel to the home country actual payroll.

The home country payroll delivers the net pay to the expat whereas the shadow payroll is used to calculate and report the taxes due in the host location.

With the exception of a few countries such as Singapore and Japan where the taxes due on the expat's earnings can be calculated and reported via the tax return at year-end instead of on a monthly basis, running a shadow payroll in the host country is usually requirement when assignments exceed 6 months.

A shadow payroll becomes relevant in situations where the expat generates tax and/or social security liabilities in the host country which need to be reported / paid to the local tax authorities in “real time” AND the expat also maintains ongoing requirements in the home country such as net salary payment, tax and social security payment and/or reporting, benefits payment withholding / contributions.



Potential Shadow Payroll scenario

US employee seconded to the UK for 3 years (they remain employed in the US).

The employee prefers (and is entitled to) to remain on the US social security system and benefit programs (401K, Medicare, FICA, etc.).

The US company has ongoing reporting obligations in the US (W2 year-end reporting).

Employee has a mortgage and other outgoings in the US during the duration of the assignment.

All of the above is best accommodated by keeping the employee on the US payroll through which their net pay continues to be paid for the duration of the assignment (even though the parties might eventually agree on a specific % of net USD pay is to be delivered in a foreign bank account so the individual is able to meet day-to-day costs in the host location).



In addition, withholding and reporting requirements also arise in the UK as a result of the assignment.

A UK shadow payroll is therefore set-up to:

- Calculate the UK taxes due on the expat compensation whilst on assignment
- Remit and report UK tax liabilities each month to the UK tax authorities

However, no net pay is delivered to the expat via the UK shadow payroll.

This shadow payroll mechanism goes hand in hand with the chosen assignment tax policies and it usually requires end of year tax balancing calculations to be performed to reconcile the taxes actually withheld from the expat vs the estimated / hypo taxes withheld from them throughout the year.





~~Problem~~ Solution

It is quite often the case the companies concentrate so much of their attention on day to day operations and international expansion efforts that they eventually come to a sudden realization of issues they will typically have to face which, up to that point, might not have been on anyone's radar (only at that point, it then becomes much more difficult dealing with these issues).

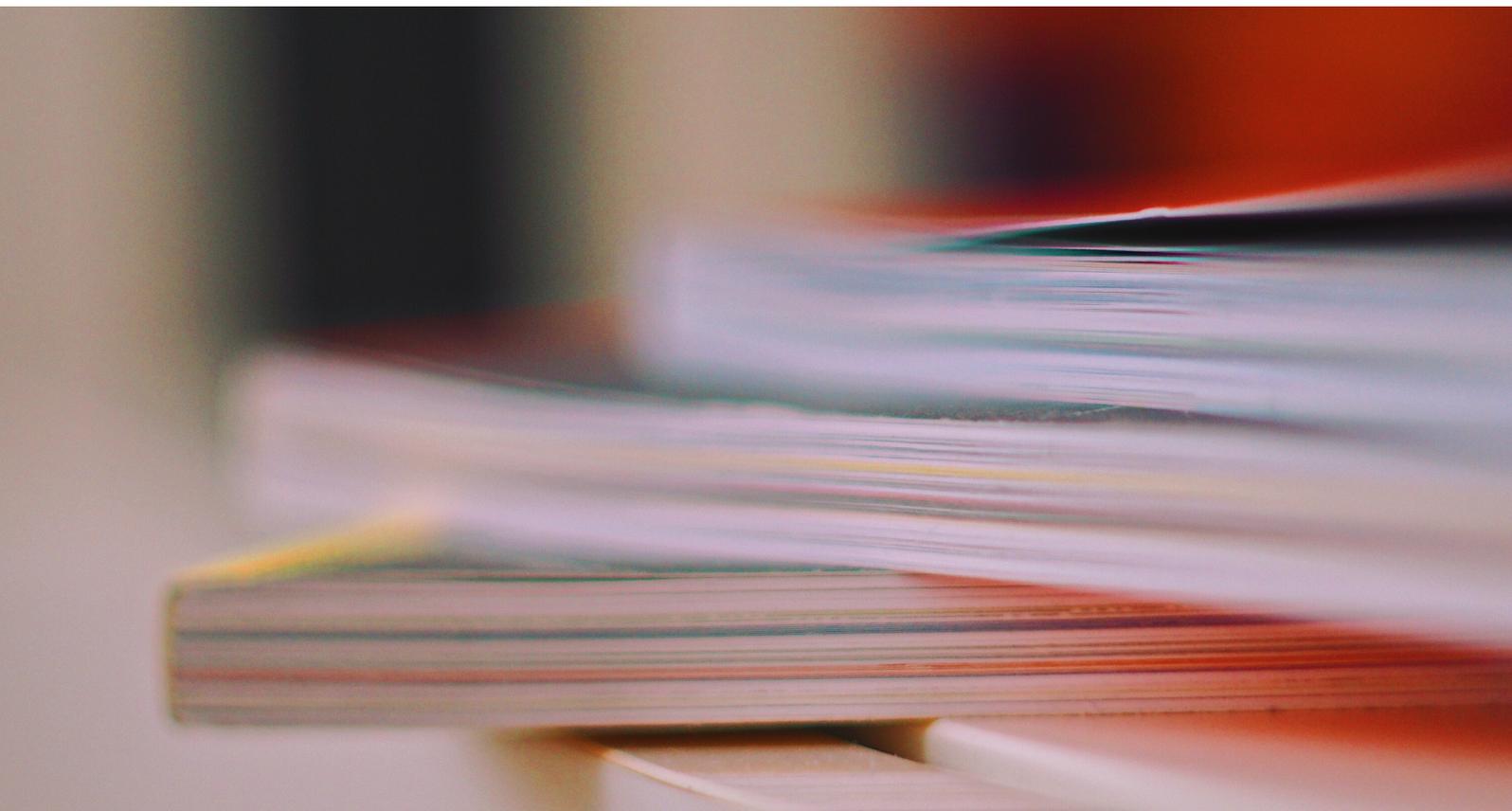
Even when some form of forethought has been given, issues still tend to arise either through sheer lack of understanding of the complexities of international expansion and expats management or simply because some of them might have been overlooked and / or underestimated.

Issues typically discovered include but are not limited to:

- **Unrealistic timing and budget expectations** in connection with setting up an entity, immigration paperwork, implementing a shadow payroll, etc.
- **Assuming host country requirements, rule and regulations are similar to those in the home country** and therefore it is possible to set-up operations maintaining the “**status quo**” (i.e. without offering local language employment contracts, assuming employees can continue to be “fired at will”, no need report and pay host country taxes as expat is kept in the home country payroll).
- Individuals becoming “**accidental expats**” and thus triggering a number of immigration, withholding, personal tax, social security and potentially corporate taxes requirements for themselves and their company through frequent business trips which nobody is monitoring (i.e. “**sleep walking**” past the **183 days threshold**, performing business activities not permitted by the visa type issued to them by the host country, exposing the company to Permanent Establishment risks, etc) until the individual incurs into issues at border control.



- Lack of consideration of relevant **inter-company accounting** treatments (i.e. recharge of costs) particularly where expat expenses / assignment costs are involved.
- Expats imposing their own terms on the company as there are **no pre-agreed policies** in place addressing even the most basic of needs arising from an international assignment and expansion into a foreign location.
- Expats being regarded the same as local hires and therefore **no guidance / support** being provided to them which may in turn put them and their families (whether or not they are relocating too) under a great deal of **emotional stress** and in the worst case scenarios lead to **legal actions** being taken against the employer.



GET IN TOUCH

Expanding internationally and sending staff on assignments can be a terrific opportunity for growth for companies and individuals alike if handled properly.

Contact us at info@globaltax.services to plan your strategy or to discuss your existing arrangements.

www.globaltax.services