the beginner's guide to global mobility

A comprehensive overview
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In today's global economy, effective talent management is essential to driving innovation and growth, and provides a wide range of rewarding and lucrative careers while supporting business objectives to keep companies competitive on the world stage. But, as any multinational employer will attest, successfully navigating a global economy and deploying workers internationally is increasingly complex and expensive.

Technology and the internet have indeed collapsed distances and expanded commerce. But when establishing a global mobility program, employers must still pay close attention to geographies and cultures in light of business needs and objectives. And one of the biggest challenges in developing a global mobility policy is establishing a coherent, workable compensation approach.

Deciding on the types of mobility policies to implement, as well as how to communicate and administer them has become a major strategic and logistical challenge for employers. What may work for the assignment of a few expatriates who originate from one home country may not be appropriate for dozens of individuals, in various assignment categories, from several home countries.

Within an environment of competing priorities, today's companies must balance the needs and goals of international assignees with those of the business. They must assess assignment objectives in the context of cost and return on investment to properly measure the value of assignments.

To address these broad concerns, many companies are getting creative. While acknowledging a need for an underlying assignment policy, they are also recognizing that some flexibility is needed. They are exploring new ways to structure their packages, varying them when it makes good business sense. When you consider that some multinationals are trying to develop policies to accommodate the relocation of more than 100 nationalities on a wide variety of assignment types – global, regional, short-term, developmental, and permanent – and are dealing with compensation issues related to compliance, tax, local norms, salaries and other issues, this is a tall order by any standard. So how do employers deal with this Rubik's cube of diverse interests, locations, and needs?
### Mobility Pattern vs. Type of Mobility

<table>
<thead>
<tr>
<th>Mobility Pattern</th>
<th>Type of Mobility</th>
<th>Details</th>
</tr>
</thead>
</table>
| There and back   | Long-Term Assignment | - Usually 2-5 years  
|                  |                  | - Secondment  
|                  |                  | - Repatriate or localise  
|                  |                  | - Potentially high cost  |
| There and back (quick) | Short Term Assignment | - Usually 3-12 months  
|                  |                  | - Home payroll, benefits  
|                  |                  | - Often unaccompanied  
|                  |                  | - Serviced apartment  |
| Staying There    | Localisation     | - Starts after 3 or 5 years  
|                  |                  | - Package reduced to Local or Local+  
|                  |                  | - Move employment to host  |
| Moving There     | Permanent Transfer | - Move employment to host  
|                  |                  | - No guarantee of repatriation  
|                  |                  | - Local or Local+ package  |
| Already There    | Locally Hired Foreigner | - Local or Local+ package,  
|                  |                  | - Local terms and conditions  |
| From There       | Returnee         | - Citizen of host location, but studied and/or worked overseas  
|                  |                  | - Returning for variety of reasons  |
| There and back Repetitively | Commuters / Rotators | - Commuting on a weekly or a monthly basis  
|                  |                  | - Unaccompanied  |
| There and back (very quick) | Extended Business Trip | - Up to 3 months  
|                  |                  | - Home payroll, benefits  
|                  |                  | - Unaccompanied  
|                  |                  | - Hotel  |
| Virtually there  | International remote working/Virtual assignment | Working for a host location while staying in home country or a country of choice  |

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**reasons why global mobility management matter:**

1. Expatriates often cost much more than a local employees.
2. They are key employees for the companies (manager, unique skills, high potential...)
3. The global war for talent is driving the need for new forms of mobility.
4. Within many organisations, having an international experience is a requirement for emerging leaders and top talent.
5. The assignment landscape is becoming more complex with more and more of different types of assignments such as long-term, short-term, commuters, local plus, permanent moves and international remote working.
6. Managing change to mobile employees is a very complex exercise for companies in terms of compensation, compliance and talent management.
An informed perspective

With the largest participant base in the market the comprehensive and global Worldwide Survey of International Assignment Policies and Practices (WIAPP) survey addresses the most critical policy and practice elements of international assignments and answers prevalent questions in this dynamic field.

With the increasing complexity that globalization brings to international assignments, employers sometimes overlook the basic elements underlying an expatriate program. Although assignment objectives may vary, each posting represents a mutual investment for both the organization and the employee: a financial and human resources investment for the company; a career and family investment for the individual.

Organizational issues

Whether the entity is a large multinational corporation, a nonprofit organization, or a small firm just entering global business, financial and HR issues constantly challenge administrators. Employers must carefully weigh foreign staffing needs against the cost of filling positions with assignees – particularly in times of economic uncertainty. As expatriation is always expensive, some companies hire qualified local nationals whenever possible.

• To implement a successful international program that fulfills the employer’s needs as well as that of its expatriate population, HR administrators have the following objectives to meet:
  • Select appropriate candidates to staff the overseas jobs.
  • Design compensation programs that balance the need to attract employees so that they accept assignments with the managerial mandate to control costs.
  • Implement tax policies that comply with both local and home-country laws.
  • Monitor expenditure needs in each host location, as well as foreign market fluctuations, to properly administer pay programs.
  • Provide sound and timely communications to ensure that assignees, often far removed from headquarters, understand and accept company policies.
  • Discuss the individual’s repatriation strategy even before the employee accepts the assignment.

What to consider?
Employee concerns

Job-related and personal considerations not only affect employees’ decisions to accept the assignments but also their performance overseas. Uncertainty about the new position and any future jobs is frequently a cause for anxiety, resulting in fear that while abroad, they will be so separated from the corporate mainstream that their careers will suffer. Consequently, it is important to evaluate potential assignments with consideration of an employee’s career development.

At the personal level, the employee and any accompanying family members face an adjustment to different customs, laws, schools, living conditions, and, often, a new language. Concern about how they will adapt is an important factor in the decision, as well as how they will stay in touch with family, religious groups, clubs, and friends in the home country. Other considerations arise:

- Spousal career issues play an increasing role in whether an employee accepts an assignment.
- Difficulties may involve managing investments or real estate back home or, if the residence is sold, reentering the real estate market on repatriation.

Expatriate compensation

When organizations first begin to operate overseas, their goals are usually immediate – get the job done. They tend to relocate the first available technically qualified person, often negotiating packages individually or basing them on home-country salaries plus subjectively developed incentives. As corporate experience grows an increase in assignees and the need to be competitive lead to a more structured expatriate compensation approach. The majority adopt the balance sheet approach as the best means to support broader policies and business goals and recognize the singular nature of assignments through a specially designed program.

With increasing diversity of assignment types, home and host locations, and other factors, employers seek alternative methods to provide competitive, yet cost-effective pay packages (see Chart 1, Evolution of Expatriate Policies).
With the increasing diversity of international assignment types and policy segmentation, you need the most comprehensive analysis of how multinationals manage global mobility.

The Alternative International Assignments Policies and Practices Survey (AIA) is a deep-dive into policies and practices, and examines trends for the following types of international assignments:

- Permanent transfer
- Short-term
- Commuter

Whatever method is chosen, a well-organized and well-administered expatriate compensation program must meet the needs of these groups:

- **Line Management:** Compensation must get people to go where they are needed at a reasonable cost.
- **International HR:** The program must be easy to administer and simple to communicate.
- **Assignee:** Pay must be fair, easy to understand, able to cushion local inflation, and demonstrate recognition of the difficulties of a particular assignment.
- **Corporate Tax:** The tax treatment must be in compliance with home and host regulations.

To meet the needs of these disparate groups, the expatriate compensation programs used by most multinationals are made up of four key elements:

- **Base Pay:** Salary expressed in home-country currency and on a par with the pay of domestic counterparts in comparably evaluated jobs.
- **Differentials:** Equalizers for the higher (or lower) costs of foreign goods and services, housing, and taxes so that assignees neither gain nor lose purchasing power relative to their home-country peers.
- **Reimbursements or Allowances:** Additional payments to cover miscellaneous costs associated with the assignment (e.g., transportation, moving, storage, home leave, education); some will be paid as reimbursements of actual costs incurred, others as lump-sum allowances.
- **Incentives:** Compensation for separation from family, friends, and support systems, as well as premiums for living and working in unusually difficult conditions.

**Deciding on the best approach**

Faced with sending the first expatriates abroad or the third generation of assignees, employers must carefully weigh the particulars of their circumstances, organizational objectives, ease of attracting expatriate candidates, budget restrictions or flexibility, corporate culture, and HR policies. What works for one organization often will not work for another.
<table>
<thead>
<tr>
<th>Issue</th>
<th>Phase 1</th>
<th>Phase 2</th>
<th>Phase 3</th>
<th>Phase 4</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Business status</strong></td>
<td>First overseas operation</td>
<td>Few overseas operations (not integrated)</td>
<td>Growing international maturity</td>
<td>Worldwide integration and planning</td>
</tr>
<tr>
<td><strong>Type of expatriates</strong></td>
<td>All from the headquarters’ country</td>
<td>Mostly from the headquarters’ country; some TCNs</td>
<td>From the headquarters’ country; increasingly replaced by TCNs and local nationals</td>
<td>Global sourcing of talent with diminishing emphasis on nationality</td>
</tr>
<tr>
<td><strong>Expatriate philosophy</strong></td>
<td>Get the job done</td>
<td>Improvise</td>
<td>Developing awareness of a need to plan career paths and pay</td>
<td>Well-developed career planning and repatriation policies</td>
</tr>
<tr>
<td><strong>Expatriate compensation</strong></td>
<td>Negotiation; home-country salary plus incentive</td>
<td>Balance sheet for the headquarters’ country; negotiation with TCNs</td>
<td>Wider variety of compensation approaches geared to differing assignment types and homehost locations</td>
<td>Pay policies supporting assignment patterns and a mixture of approaches, which might include: balance sheets tied to home country; regional pay programs; modified balance sheet (standardized host-country pay for all nationalities); multiple pay plans</td>
</tr>
</tbody>
</table>
Ease (or complexity) of administration is often a factor, along with the logistics of explaining an unwieldy program. If the expatriate cannot readily understand, after countless repetition, how much he or she is getting paid and why, then one wonders whether the plan is logical. Some companies, in an effort to rationalize their pay programs, create a convoluted system. In such cases, the employer and the employee both stand to lose – employees feel cheated, and employers lose productivity.

The most workable system for most multinational organizations is one that balances cost-effectiveness for the employer with competitiveness in attracting high-quality candidates. An appropriate international compensation system – regardless of its final format – should reinforce the company’s business and operational needs, as well as enhance the career development of assignees while abroad and upon repatriation.
Expatriate assignment cycle

Who should be involved in the assignment process?

Job-related and personal considerations not only affect employees’ decisions to accept the assignments but also their performance overseas. Uncertainty about the new position and any future jobs

• Spousal career issues play an increasing role in whether an employee accepts an assignment.
• Difficulties may involve managing investments or real estate back home or, if the residence is sold, reentering the real estate market on repatriation.

The assignment lifecycle - in the business context

Please note that the role of business functions are indicative only; your organisation structure may differ to the diagram above.
Tackling the compensation issue

Understanding international pay differences is an important step when considering implementing a new mobility compensation approach

The Mercer Total Remuneration Surveys (TRS) provide a comprehensive market data on compensation and benefits around the globe. The TRS results are published every year in more than 125 countries and can be accessed through our online platform, Mercer WIN®.

In the beginning...

The early days of international assignments were marked by individual deals. Absent a consistent policy and solid infrastructure for administering programs and managing expatriates, employers frequently negotiated individual packages with assignees that were overgenerous, with little regard for strategic and business needs. These headquarter-centric international assignments, and their duration and compensation, were not tied to overarching talent needs.

That changed. As international assignments increased and the quest for talent intensified, the approach to managing assignments evolved. Gradually, employers concluded that uniformity and a more formal, systematic approach to international assignments was valuable, providing a way to track and measure costs. During this period, assignments were typically of limited duration, from two to five years. Employers used the home-based “balance sheet” (aka “home country”) approach to determine an assignee’s salary. The idea was to keep the employee “whole” by equalizing cost differences between assignments in a host country and those at home. Using this approach helped keep expatriate employees at comparable levels to their jobs in their home country, with benefits and allowances provided to allow them to maintain an equivalent living condition to their home country.

An evolving compensation landscape

While formalizing the assignment process had its benefits, many of today’s multinational employers are adopting a segmented compensation approach, giving greater consideration to types and lengths of assignments as well as to the types of assignees and pay models. Rather than using one policy, employers have developed multiple policies and tiers, allowing a greater tolerance for pay differences between emerging and developing countries, where hardship and security conditions may be important issues to assignees. This structured-variation approach also permits employers to assess the professional development aspects of assignments more closely, using them explicitly to fill skill gaps or to develop future global leaders.

Cost containment is another pressing concern. As employers seek to minimize cost and successfully recruit and retain assignees while shaping an efficient staffing mix, they are focusing more on strategic planning and talent alignment to achieve a reasonable, timely return on their investment.

The issue of dual careers has emerged as a key challenge in designing compensation packages. In general and across industries, companies experience a significant level of resistance to international assignments among their employee populations. Indeed, our survey data reveals that the number one reason for turning down assignments or self-selecting out is the issue of dual careers. Although a plurality of companies have a policy that addresses the issue of dual careers by providing some sort of assistance, few policies can compensate entirely for a career disruption, such as in cases where an employee might have a professional spouse at a law firm or an accounting firm who is on the partner track. In these instances, the implications of an international assignment extend well beyond the immediate financial impact, for how can a company really compensate someone for losing his or her place on the career ladder? In short, it can’t.
How to compensate

Current compensation approaches for international assignments tend to fall within a spectrum that ranges from systems that relate compensation back to the home country (the traditional home-based “balance sheet” approach) to systems that integrate compensation into the “host country” salary structure. As mentioned earlier, the home-based balance sheet approach compensates the assignee based on his or her home country salary structure in order to equalize cost differences between the home and host countries. The host country compensation approach pays the assignee a salary based on what locals of the host country earn. But this approach, while simplifying administration, is difficult to implement given the wide differences in salary levels (and cost of living, and quality of living) worldwide.

Between the two extremes are a variety of methodologies. But the fundamental challenge is finding the most appropriate types of home or host compensation approaches for different assignee groups. To induce candidates to accept a host country salary, many companies have crafted a hybrid approach – ‘Home Plus,’ ‘Host or Local Plus,’ and Expat Lite packages – that offer additional allowances to address different needs. Given the complexity of assignment types today, it is rare that a company can find a “one size fits all” solution.
The Home-based balance sheet approach remains the most common approach to compensate expatriates.

Mercer’s online calculators allow you to automate home country balance sheet calculations including estimated gross up in the host location as well as calculate competitive expatriate package by:

- Addressing expatriate cost of living differential issues
- Determining housing allowances
- Addressing quality of living differences and determine hardship allowances
- Assessing tax impact

Long-Term Assignments
https://mobilityexchange.mercer.com/long-term-assignments

In Mercer 2020 Worldwide International Assignment Policies and Practices (WIAPP) Survey, covering market practices for international pay options, the most common system worldwide for compensating expatriates continues to be the home-based balance sheet approach, with 66% of companies employing this approach. Virtually all major multinationals use some form of this approach to compensate expatriates, but it has declined a bit overall. In 2010, 69% of companies worldwide used this approach.

In the host/local-based option or the host/local plus packages, consideration has centered on direct/local hires, transfers from low-wage to higher-wage countries, permanent transfers and localized expatriates. Use of these packages has been expanded to include entry-level-development or training assignments and for positions where incentive compensation plays a significant role, as in financial services, and employee-requested assignments.

Recent surveys of multinationals with large, well-run global mobility packages showed a few commonalities in how they use ‘local plus’ policies, which is consistent with the practices of many of our clients. Findings show that a majority of companies use ‘local plus’ policies for some of their assignees, especially in Asia. ‘Local plus’ policies are most often used when permanently transferring an expatriate or when localizing an expatriate who is already on assignment. Most companies indicated that they use the local pay structure to set base salary without applying an adjustment, and handle the payroll in country for these employees. In the past, companies using host or ‘host plus’ packages were actually varying this approach by applying a variety of adjustments. The ‘plus’ most often consisted of housing, dependent education, international medical, tax assistance or some combination of these benefits.

Balancing the advantages and disadvantages

From an administrative perspective, a host/local package often seems like an ideal situation, because the employer can transfer employees by providing a local salary in the assignment location without having to offer and administer a complicated package. And there are a few examples where this approach has proved possible, such as in transfers from low- to high-salary countries. But in many situations, it is difficult to get an employee to accept a true local package, so many companies use a ‘local plus’ package, providing some additional assistance. The additional benefits often consist of tax assistance, education assistance, home leave allowances and housing adjustments.
Mercer’s Local Plus Surveys cover the elements of this type of compensation package and differences in the application of Local Plus policies for permanent/one-way transfers, locally or internationally hired foreigners, localized expatriates, or international assignments of a limited but pre-determined duration.

- Trends in the use of Local Plus approach for foreigners.
- How compensation is determined.
- What “plus” elements are provided and for how long.
- How the contents and amounts of the “plus” elements are determined.
- How Local Plus terms and conditions vary from standard expatriate terms and conditions.
- What localization policies and practices are applied.

Some of the advantages of host/‘local plus’ packages include simplicity of pay administration, the attraction of a pay structure for those employees moving from a weaker economy (for example, from India to UAE), the convenience for the employee who is going to remain in the assignment location, and the ability to maintain equity with local work staff. But there are some disadvantages, including:

- the breaking of links to home pay and benefits, which may cause long-term employment or retirement issues,
- the difficulty of repatriating, failure to fully equalize higher standard of living home expenditure patterns, and
- the possibility of discouraging workers from taking assignments.

Expat Lite packages are another option considered by many companies. Expat Lite packages use home country salary levels, with a reduced level of benefits/allowances. Employers sometimes use them to attract younger workers who want to enhance their careers by obtaining global business experience. Usually single, these workers view international assignments themselves as a plus, so companies may not need to provide them with more-robust benefits. The downside is that these types of employees become very marketable and may move across companies more frequently as a result of gaining international experience.
<table>
<thead>
<tr>
<th>Deployment model</th>
<th>Policy type</th>
<th>Centre of life</th>
<th>Accompanying family</th>
<th>Compensation approach</th>
<th>Tax approach</th>
<th>Additional benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short Term Assignment</td>
<td>Short Term Assignment</td>
<td>Home country</td>
<td>No</td>
<td>Home based + per diems</td>
<td>Tax equalized or protected</td>
<td>Relocation, compliance support, host country housing and a per diem allowance</td>
</tr>
<tr>
<td>Long Term Assignment</td>
<td>Traditional</td>
<td>Host country</td>
<td>Yes</td>
<td>Home based</td>
<td>Tax equalized</td>
<td>Relocation, compliance support, full assignment benefits</td>
</tr>
<tr>
<td></td>
<td>Local Plus</td>
<td>Host country</td>
<td>Yes</td>
<td>Host/new location</td>
<td>Gross paid</td>
<td>Relocation, compliance support, some assignment benefits</td>
</tr>
<tr>
<td></td>
<td>Expat Lite/ Development</td>
<td>Host country</td>
<td>No</td>
<td>Home based</td>
<td>Tax equalized</td>
<td>Relocation, compliance support, minimal assignment benefits</td>
</tr>
<tr>
<td>Permanent Transfer</td>
<td>Company initiated</td>
<td>Host country</td>
<td>Yes</td>
<td>Host/new location</td>
<td>Gross paid</td>
<td>Relocation, compliance support and new location start-up benefits</td>
</tr>
<tr>
<td></td>
<td>Self-initiated</td>
<td>Host country</td>
<td>Yes</td>
<td>Host/new location</td>
<td>Gross paid</td>
<td>Minimal – relocation and compliance support only</td>
</tr>
<tr>
<td>Locally hired foreigner</td>
<td>Foreign National Local Hire</td>
<td>Host country</td>
<td>Yes</td>
<td>Host/new location</td>
<td>Gross paid</td>
<td>Relocation, compliance support and new location start-up benefits</td>
</tr>
<tr>
<td>Commuter</td>
<td>Role requirement</td>
<td>Home country</td>
<td>No</td>
<td>Home based</td>
<td>Tax equalized</td>
<td>Relocation, compliance support, host country housing and a per diem allowance</td>
</tr>
<tr>
<td></td>
<td>Self-initiated</td>
<td>Home country</td>
<td>No</td>
<td>Host/new location</td>
<td>Tax equalized</td>
<td>Relocation, compliance support, host country housing and a per diem allowance</td>
</tr>
<tr>
<td>Rotator</td>
<td>Rotator</td>
<td>Home country</td>
<td>No</td>
<td>Home based</td>
<td>Tax equalized</td>
<td>Relocation, compliance support, housing and special incentive payments</td>
</tr>
<tr>
<td>Virtual assignment</td>
<td>International remote working</td>
<td>Home country</td>
<td>No relocation</td>
<td>Home country</td>
<td>Ensuring compliance</td>
<td>Sometimes remote working or home office allowance.</td>
</tr>
</tbody>
</table>
Emerging trends

In exploring alternative approaches to compensation for international assignments, companies are not only looking to change or incorporate a variety of compensation philosophies, they are also looking at new ways to structure their policies and ultimately their pay packages. In the last decade, the evolution of trends has accelerated, not so much in the composition of the packages provided for what we refer to as ‘typical’ or ‘traditional’ long-term assignments, but more in the diversity of mobility forms, segmentation of assignment types and the way assignment programs are managed.

Mercer’s 2020 Worldwide Survey of International Assignment Policies and Practices, confirmed that companies are introducing more flexibility, such as policy segmentation, more inclusive mobility programs to accommodate different personal situations of the assignees and including as many different assignee profiles as possible, in line with an attempt to curate and enhance the employee experience and build an attractive employee value proposition.

When evaluating any type of compensation approach, it’s important to first understand the advantages and disadvantages and the overall impact it may have on a company’s international assignment programs. Once this is known, sharing these findings with the appropriate stakeholders is important. Many employers like to hop on the bandwagon of new approaches, regardless of underlying evidence. But they should keep in mind that all corporate cultures vary, and they should carefully evaluate the impact of any new initiatives before they are implemented. In working with our clients who are considering alternative approaches to compensation, we ask them to identify the drivers for these changes. Why are they considering a change? What are they hoping to achieve? By establishing the business context for certain approaches, we help them work through the advantages and disadvantages in order to prioritize needs and control outcomes.

Mercer’s solutions

Home-based / balance sheet approach: https://mobilityexchange.mercer.com/long-term-assignments


Host country/local plus approach: https://mobilityexchange.mercer.com/assignments/Localized-Compensation

Compensation localizer: https://mobilityexchange.mercer.com/compensation-localizer
The Cost of living allowance is designed to cover the cost differential of goods and services used by expatriates between the home and the host location. It doesn’t include housing costs that are typically covered by a separate housing allowance. Cost of living indexes should also not be confused with local inflation indexes (CPI) that include a wide range of items that are not all relevant for expatriates.

Protecting the purchasing power of an assignee against currency exchange rate fluctuations and inflation during an international assignment is a complex challenge. Companies typically pay a cost of living allowance (COLA; also known as goods and services allowance) to ensure that assignees are not worse off in terms of purchasing power during their assignment.

Cost of living is a consistent driver of complaints, for a number of reasons. Not only is it a complex subject — and one that changes constantly — but it is the one which assignees feel affects their family as they go about their daily life. They worry about it as they do their weekly shopping or refuel their car. Almost 53% of the respondents to the 2020 Mercer survey used a moderate index for traditional, long-term assignments. The survey also found that the majority of companies (68% in 2020 WIAPP survey) do not limit the payment of COLA. There is a growing trend for companies to put “floors” in place, however, particularly when they are sending technical staff abroad on low salaries, to ensure that employees have enough to live on.

Choosing the right approach: ‘Multinational’ vs. ‘Home-host’ philosophy

Base pay in the home country is made up of four key elements: income taxes, housing, saving, and spendable income. This latter category will be used by employees on their common daily needs, covering everything from food to household supplies, clothing, personal care, and recreation.

When assignees are dispatched overseas, organisations use a “cost of living basket,” including these key items in order to measure differences in the cost of living between home and host locations. This basket then plays an important role in working out compensation approaches for assignees, for which there are usually two principal options/approaches.
The multinational philosophy assumes that assignees will spend similarly on their “basket items” regardless of their home location. In this approach, one basket is used for all transfers. According to the home-host approach, however, people spend differently depending on their country of origin. To address these differences, a different basket is used per nationality.

The right choice for your business will depend very much on the make-up of your expatriate workforce.

If your expat contingent is drawn from a range of locations, the multinational approach is most likely to be the best fit. If not, the home-host approach would make the most sense.

Each policy has three different types of index, all of which can be customized if needed. Using Mercer as an example, the indices used in our multinational and home-host approaches are as follows:

**Multinational**

1. **Mean to mean.** This compares the average prices in an employee’s home location to the average in their host location for common items at comparable retail outlets. This index offers the best indicator of absolute price differences between locations without consideration of assignee efficiency or availability of goods in the location.

2. **Efficient.** This assumes the assignee has a wide variety of outlets and retail prices in the assignment location to choose from, but due to the short-term nature of the assignment may not have the same efficiency in purchasing as at home.

3. **Convenience.** This is based on more stores in the host location. It is applicable for locations where shopping convenience is essential, or locations that lack a wide variety of alternative retail outlets. High prices are used in host country and therefore the big allowance is provided.
Help determine fair allowances for all your assignees, wherever they come from:

Based on an international basket of goods and services reflecting realistic spending habits established through years of extensive expatriate research, Mercer's cost-of-living surveys provides all the key elements you need to set fair cost of living allowances, as well as the supporting information required so that all stakeholders can understand the compensation package.

**Home-host**

1. **Efficient purchaser.** This assumes the assignee is familiar with the local market and is therefore more efficient by purchasing a combination of international and local/regional brands at various outlets.

2. **High-income purchaser.** This is designed for high-income employees from lesser-developed or low-wage countries who, due to their increased earning power, have spending practices more typical of the expatriate or international community than of typical locals from their home country.

3. **Expatriate.** This is based on comparison of prices in retail outlets frequented by local nationals in the home location to prices from retail outlets frequented by expatriates in the assignment location. Appropriate for newly arrived expatriates or lesser-developed locations where local brands/outlets are inappropriate.

**Combating the challenge of currency fluctuations**

Even though cost-of-living indices can fluctuate, whichever direction they move in, expat workers will not lose out ultimately. To illustrate, let's look at the figures for a family moving from Boston to São Paulo, as shown in the table below. At the beginning of the assignment, the family has a spendable income of $24,000. The COL index at the time of departure is 145 and the exchange rate is 1.71 Brazilian real to the US dollar.

Six months later, the US dollar is stronger. In order that the assignee not profit from currency fluctuations, the index will decrease to compensate. However, the “host salary portion” (spendable income adjusted by COL index) in Brazilian real remains stable and even increases slightly as inflation in Brazil has been marginally higher than in Boston (1.75% vs. 1%). It is crucial that assignees see the overall picture as well as the bare facts presented in the index.

<table>
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<tr>
<th>Survey date</th>
<th>Deployment model</th>
<th>Gross salary</th>
<th>Spendable income</th>
<th>COL Index</th>
<th>Exchange rate USD = BRL</th>
<th>Exchange rate variation</th>
<th>Spendable income adjusted by COL index</th>
<th>Variation</th>
<th>Spendable income adjusted by COL index</th>
<th>6-month Basket inflation Boston</th>
<th>6-month basket inflation São Paulo</th>
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Pay delivery models

The three most popular delivery models are described below:

1. **Split pay method**
   The most popular option in the survey has much to recommend it. In essence, organisations pay what is needed in the countries where the relevant funds are required: income taxes are taken care of in the home location, for example, which is also where savings are deposited, while the company pays for housing and goods and services in the local currency in the assignment location.

   Currency fluctuations between the home and host country have no impact on the employee under this system, but it is important for the employer organization to pay close attention to price movements.

   Using split pay does have implications for payroll, however, and as not all terms are standard — definitions or meanings may not be the same in the host and home country, for example — sometimes problems in translation can result and will need to be dealt with.

2. **Home country currency method**
   This popular option is a good choice for short-term assignments and commuters. Administration levels are relatively light as no payroll transfers are required: employees are paid in their home country currency direct to their home bank accounts. Some portion of the salary will, however, need to be wired to the host country to pay for housing, spendable income and potentially also school fees.

   An advantage for employees from high-salary countries is that their money is in the right place at the right time, which enables them to keep up with home financial obligations such as their mortgage, and so on. They are also able to save easily, should they wish.

   There are some disadvantages, however, including issues with tax and transfer pricing. Employees will be taxed in their host country, and in some places (such as Poland and Bulgaria), tax returns need to be completed monthly; in others, tax payments cannot be wired to the relevant authorities by the home company but must be paid in person or via a host country account opened by the assignee. Both scenarios represent a considerable extra burden for assignees and organisations alike. An additional disadvantage is the need to monitor exchange rate fluctuations — the assignee transfers money to the assignment location each month for the payment of daily expenses.

3. **Host currency method**
   Under this system, the full salary is paid in the local currency into a local bank account, which means that the money is where assignees need it as they buy daily consumables. It does make it harder for them to save in their home country, however: if they are not based in a “safe harbor” the systems needed to wire funds home may not be secure, which could cause anxiety. There may also be restrictions on the amounts of money that can be sent abroad. With this method, the currency fluctuations also need to be monitored.

A cost of living allowance can go up or down due to the impact of exchange rate and inflation variations but in any case, the purchasing power of the assignee in host currency remains constant.
Mercer’s Cost-of-living allowance calculators allow users to automatically calculate competitive allowances and customize the assumptions used (exchange rate, inflation and type of index.)

Managing the cost of living in high-inflation locations

Inflation is a major cause of concern for assignees, but in fact only a small minority of the 400+ locations covered by Mercer experienced high price movement (that is, more than 10%) for the 12 months leading up to May 2021. (Note that we refer here to the “cost of living basket” inflation, i.e. price movement of a selection of goods and services that are relevant for an expatriate and not the official inflation rate, and that housing and school fees are not included in that basket.)

Employees are quick to spot that the inflation rates shown in internal index tables do not tally with the official rate, and they will query that. Explain your policy and reassure them that if inflation increases in their host location, the index will change to reflect those higher prices and their purchasing power will not be adversely affected.

Applying negative COL indices

Organisations have wrestled with this issue for many years — the ongoing global financial turndown has also increased the impetus to cut costs — but it is clear from the 2015 Mercer survey that negative COL indices are not used routinely in developed countries as a way of reducing employee spending. In fact, employees are receiving a windfall.

Emerging Asian countries are generous in this regard, as are the United States, Canada, and Australia.

European companies are more likely to apply negative COL indices.
Conclusion

There is no doubt that managing cost of living for expatriate workers is a challenge, particularly as it is affected by myriad issues such as base salary, choice of index, currency fluctuations, and price movements in both home and host cities.

As always, clear communication is the key to success. Encourage assignees to look at overall policies rather than focus on just one element, and be prepared to challenge their perceptions: if they feel their purchasing power is being impaired in some way, show them the figures that tell the true picture. To help you do that effectively, be sure to update COL indexes regularly, particularly for countries or regions with high price movements.

Mercer’s solution

Cost of living reports
https://mobilityexchange.mercer.com/cost-of-living
Foreign housing expenses for an expatriate family can be quite high. In most countries, many choices are available, leaving it up to the employer to decide where it wants to position its housing policy in the real estate market.

Companies strive to arrive at an equitable policy for housing expenses appropriate for the assignee’s job level and responsibilities, family status, corporate budget, and local conditions.

The results of the 2020 Mercer Worldwide Survey of International Assignment Policies and Practices show that 79% of companies systematically provide a housing allowance to long-term assignees, while the following are applied by approximately 3% of companies each: housing allowance on a case-by-case basis, provisions based on whether the assignee rents or owns accommodation in the home country, and provisions depending on the position level. Close to 8% of companies report that they never pay housing allowances, an upward trend from 5% in 2015. When determining a housing allowance, a majority of companies (64%) take into account the family size and the position/income level. 29% of companies take only the family size into consideration and 3% only the position/income level. Other options such as paying the same fixed amount to all assignees are not common.

The following suggestions take a closer look at the diverse factors involved in housing policy decisions and offer the questions one needs to answer to ensure a cost-effective solution to an expensive problem – without adversely impacting the quality of family life.
Factors that affect overall costs

Assignment-country housing is a major expenditure because the cost of rental accommodations is often higher than home-country expenses. A number of factors are responsible:

• In some popular expatriate destinations, the presence of international assignees who receive housing assistance from their employers has driven up rental costs for the type of accommodations likely to be chosen by assignees.

• In some cities that experience a large influx of foreigners, the availability of appropriate residential facilities may become limited, also driving up rental costs.

• Expatriates tend to congregate where other members of the international community live. Relocation companies often refer assignees to these neighborhoods because of their proximity to schools, expatriate clubs, and shopping. Unfortunately, they also tend to have high housing costs.

• Given the expense involved in host-country accommodations, mobility managers have several issues to consider when determining foreign housing policy for expatriates and any accompanying family:

  • What type of housing is available in the host location – apartments, houses, compounds, hotels? Is the assignment in a remote location with limited option or a city with a wide variety of housing?

  • What level of housing is appropriate for the assignee’s personal requirements? Is the accompanying family (if any) large or small? Do they have any special needs to address?

  • What level of housing is appropriate for the expatriate’s job status and standing in the business community? Is the assignee expected to host social gatherings that will impact the assignee’s job-related success or failure?

  • How long is the assignment expected to last?

  • What does management consider to be reasonable employer-paid housing expenses for the particular host location?

  • What are the expatriate’s general expenditures for the home-country residence? Will the assignee’s home-country residence be rented?

Expatriate housing with a perfect view:

Mercer Mobilize Housing solution provides equitable and cost-effective housing allowances with confidence with up-to-date, transparent, accurate housing data for over 430 locations worldwide on a platform that lets you tailor housing decisions to your company’s needs.
Mercer’s global reach and relationships with destination service providers ensure we have the best view of local expatriate housing markets worldwide.

- Get accurate, current data – we cover more than 430 locations worldwide, each updated twice a year, more often for locations experiencing volatility
- Set transparent, flexible allowances
- Sort by neighborhoods, cost levels, houses or apartments, furnished or unfurnished, size, and other options
- Customize the tool to your company policies
- Make the most of the tool with Mercer’s clientservice relationship

**Policy options for companies: covering the full housing costs or pay only for the housing cost differential?**

Paying for full housing costs can remove barriers to mobility as employees don’t have to worry about housing costs in the host location. This option is easier to communicate but can be costly and is questionable as the employee did have housing costs in his home country prior to the assignment: if the full housing costs in the host assignment are covered, this could result in a windfall for the assignee.

The alternative is to pay only for the housing cost differential between the home and the host location. In practice, companies don’t check the actual housing costs of each individual assignee in their home location. They compare a home housing norm (what a typical employee with a given salary level and family size is paying at home according to national statistics) with expatriate housing costs in the host location. This option is in line with the equalization logic used by many companies (no gain, no loss – at least, not on the expatriate package itself.) It can however be more difficult to communicate and employees often argue that they still face costs in the home country (maintenance, mortgage etc.) This approach is also more difficult to apply in hardship locations where assignees are required to live in specific secure but highly expensive areas. According to Mercer’s Worldwide Survey of International Assignment Policies and Practices close to two-thirds of companies apply the free housing approach (64% of respondents). This represents an increase of 9 percentage points in comparison to the 2017 survey edition. However, a twice smaller proportion of companies providing free housing provides home-country assistance (31% vs. 63% among firms deducting a home housing norm).
Data for an optimal decision

Most employers set limits – driven by the company’s experience in that particular location, recommendations by local management, and/or external sources of housing data (e.g., Mercer) – on the maximum amount they will pay for foreign housing. If the family insists on more luxurious accommodations, the expatriate usually pays the difference between the maximum the employer will cover and the cost of the accommodations in which the family wants to reside. Reliable housing information is essential to form the basis of policies that should be sufficiently flexible to respond not only to management’s need to remain cost-efficient but also the expatriate’s need for suitable housing for his or her family (see Chart, “Research the Neighborhood”).

Once the expatriate’s housing need is narrowed down, several additional issues should be considered when setting the housing allowance:

• Will the allowance cover an unfurnished or furnished property?
• Does the quoted rental amount typically include utilities (electricity, gas, water, hot water, heat), or is it an additional cost?
• Are other costs, if necessary, covered (such as garbage, sewer, maintenance, parking, television license, and so on)?

By asking the right questions and ensuring they get accurate data, mobility managers are better able to make appropriate policy decisions on suitable housing to both accommodate their budget needs and ensure the assignee’s satisfaction. With suitable – and reasonably priced – housing should come, one hopes, a more motivated and successful expatriate.
Mercer's solution
Mercer Mobilize Housing
https://mobilityexchange.mercer.com/housing

Research the neighborhood
Money is not the only concern when researching suitable accommodations for an expatriate family. Consider:

• Location (center of town, within city limits, suburbs)
• Approximate neighborhood size
• Overall quality of housing
• Level of safety and security
• Convenience of commute to business districts and proximity to local company office
• Accessible shopping districts, popular department stores, and supermarkets
• Accessible international schools for expatriate children and those with special needs
• Reliable medical facilities
• Recreational facilities (athletic facilities, parks, theaters, museums)
• Airports
• Types of apartments and houses commonly available in the area (furnished vs. unfurnished; number of bedrooms and bathrooms; area; amenities such as garden, pool, or parking)
How to calculate allowances & premiums: quality of living/location allowance
For the most part, expatriates face similar needs wherever they live – housing, education for their children, medical facilities, working infrastructure, cultural and recreational outlets, and places to obtain necessary goods and services. Additionally, such things as climate and physical conditions, disease and sanitation standards, ease of communications, and physical remoteness can make a home away from home feel like a pleasant adventure or an unpleasant misfortune. Moreover, the political and social environment, political violence and repression, and crime may give rise to potentially uncomfortable, inconvenient, or even dangerous situations.

When an employee is being moved to a city with a lower quality of living, many employers try to compensate for that loss with an allowance called “quality of living allowance” (also known as “location allowance” or “hardship allowance”).

This allowance is calculated as a percentage of the base salary (typically between 0 and 40% of the base salary.)

In Mercer’s latest Worldwide International Assignment Policies and Practices, participants were asked whether they provide quality of living allowances when expats are being sent to host cities with lower qualities of living, i.e. considered as hardship locations. Worldwide, 65% of employers provide a hardship premium and Europe shadowed this percentage, while North America exceeded it with over 76% of companies providing hardship premiums when applicable. Latin America and Asia Pacific showed a different approach, with only a little over half of employers doing so.

While quality of living can be a subjective concept for employees, quality of living allowances should be based on a rigorous and objective assessment of living standards in the host location. Companies moving assignees from one country to another therefore need clear, consistent and factual information that establishes differences in the quality of living between cities.
Setting the allowance: two possible approaches

1. Host only approach: the assessment of the degree of hardship of the assignment is based solely on the situation in the host location. No comparison is made with the home country. This approach results in a single recommendation for each location that is not dependent on any home, or base, location. The same percentage is used to calculate the allowance for all assignees based in the same location, regardless of their country of origin.

2. Home-host approach: the assessment includes an assessment of both the home and the host country. The allowance is based on the Quality of Living differential between the two locations. This approach can result in a different recommendation for a given location, depending on the home location from which the assignee is coming.

**Home-Host approach**

- **Chicago to Bogotá**
  - Index: 69
  - Allowance: 20%
- **Caracas to Bogotá**
  - Index: 125
  - Allowance: 0%

**Host approach**

- **Chicago to Bogotá**
  - Bogotá Location
  - Evaluation score: 266
  - Allowance: 20%
- **Caracas to Bogotá**
  - Bogotá Location
  - Evaluation score: 266
  - Allowance: 20%
To encourage mobility, reliable information is needed to help calculate fair, consistent expatriate compensation for hardship locations.

Mercer offers two ways to compensate mobile employees fairly for going to a host site with a lower quality of living than that in their home location. Quality of Living Reports (QOL) recommend a point-to-point comparison assignment premium in order to recognize differences in home and host conditions. Location Evaluation Reports (LER) assess living conditions against generally accepted standards, providing a single premium recommendation for all assignees.

Which approach fits your needs?

When deciding what works best for your organization, consider these questions:

1. Assignments patterns: are you moving employee between continents with vastly different living conditions and cultures or do you have more intra-regional moves between similar countries?
2. How does management feel about paying a different allowance to expatriates from different nationalities in the same location?
3. Do you have one type of assignees or do you have a segmented approach for different types of assignees?

As an organization, is it important to compensate for any hardship level or only that relative to the level lived by the assignee at home – that is, only for the differential of hardship and difficult conditions between the home and host locations?

The overall factors for selecting a specific methodology focus on these decision points:

1. Companies who wish to pay the same location premium percentage to all assignees in a given location regardless of their point of origin prefer the host approach.
2. Companies who believe that they should supplement an expatriate’s compensation for arduous conditions only if the situation represents a deterioration of living conditions compared to the assignee's point of origin prefer the home-host approach.
Extreme hardship: beyond quality of living allowances

In case of extreme hardship location, providing competitive compensation is not going to be sufficient to encourage expatriation and support assignees: companies would have to rely on other measures such:

- Practical security measures
- Regular rest and recreation leave in a suitable neighboring non-hardship location
- Looking for an alternative to traditional long-term assignment with the family such as an assignment on single status (the family stays in the home country or an in suitable neighboring country), or a short-term or a commuter assignment.
- Ultimately, rigorous expatriate selection is essential – management should accept the fact assignments to extreme hardship locations are not suitable for all employees.

Mercer’s solution

Helping expatriates handle international taxes: before, during, and after the assignment

Mercer’s new [Personal Income Tax Solution](#) makes determining expat taxes easier by providing immediate access to all the information and data you need to successfully calculate the tax and social security part of an international assignment.

The Personal Income Tax Solution is a cost-effective, multifunctional product that includes full reports on personal income tax and a powerful calculator. Personal Income Tax Solution is available for 140+ locations, including regions and states, on a global entitlement or location-specific basis.

For families going on an international assignment, the impact of the relocation on their finances may be one of the most complex and troublesome matters they encounter – particularly if the spouse stops working, either voluntarily or involuntarily due to host-country regulations. When it comes to tax, international assignments place the expatriate in a position that requires compliance with the tax regulations of two governments – the employee’s home country and the assignment location. Consequently, it is important that assignees have the opportunity to speak with an expert fully versed in the company’s tax policy and international tax law before they relocate.

It also helps for an employer to provide some form of practical assistance not only during the assignment but also, once the assignment is finished, upon repatriation or reassignment to another destination. A majority of companies go beyond just providing tax advice to their assignees and use approaches designed to limit the impact of tax differentials between countries. The results of the 2020 Mercer Worldwide Survey of International Assignment Policies and Practices indicate that 70% of companies rely on a tax equalization approach ensuring that assignees are no better or worse off financially as the result of the assignment. Only 3% of companies don’t get involved in assignee tax issues (laissez-faire approach).

The following discussion presents several key issues to be addressed – tax policy, company procedures, and employer/employee responsibilities with regards to international tax matters.
Tax matters: general home and host tax rules

The expatriate must be in compliance with the tax laws of the home country and the assignment location. Obligations for home-country tax vary. Although many countries do not require non-residents to report (or be taxed on) income earned outside the country, many expatriates still have continuing home country tax obligations from non-employment income (e.g., investments).

If home-country tax liability is based on residency, and expatriates “break” residency by selling the family home or being out of the country for an extended period, they are then subject to different tax rules. (And American citizens and permanent residents are subject to US taxation on total income, no matter where that income is earned.)

From the host-country perspective, most governments require the expatriate to pay taxes on income attributed to working in that country, with some locations offering special tax concessions to expatriates, such as advantageous rates and deductions or credits. Overall, however, an expatriate's tax liability is likely to be higher on an international assignment for two reasons:

• **Higher Host Taxes.** Although tax rates vary from location to location, the taxes applicable to the individual, as an expatriate, are higher in many countries when compared to the home-country tax system. The underlying reason is that the assignee does not have the same opportunities to reduce local tax liability as do local-national employees. Tax residents can benefit from tax-favorable treatment, as compared with non-residents who may not be able to take advantage of the rules. Even though special concessions may be available for expatriates, assignees may not be able to claim the same deductions as their local counterparts for items such as mortgage interest and pension contributions because they do not own a home in the host location, or do not participate in the host pension plan. (In situations where the host-country taxes are lower than home, the result is a windfall that would revert either to the assignee or the employer, depending on how the company handles taxes.)

• **Tax-Free Allowances.** Many companies provide, on a tax-free basis, not only a number of allowances to help pay for miscellaneous expenses related to the international assignment, but also goods and services differentials to bridge the gap between home and host prices under the balance sheet approach. Although paid on a tax-free basis, these compensation elements are viewed as part of income, resulting in an increased overall income amount and tax liability.
Tax treatment: understanding the basics

Of the four common tax treatment methodologies employed by companies with regards to foreign assignments, tax equalization is consistent with the balance sheet approach to international compensation. Simply put, with this method, expatriates will be no better or worse off financially than they would have been if they had not gone on assignment (with the exception of any incentive payments intended to encourage them to accept an assignment). Similarly, with regards to tax, it means that expatriates are responsible for income taxes at a level equal to what they would have incurred if they continued to live and work in their home country rather than going on assignment.

To meet the objective of keeping the employee's financial status comparable to what it had been, the company typically withholds a “hypothetical” income tax. The payroll department assesses this hypothetical amount against the expatriate's compensation at the same level as that assessed for the assignee's home-country peers. In turn, the company is responsible for tax assessed on the assignee's company earned income (e.g., base salary, bonus), so that:

**If the expatriate's taxes are higher on assignment than what the expatriate would have paid at home, the employer reimburses the difference. Thereby, the expatriate's financial standing is not adversely affected.**

**If the taxes are lower, the company – as would not happen under tax protection (described below) – retains the savings instead of the assignee.**

Although tax equalization is the most common approach followed by employers, some multinational organizations prefer one of the following methodologies:

- **Tax Protection.** While tax protection holds the employer responsible for assignees' tax liability if their income taxes are higher than what they would have paid at home, it allows the assignee to keep any windfall if taxes are lower. A major problem with this approach is that it raises a serious issue of inequity, because some expatriates in certain low-tax countries receive a windfall while those in higher-tax host locations do not. Another concern relates to the fact that tax protection involves an expatriate's actual tax payments, which might cause some financial uncertainty for the family. For example, the expatriate has no prior indication of the tax amount with which the company will eventually reimburse them until the following steps have been completed: (1) filing the tax return to the proper authorities, (2) paying appropriate tax amounts, and (3) reconciling any differences between the amount that would have been paid had the employee remained in the home country and the amount that was actually paid as a result of the international assignment. Consequently, the expatriate family might experience a negative cash flow until the employer has a chance to reimburse what it owes the assignee.

- **Ad Hoc.** Some multinational employers have relatively few expatriates assigned to the same location, while others have expatriates situated in various host countries with no clear destination pattern. In either case, the company is usually either just launching its international assignment program or, by design, simply sending employees wherever needed to handle specific tasks. Under these circumstances, the employer often has no formal tax policy in place to address the treatment of expatriate tax, resulting in ad hoc decisions, whereby management handles each expatriate's tax situation on a case-by-case basis. Unfortunately, this methodology allows for the possibility of inequitable and inconsistent treatment of expatriate tax among the assignee population.

- **Laissez Faire.** Companies that are first entering the global market may be inclined to follow this method in the early stages of their expatriate program. This method places the entire responsibility on the assignee for calculating and paying income taxes related to both the home country and assignment location. In effect, with the employer taking a hands-off approach, assignees are left to handle their own tax filings, payments, and documentation.

**It is important to be aware that a number of possible issues:** (a) potential windfalls for the assignee when tax rates are lower in the host country; (b) an extra liability burden for the expatriate when tax rates are higher in the assignment location; and (c) non-compliance with government filing requirements if the assignee does not meet filing or payment deadlines, documentation requirements, and others.
Tax equalization is the most common approach used by companies.

Other approaches are possible but may lead to inconsistent treatment of expatriate tax and could make some destinations more attractive than others.

Tax policy: why bother?

Whatever tax treatment is implemented, it is important to develop a tax policy, implement that policy, and enforce it in order to ensure assignees that the company is handling their affairs in an appropriate manner. A tax policy, along with appropriate approval levels for exceptions, is also helpful in:

• Minimizing individual deals or special requests that could lead to employee morale problems if one or more assignees receive favorable treatment.
• Controlling assignment costs by finding legitimate ways to reduce needless tax expenditures.
• Minimizing the risk of noncompliance with home and host tax regulations by providing assignees with education, tax preparation guidance, and/or professional assistance.

Maintaining a smooth cash flow for the expatriate by setting up appropriate and clear procedures and deadlines is another desirable objective. This point involves coordinating tax treatment with the payroll department. By doing so, the result should be:

• Seamless pay delivery to the assignee, whether all in home-country currency, host-country currency, or split between the two.
• Problem-free year-end reconciliation between actual and hypothetical tax computations.
• Accurate and timely reporting of tax items to the appropriate home and host tax authorities.
Tax responsibility: who does what under tax equalization?

The responsibilities of the company and assignee with regards to employee tax matters under an equalization approach are clear. In general, the assignee is responsible for:

- Maintaining adequate personal records of data required for preparation and examination of income tax returns and for the income tax equalization computation.
- Cooperating with the designated accounting firm to take advantage of available tax credits and exclusions.
- Making any related payment of taxes in the required amounts and within the required deadlines.
- Filing all required home and foreign tax returns.
- Making estimated tax payments on non-company income and any interest or penalties imposed by the government tax authority relative to non-company income.
- Returning promptly to the company any refunds obtained from carry-overs or carry-backs relative to company-source income (e.g., excess foreign tax credits).
- Filing an amended tax return, if necessary.
- Paying the company the amount of refund if refusing to file an amended return for assignment-related compensation or foreign tax credit/deduction items.
Mercer’s Personal Tax Reports are authoritative guides on tax requirements and social charges. In simple-to-read terms, each report explains how the local tax system is built and the implications for both local executives and expatriates.

The reports help you assess the true value of the compensation package by enabling you to determine your employees’ tax obligations. They provide answers to key questions on income tax and social security contributions, tax exemptions as well as the requirements and regulations of the local tax laws?

The reports also show samples of tax calculations and tables that cover the effective tax burden on a wide range of situations, for various salaries and family sizes.

It is the employer’s responsibility to:

Provide, at company expense, tax return preparation assistance for all host-country tax returns, as well as home-country national, state, cantonal, and/or provincial income tax returns, during the term of the assignment (in some instances, the expatriate may remain in the tax program for the year after the assignment ends due to the timing of assignment-related payments).

• Assist the expatriate in submitting complete and accurate returns to facilitate the tax equalization process.

• Require the expatriate to reimburse the company for a portion of the tax return preparation costs related to significant non-company business interests (e.g., farms, multiple rentals).

• Receive no information about the expatriate’s tax matters without specific authorization by the expatriate.

• Determine whether to tax-equalize city and local taxes.

• Determine whether to provide tax planning or advice on non-company income.

• Decide whether to make estimated tax payments, tax advances, or tax gross-ups on the expatriate’s behalf to cover the tax liability on the actual tax returns.

• Reserve the sole and exclusive right to terminate, revise, or interpret income tax equalization provisions and determine the tax equalization impact of miscellaneous items or unusual circumstances.

• Ensure that all home- and host-country tax filing requirements are met.

• Decide whether to be responsible for any interest or penalties imposed by the government tax authority on company-source income (see box, “Handling Penalties and Interest on Expatriate Tax Returns”).
Handling penalties and interest on expatriate tax returns

Penalties imposed by tax authorities might arise as a result of any number of situations, such as late filing, inaccurate data, audits, and so on. Employers handle such penalties in several ways:

• Pay all penalties and interest, regardless of the situation.
• Have the expatriate pay all penalties and interest, regardless of whether or not the submission is timely.
• Require the expatriate to pay all penalties and interest only if necessary information is provided after the company deadline.
• Require the expatriate to pay related penalties and interest if necessary information is provided after the company deadline; the company pays all other penalties.
• Split the payment based on the income amount (expatriate vs. company income).
• Allocate the payment to company/expatriate based on accountability, so that the expatriate pays if the situation is caused by expatriate action or delay; otherwise, the company pays.
• Consider the situation case by case, reviewing circumstances and the culpability of the assignee.
• Have the expatriate pay at least a portion of the amount if information has been submitted in an untimely manner.
• Base the decision on the reason for the penalty or interest, with guidance from an external consultant.
The Personal Income Tax Calculator is a powerful tool that will help you measure the real value of your employee’s compensation, showing the exact difference made by taxes. The calculator enables you to determine gross-to-net and net-to-gross compensation to show how much of the salary will be left over after taxes.

Customize the calculation with multiple analysis options. You can include or exclude social security contributions and family allowances, as well as set various currencies. All statutory information is loaded, and you can include statistically modeled assumptions for deductions, credits, and exemptions, as well as additional assumptions for statutory requirements.

Tax preparation: education, expertise, and beyond

Before the expatriate begins the assignment, either an international HR administrator or tax practitioner (in-house or external expert) should ensure that some key data are available. This information, provided in a timely manner, relates to items such as:

- Contact information for the tax specialist(s) who will assist the expatriate prior to the move, during the assignment, and upon repatriation or reassignment.
- A clear understanding (and copy) of the company’s tax policy with regard to international assignments.
- Details on the specific items of income that are taxable versus those that are provided on a tax-free basis.
- Tax filing deadlines.
- The party responsible for tax filing, payment of taxes, and so on.
- An explanation of the year-end tax reconciliation process and procedures for handling the expatriate’s liability, if any.
- A clear understanding of both relevant home-country and assignment-location tax laws that come into play as a result of the international assignment – residency issues, home-country tax provisions, host-country tax concessions for expatriates, etc.

While it is ideal for companies to offer comprehensive services to expatriates in the area of tax planning and preparation, it is not always practical to do so. Cost pressures sometimes limit the amount of services that a company will offer. For others, it is a matter of policy, with certain items designated for specific management levels.

Does the assistance continue after the expatriate returns home (or is reassigned)? While some employers provide some type of guidance as needed, others stop doing so one year after repatriation or immediately at the conclusion of an assignment.

Going beyond the basics of tax advice, some employers offer additional services to certain levels of expatriates – either to all assignees or certain managerial levels. Supplementary services typically include planning for one’s estate, preparing a will, establishing a power of attorney, reviewing life insurance policies, planning for general tax or financial portfolios, and others.
The bottom line: knowledge benefits all parties

As with cultural and language training, moving logistics, and the emotional impact of relocating to a foreign country, careful preparation and knowledge in the tax arena will help make the transition smoother for the expatriate family. By providing them with access to tax experts, whether internal staff or external vendors, HR management reassures assignees that they will get answers to complicated questions about residency rules, tax liability, document filing, and others. With the family facing less anxiety about the assignment, the company’s overall administrative effort gets easier, too.

Mercer’s solution

Personal income tax solution
https://mobilityexchange.mercer.com/personal-income-tax
Your mobility journey: Next steps

1. Contact your local Mercer consultant to get a consultation about your needs and issues.

   Get a consultation
   https://mobilityexchange.mercer.com/contact-us

2. Attend a Mercer webcast or training session to learn more about mobility issues and management

   Join an event or a training
   https://mobilityexchange.mercer.com/events-trainings

3. Sign up to receive mailings about mobility articles, news, products, and events

   Sign up for mailings now
   https://info.mercer.com/Mobility-Exchange-Email-Signup.html