Are You Paying Too Much For Your Shadow Payroll?

Find Out How Certino Can Help You Reduce Your International Employment Costs

With global mobility now a natural ingredient for enterprise organisations around the world, international employment assignments are commonplace. Business is done everywhere, and employees can move across many locations in a surprisingly short space of time.

This mass migration is complex to manage, especially with its associated legal and compliance demands. Taxes for employees on the move - or ' shadow payroll' as it's known - can quickly become expensive, inaccurate and cumbersome for those organisations not up to speed.

Certino, a UK headquartered fintech start up, has developed an intelligent automation ensures you get shadow payroll right from day one. One major way that Certino delivers tangible value to the shadow payroll process is by reducing your costs - potentially by a significant amount. It does this in six distinct ways.

1. By Reducing Your Tax Costs

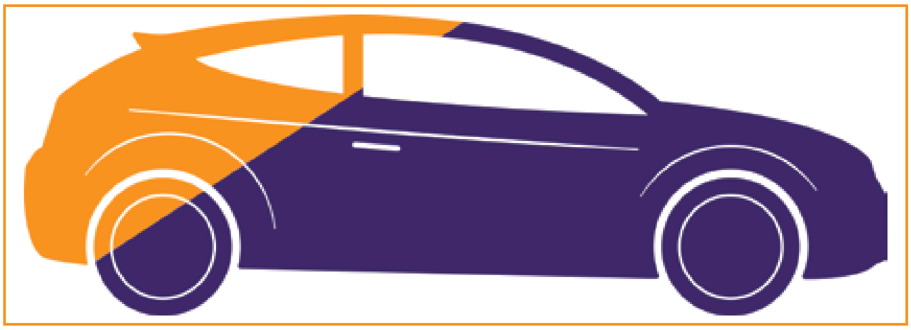
Certino automates shadow payroll processes, and therefore the end calculations involved in those processes, so it can reduce your tax burden both in terms of the amount of tax you actually pay, and the efficiency of the steps you take to get there – enabling you get it right first time, and consistently thereafter.

Accurate tax calculation relies on two elements.

Firstly, you need the right expertise in place to make that calculation. To know how to deduce the correct amount of tax owed, based on your income from different sources and geographies. To ensure that you're taking advantage of any eligible and available tax reliefs and other contributory elements. And to schedule activity effectively to make sure you're paying at the right time and in the right way: for example, regular social security payments.

Secondly, you need full visibility of your figures, so you can apply all this expertise from the very start and ensure that all results are accurate, timely and compliant. It sounds obvious. But often, it simply doesn't happen. Or in fact, can't happen.

Most finance teams tend to be well-versed in local rather than global payroll



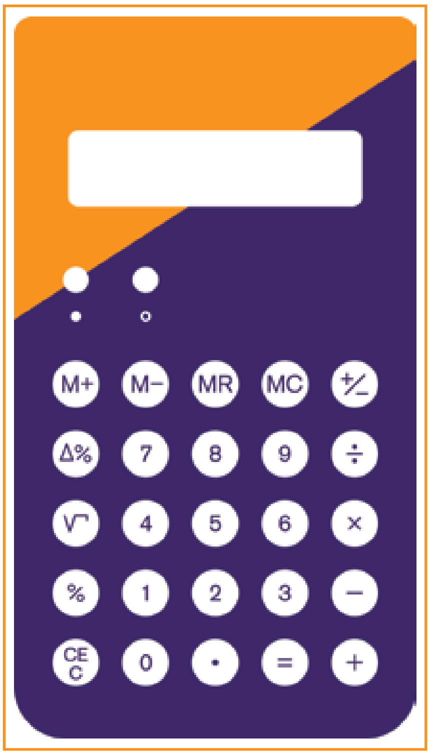
structures. They're hired and located on the ground in individual markets rather than with a more holistic, global oversight in mind. As such, the personnel involved simply aren't equipped to perform complex multi-market tax management. They're not up to speed on expat rules and regimes, or how tax is best managed in several countries simultaneously.

Certino's automated shadow payroll platform builds in these various tax-related scenarios to all calculations from the outset. Everything is pre-configured during initial implementation, when they will spend time with you going through your specific situation, note any nuances along the way (such as tax relief opportunities and individual market requirements) then update details as they change going forward. This customisation happens at country, entity and project level, so nothing is missed and your tax payment position will always be accurate, wherever your employees work.

It stands to reason that to manage tax accurately, you need full visibility of your liabilities - as well as the intelligence to make appropriate payments. But this visibility can quickly break down when you're dealing with employees moving across multiple geographies in quick succession. With different parties involved, and a host of conflicting policies and requirements, the trail can quickly be disrupted. In contrast, Certino's intelligent platform receives all the relevant source figures from every country and consideration, then applies the relevant tax policies to calculate an accurate payment in real time. You save resources, time and effort - and a potentially significant amount of money. (Visual of 'Cost savings' scenario on next page).

Consider a 'traditional' shadow payroll situation for an expat employee. For simplicity let's ignore gross ups and assume that the Employment Tax [income tax and social security] is 25%. John is hired by an Oil & Gas company in the UK. The company pays him £10,000 a month. Income tax is paid at nominal 25% on a PAYE basis - so John pays £2,500 in tax and takes home £7,500.

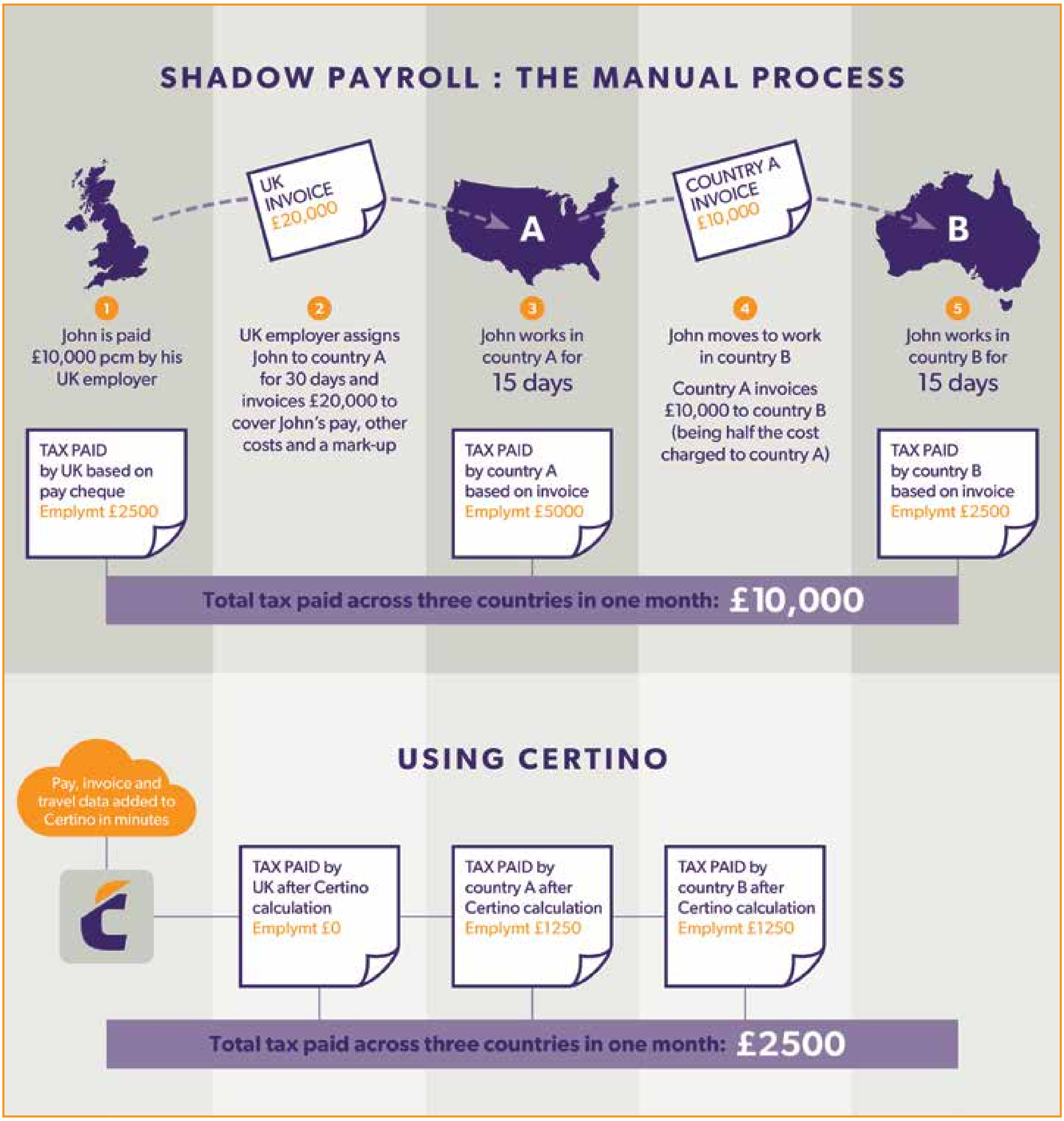
The UK company decides to send John to Country A for 30 days to work on an oil project. They charge him out at £20,000 to cover salary, costs and mark up. However, although John's base is technically Country A for those 30 days, the team there end up sending him to Country B for 15 days to look at an oil rig. So, although he's technically managed by the UK for his 30 days, in reality he splits his time between two different countries altogether.



At the end of the 30 days, the UK invoices Country A £20,000 as agreed. Since Country A's Finance team have nothing else to go on, they pay 25% Employment Tax (£5,000) on this invoice. However, when it is pointed out that because John has only spent 15 of his 30 days actually in Country A, the Finance team there recharges the other 15 days on to Country B, where they pay another 25% Employment Tax (£2500). Since the Shadow Payroll and Rebill processes are separate, nobody realises that Employment Tax has been overpaid. Cumulatively then, the company will have paid £10,000 in employment tax on an original £20,000 invoicebetween the various countries.

In contrast, because Certino provides complete visibility of all countries from day one, and John's various requirements are pre-configured before he starts, big savings are made at two critical points. Firstly, the proposed taxable invoice amount (£20,000) is split evenly between the two destination countries, to represent the 15 days of time that John spent in each (= £10,000 invoiced to each). Then, the invoice is analysed to assess how much of it is actually taxable. Once Certino has identified various non-taxable elements such as travel costs, admin fees, mark-ups and bonuses, in fact only half of the invoice (£5000) in each country is actually taxable.

Then, the same rates are applied: so income tax of 25% works out as £2,500 (£1250 in each country). Therefore, the total tax the company pays for the same assignment is £2,500 - as opposed to the £10,000 without Certino - a saving of 75%. Now, imagine multiplying that figure by 1,000 expat employees, and it's not hard to see that the savings can be huge (£7.5 million to be precise). Not to mention the amount of money that might otherwise be wasted on misallocation or delays. What's more, if an employee leaves or moves on to another assignment, it might prove difficult to ever recover that money, further down the line. So, it's not just about financial savings, it's about efficiency savings too.



2. By Reducing Vendor Fees

Unfortunately, using third party vendors to manage shadow payroll can be relatively expensive. Largely because activity is performed manually by employees, and locally by market. The typical benchmark figure is £160 per person per month, although this varies markedly from one country to another (from less than £100 to over £500). In addition, most vendors stipulate a minimum headcount for their services in each location; if you don't have enough employees, you end up paying more per head. Certino charges just half that figure: £80 per person per month, regardless of country or headcount. Not only do you save money, but Certino's automated, centralised service keeps operational costs low and calculations accurate.

3. By Easing The Pressure On Internal Resources

It will be clear from what we've said so far, and what we already know about traditional processes, that shadow payroll management is resource-hungry. It takes time and effort for internal finance teams to gather and consolidate data from all the various locations and situations that employees are operating in; and then for them or a third party to manage associated tax issues on an ongoing basis.

Because Certino automates all this from start to finish, your organisation can expect to achieve efficiency gains by making processes much faster and easing the burden on internal teams. They will sit down with you before anything happens, to clearly assess what data they need, where they will get it from and how. Then they program everything in to their platform for ongoing shadow payroll management. This assessment is a one-time engagement; once it's done, everything else just happens automatically, accurately and in real-time. In short, it runs itself.

To further minimise effort on your part, Certino provides you with pre-created templates and regular report downloads so you always stay up to speed on your shadow payroll activity. This means that there is no longer a need for internal resource to spend time managing these processes every month, creating individual processes to manage for employees and countries, or repeating tasks unnecessarily. Data can instead simply be dropped into the Certino platform, as and when required. Everything is flexible and built around your organisational needs.

4. By Enabling Timely Corporate Tax Relief

As an international employee moves around from assignment to assignment, his or her costs are naturally rebilled to the relevant locations, according to how long they have spent there and what they've been working on. For example, if we take the earlier example, we see that as John is relocated to Country A and then Country B, a proportionate amount of his costs are then rebilled to account for that time. Tax is then applied and deductions are calculated in each individual location. Using traditional shadow payroll processes, these rebilling charges typically stay with the original host country (the UK in our example) until all paperwork is completed and projects are over. They are then transferred to the other locations for payment.

While this may be fine mathematically, it's not good for the balance sheet. Every day these unallocated costs sit there rather than on your P&L, they are impacting your cash flow and increasing your funding costs - while you're also missing out on any rightful tax deductions, particularly if the recharges are delayed until after a corporate tax year end. When you consider that the average cost of capital for Fortune 500 companies is 10% per year, this means that the average Fortune 500 company therefore loses 10% of these costs for every year they sit on their balance sheet. Again, when you consider the potential number of employees involved, it's easy to see how this can quickly add up.

5. By Enabling You To Bill Projects Faster

As projects are completed, it is in any company's best interests to invoice associated costs on to their end client as swiftly and efficiently as possible, for the same reasons as point 4. The longer these costs sit on the balance sheet, the greater the knock-on costs will be. Plus, it gives your teams better visibility of operations as they happen, so they can address and resolve any issues in a timely fashion.

What's more, if they sit there too long, your chances of being able to charge them on to your client successfully or accurately will become remote. Once the project closes, typically so too do your chances of reimbursement. The costs are swallowed by your business and therefore erode your profit margin. Certino's automated, real-time platform gives you the freedom to bill project costs as they happen, to ensure you are always up to date and never out of pocket.

6. By Enabling You To Offset Foreign Tax In Real-Time

The issue of foreign tax offsetting is critical for organisations with short-term project workers. They remain on their home country payroll, which is taxable in that country, but spend their actual working life moving from location to location completing contracts fluidly. As such, their tax affairs have to be micro-managed between each location concerned - rather like the working example of John discussed earlier.

Typically, the company pays the tax on the employee's behalf. Then, when the end of the tax year arrives, the employee claims the money back on their tax return and refunds the company. But although this means that there is a repayment, it also results in a potentially lengthy delay of more than a year.

Certino instead performs this process in real time, as the tax is accrued. Employee time and associated tax is calculated for each host location and feeds back the details to the home payroll so the host country tax can be offset in real time. Again, this helps minimise the cost of funding for organisations on an ongoing basis and saves a potentially large amount of money.

In conclusion

Certino offers a compelling new way to obtain the tax intelligence you need to manage your shadow payroll more effectively and save your business a significant amount of money each year. They enable their customers to understand and manage the tax liabilities of their global, mobile workforce by automating the entire process. Certino looks after the entire spectrum of international employee movement, from pre-move planning, to shadow payroll calculation and intercompany rebilling, and ultimately posting transactions in relevant accounts – thereby providing a comprehensive employment tax management system.

RICHARD MCBRIDE

Richard is the founder and managing director of Certino, which has been formed specifically to help international businesses with complex mobile workforces to address the massive challenge of managing their shadow payroll.

Prior to founding Certino, Richard set up and led the global mobility function at Baker Hughes, one of the world's largest oil field services companies, where he delivered more than $250 million in employment tax cost savings over eight years (2008 – 2016).

If you would like to discuss any of the issues raised in this article or learn more about Certino, please do not hesitate to contact Richard on +44 (0) 020 7118 1405 or email him at richard.mcbride@certino.com. Alternatively, you may wish to visit www.certino.com for more information.