The Challenges of Global Payroll Compliance

One of the major milestones of growing a business is opening your first international office.

Unfortunately, like every major milestone, this one comes with huge hurdles—in this case, a vast minefield of legal and cultural obligations, some obvious and some hidden, but each potentially more confusing and unforgiving than the last.

The Layers of Global Payroll Requirements

Every country has different laws pertaining to hiring, on-boarding and paying employees. Different municipalities within each country may have their own laws, too. Just like your Texas employees do not pay state income tax but your California employees do, the different regions of other countries may also have their own individual tax codes.

You can imagine how quickly this complexity compounds. Let’s start at the beginning, when employees first get hired.

Countries have different processes and requirements for on-boarding new employees. For example, in Spain you have to register a new employee with the government before their first day on the job. In Mexico you have a five-day window, but you’re responsible for them from the time they come on-site to the time that paperwork is filed, so if they slip and fall on their way to orientation, you have to pay their healthcare costs out of pocket rather than through government-funded sources.

Speaking of health insurance, benefits of course play into this. In the U.S., you’re now required by law to offer health coverage at a certain level—in other countries, that coverage is provided by the government, but you may need to know the beneficiary in case of death. And then there are expatriate benefits, like covering the cost of sending a U.S. citizen’s child to an American school during the year the family lives in Morocco, for example.

The next layer of complexity is payroll. The differences in tax withholding mentioned above (assuming income tax is withheld at all) are only the tip of the iceberg. In Germany, a “church tax” has to be paid, for which the employee’s religion must be recorded. In the U.S., religious affiliation would be considered highly sensitive data, and even asking the question would expose the employer to discrimination lawsuits.

Several countries require that employees sign their pay slips upon receipt. This is the only proof that the company and employee agreed on that period’s pay—i.e., that the amounts are correct, the manager approved the overtime, all the money owed was paid and vice versa. Without this signed pay slip, the employee could come back and sue the company for lost wages.

In different countries, payroll is taxed at different rates with wildly different reporting requirements. If you’re trying to streamline your accounting by folding reimbursable expenses into payroll, those reimbursements are considered taxable wages in some countries, with a drastic impact on the company and the individual.

In Italy, you need an Italian bank account to pay your monthly statutory returns. This is not something you want to discover on the day they’re due.
In each country you may want to do business, taxes are paid on different dates, with different paperwork, and if you make a mistake on those filings, every country has a different process and penalty structure for correcting that mistake. In some, you can just roll them into the next period, while in others you’re required to re-file.

Cultural differences are also important—in places with highly unionized workforces, for example, the entire company can go on strike the minute their pay is past due, causing huge losses in productivity and reputation, both of which impact the bottom line.

Then, just when you think you’ve got it all figured out, it changes. It’s not just pay cycles that vary. Legislative cycles vary, too. And if understanding payroll law in one country is difficult, following the changes is even more so. And then, on top of that, keeping up with those changes across a dozen countries is a huge challenge. Which changes actually apply to you and your current environment? When do they go into effect? Are they retroactive? Are they being challenged in the courts? What do you need to do to actually enact that change?

And keep in mind that you’re facing all of these hurdles coming to you in a foreign language, at all hours of the day and night (what time is it in India right now?), using different data privacy laws—which are also constantly changing—and with cultures and customs that may be unfamiliar to you!

Options for Ensuring Compliance

Given the vast level of these complexities, you can’t simply Google “Italian payroll law” and expect to get all the information you need. Even in the major markets, and on the most reliable websites (where the most up-to-date information is available), at best you’ll get an incomplete picture that could open you up to hidden problems further down the line.

In order to ensure that you’re fully compliant with all your international hiring obligations, you need to hire a specialist in this area. For that, you have a few options.

Your first option would be to hire staff at your local office. In this case, you’ll be relying on an individual or team of individuals, hired locally, who are either specialists in the payroll laws of each country you do business in, or are capable of becoming specialists in those countries. This may be tempting, especially if you’re a large organization—your payroll staff would be just an elevator ride away, and (on the surface, at least) the cost of hiring a full-time employee may appear to be less than the equivalent consultancy costs.

The problem with this option is that it’s highly inefficient and error prone. Your individuals need to be on top of international law changes, they need to remit government reports and payments from abroad, and of course need to work around multiple time zones and languages. And, the more nationalities you have on your payroll, the more specialists you are going to have to hire (or the more the people you have hired are going to have to expand their knowledge). In addition, you have to find those people, and Swiss payroll specialists don’t come cheap in the United States.

The second option would be to hire staff in each home country. This solves most of the issues around inefficiency and error, since each specialist will live in their single dedicated country and be focused on their specific laws. But, again, finding those people is difficult across international borders. Your international office also has to be quite large for this not to be a prohibitive cost—a company of 100 employees that just hired salespeople in Australia and England won’t hire two payroll employees just to pay themselves and one other person.

This brings us to option three, which is to hire a payroll company in each country. Here you’ll be contracting out to payroll experts everywhere you do business, so they can pay your international employees for you. For small cases like the above this can work, but it very quickly gets unwieldy as you end up having to deal with multiple vendors around the world. If you’re in ten
countries, you have to find ten vendors across international borders, negotiate ten different service agreements across ten
different time zones, and then when you decide to make changes to your pay or benefits, you need to communicate those
changes ten different times. This, too, is inefficient and error prone.

A Single International Payroll Company
A better alternative is to find a single payroll company that already has those networks in place. By selecting one company with
an international presence, you allow yourself the time to focus on your area of expertise, instead of expending resources on
navigating all these regulations or hiring across borders. And, instead of having a dozen different service-level agreements, you
can have just one.

A good global payroll company should provide fully managed outsourced services, which includes receipt and loading of data,
pushing payroll instructions for local processing, gross-to-net payroll calculations, validating the integrity and reconciliation of the
payrolls, pay slip distribution, local tax filings and payments, accountability for in-country compliance, production of bank and G/L
files, fully consolidated reporting, and year-end filings. Ideally, human resources should be a part of this service as well, so that
benefits compliance is taken care of too, as well as mitigation of human capital risks, which add a further level of complexity.

The idea is to make it easy for you to focus on your core business. The company should help you understand the rules and
regulations in every country, upcoming changes, and how to keep you payroll compliant.

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HR solutions to clients of all sizes, from those with only one global worker all the way up to companies with thousands of such
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SafeGuard World International can provide exactly the level of service and support your company needs to achieve success in its
global payroll projects, from setting objectives to demonstrating business value and managing change across the organization.

About SafeGuard World International
Our passion for payroll remains strong. We are constantly enhancing our technology to meet our clients’ needs. We believe that all
international HR, payroll and financial professionals should have real-time, granular visibility into their global labor costs—for both
full time employees and their contingent labor. This is an outcome that we will deliver for our clients.