

# A beginner's guide to global mobility

27–30 October 2013

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. The 'E' and 'Y' are connected at the top. The background of the entire page is a long-exposure photograph of a city street at night, showing light trails from cars and illuminated skyscrapers. A large yellow diagonal shape is overlaid on the right side of the image.

**EY**

Building a better  
working world

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# Presenters

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# Agenda

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- ▶ Issues to consider – employer and employee perspective
- ▶ Challenges facing mobility programs
- ▶ Factors that drive mobility programs
- ▶ Policies

# How long have you been working in mobility?

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- a. Less than a year
- b. 1 - 5 years
- c. 6 - 10 years
- d. 10 years or more

# Do you know who your expats are?

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- a. Yes
- b. No
- c. Not sure

# How many long-term (more than one year) assignees do you have?

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- A. 0 to 10
- B. 11 to 50
- C. 51 to 100
- D. >100

# How many short-term (less than one year) assignees do you have?

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- A. 0 to 10
- B. 11 to 50
- C. 51 to 100
- D. >100



# At the beginning of an assignment you may think about these questions

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Is my employee allowed to work abroad?

Immigration  
labor law

How do I consider my employee for merit increases, bonuses?

Compensation  
and  
benefits

What happens if my employee gets sick during the assignment?

Social  
security

Tax

Can I make the decisions about the benefits? Who can?

Can my employee work abroad 40 hours a week?

Payroll

Relocation  
policy  
management

How to track all payments?

Which service providers exist to support the move?

# Your employees may think about these questions

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Do I lose my pension entitlements?

What kind of job will I do after the assignment?

What happens with my investment funds at home?

What happens if I lose my job?

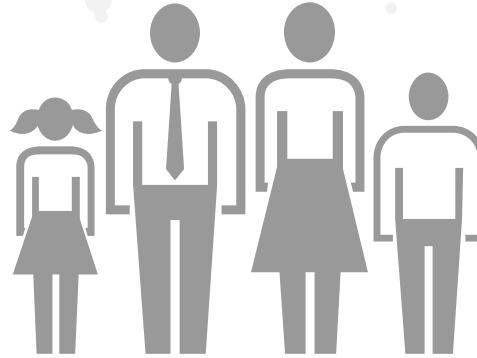
What happens if my family gets sick while being abroad?

Are my goods insured during shipment?

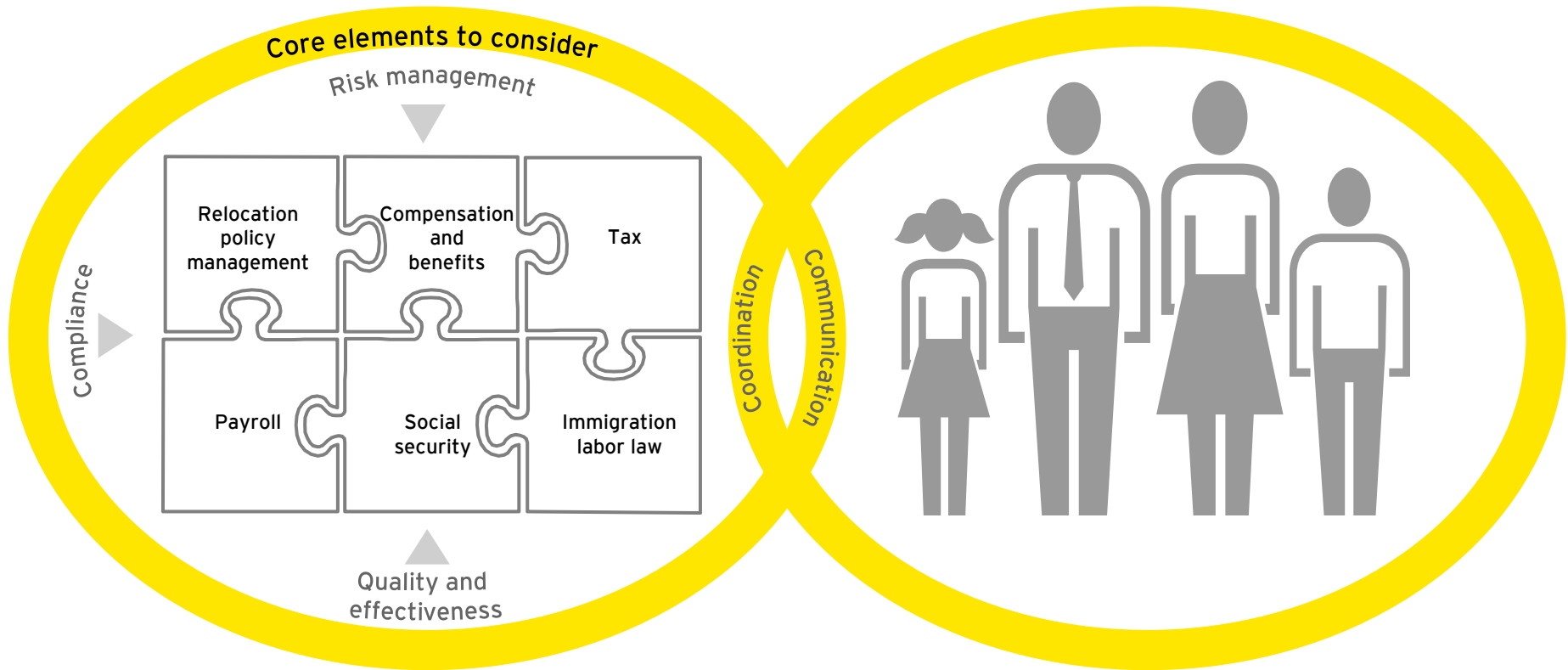
Do I have to take all my furniture and goods with me?

Can we take our pets with us?

What happens with our second income? Can my partner work abroad?



# The answers to the questions are in the pieces of the puzzle



# Challenges facing mobility programs today

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- ▶ Growing diverse mobile workforce
- ▶ Complex and dynamic regulatory environment
- ▶ Consistent application of policy/minimizing exceptions
- ▶ Need to attract and retain talent amid fierce competition
- ▶ Resource limitations; need to “do more with less”
- ▶ Increased stakeholder demands
- ▶ Achieve effective communication and change management
- ▶ “Frontier markets”: boldly going where no expat has gone before

# What issues do you find most challenging?

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- A. Tax
- B. Social security
- C. Payroll
- D. Immigration
- E. Labor law
- F. Policy management
- G. Processes
- H. Compensation and benefits
- I. Relocation

# What approach do you take?

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- a. Home Based Approach
- b. Host Based Approach
- c. Not sure
- d. Other

# How many policies do you have?

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- A. Long-term assignments
- B. Short-term assignments
- C. Business travelers
- D. Localization
- E. Regional
- F. Other


# How does the Home Based Approach work?





# Home Based Approach

## The Bayer Balance Sheet Methodology

Home Country	Host Country	Payout at Host
<p><b><u>Base Salary</u></b></p> <p>+ Position Allowance</p> <p>= <b><u>Gross Home Reference Salary</u></b></p> <p>- Hypothetical Taxes</p> <p>- Social Contributions</p> <p>- Pension schemes/ Health Plans</p> <p>= <b><u>Hypothetical Net Income at Home</u></b></p> <p><i>Split into <math>\frac{2}{3}</math> spendable and <math>\frac{1}{3}</math> as savings</i></p>	<p><math>\frac{2}{3}</math> Hypothetical Net Income at Home</p> <p>+/- Cost of Living Allowance</p> <p>+/- Peer Equity Allowance</p> <p><math>\frac{1}{3}</math> Hypothetical Net Income at Home</p> <p>+ Mobility Premium (12% based on Hypo Net at Home)</p> <p>- Home Housing Norm (80%)</p> <p>+ Hardship Allowance (% based on Hypo Net at Home)</p>	 <p><b><u>Net income at Host</u></b> <b>("Effective Salary")</b></p> <p>=</p> <p><b>Portion Host Currency</b></p> <p>+</p> <p><b>Portion Home Currency</b></p>

# How does COLA work?



# Compensation

## The Bayer Balance Sheet: CoL Index



### CoL Index

Category	%
Food at home	16.8
Alcohol and Tobacco	3.9
Household Supplies	7.4
Health & Personal Care	7.5
Clothing & Footwear	11.4
Domestic Services	2.6
Utilities	9.6
Food away from home	9.5
Transportation	19.0
Sports & Leisure	12.2
<b>Total</b>	<b>100</b>

- Survey Methodology
  - Measures the differences in cost of living between two countries, based on defined baskets of goods and services (executives spending patterns)
- Weighting of the Cost of Living Basket
  - National statistics provide indications of overall spending patterns within a given country. Weights in a COL basket reflect the spending pattern. However as buying behavior is individual, the weighting does not accurately reflect individual behavior.
  - Mercer’s approach of using typical items and weighting, which most families use at home or abroad and can be found in most cities around the world, provides a logical compromise to the question of which items and weights to use.

# Compensation

## Salary Calculation Sheet: COL Index



## COL Index

### The efficient Index compares

- the average of the low and median price level in the base city
- to the average of the price range in the host city

*This index reflects cost of living differentials as they should apply to experienced shoppers in their home city and NOT experienced shoppers in the host city (value-for-money-shops at home city vs. broad range of stores incl. high priced stores at host city).*

### Cost of Living Index Result



#### March 2013 Survey

Basket	Base City	Host City
Mercer International Basket	MIAMI, FL (US)	DUSSELDORF (DE)
Date of Price Survey	01/03/2013	01/03/2013
Date of Exchange Rate	01/03/2013	01/03/2013
Exchange Rate	USD 1 = USD 1	USD 1 = EUR 0.747275
Cross Rate	USD 1 = EUR 0.747275	EUR 1 = USD 1.338195
Previous 6 months inflation	1.50%	1.00%
Previous 12 months inflation	2.26%	1.76%

* Index Categories	Base City	Host City		
		M / M	Efficient	Convenience
<input checked="" type="checkbox"/> 1) Food at Home	100	100	108	125
<input checked="" type="checkbox"/> 2) Alcohol and Tobacco	100	89	94	104
<input checked="" type="checkbox"/> 3) Domestic Supplies	100	110	121	125
<input checked="" type="checkbox"/> 4) Personal Care	100	101	109	122
<input checked="" type="checkbox"/> 5) Clothing and Footwear	100	99	117	117
<input checked="" type="checkbox"/> 6) Home Services	100	98	113	139
<input checked="" type="checkbox"/> 7) Utilities	100	123	135	153
<input checked="" type="checkbox"/> 8) Food away from home	100	113	123	147
<input checked="" type="checkbox"/> 9) Transportation	100	128	135	139
<input checked="" type="checkbox"/> 10) Sports and Leisure	100	117	131	138
<b>Total Index</b>	<b>100</b>	<b>110</b>	<b>121</b>	<b>132</b>
A) Excluding Utilities	100	109	120	130
B) Excluding Transportation	100	106	118	130
C) Excluding both above	100	104	116	127

- M / M** This index compares the mean prices (average of the price of each item) in the base city to the mean prices (average of the price of each item) in the host city.
- Efficient** This index compares the average of the low and mid price in the base city to the mean prices (average of the price of each item) in the host city.
- Convenience** This index compares the average of the low and mid price in the base city to the high price in the host city, except for selected categories for which it compares mean base prices.

\* **Index Categories** - Only categories that are ticked are included in the Total Index.

# Compensation

## Salary Calculation Sheet: COL Index

Miami to Dusseldorf

100 USD	x Ex-rate 0.807490 EUR	81 EUR
	x CoL 113	91 EUR

2,26 %

Inflation after one year

1,76 %

102 USD

93 EUR

Necessary  
CoL = 121

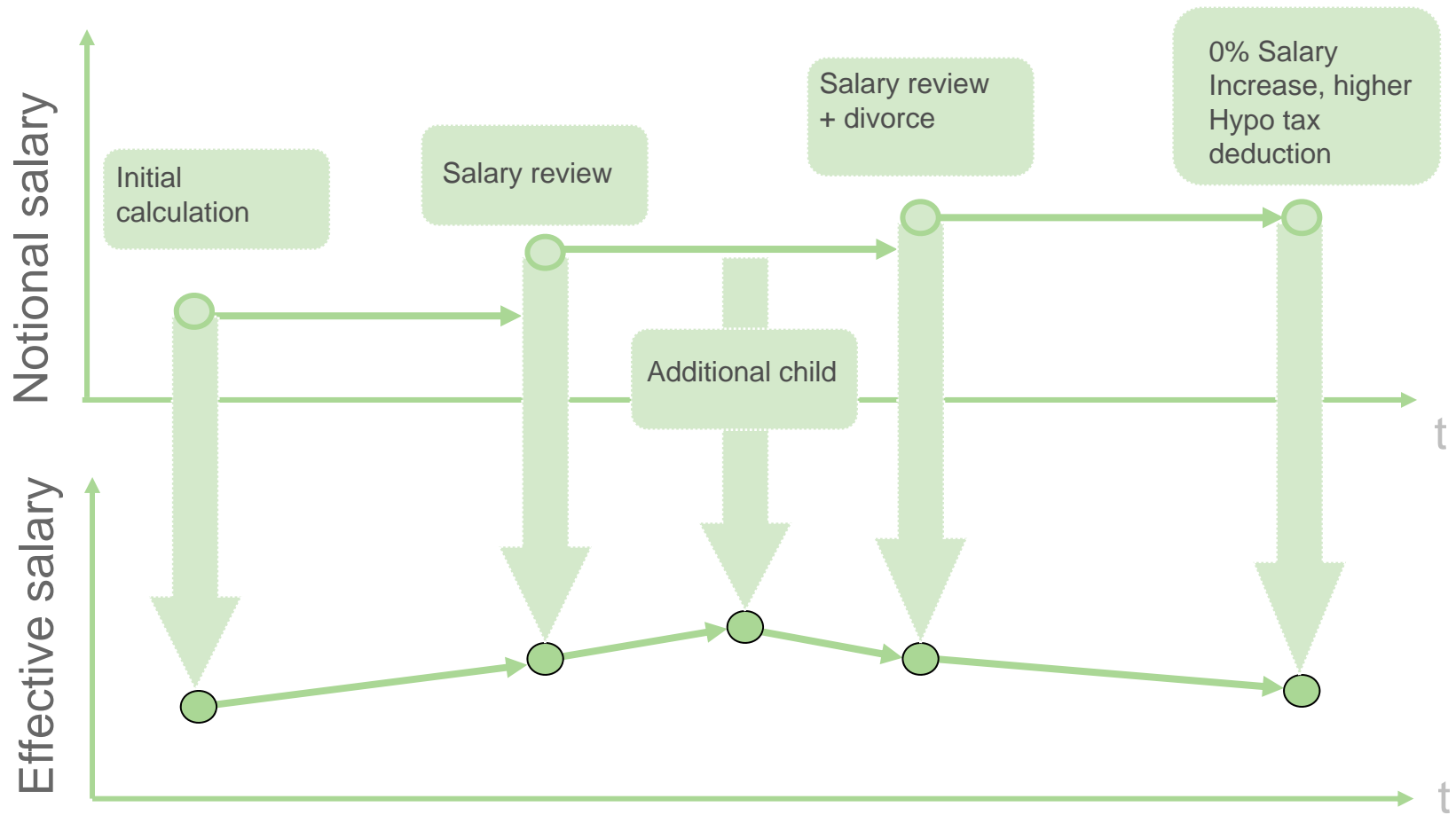
x Ex-rate 0.747275 EUR

77 EUR

But what if the FX rate had gone the other way?

# Compensation

Relationship between notional and effective salary



# How does tax equalization work



# Tax reimbursement methodology

What approach should you take?

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- ▶ Home-based approach with tax equalization:
  - ▶ Most common approach by far
  - ▶ Endeavors to keep an expat “whole” by keeping the home annual base salary with a set of deductions and additions to ensure a similar standard of living in any host country
  - ▶ Company assumes responsibility for all tax compliance
- ▶ Host-based approach:
  - ▶ Still popular and even making a comeback perhaps
  - ▶ Looks at what the host would pay for a local, then compares this to the home country net income and endeavors to match/better the net through a collection of incentives to the inbound
  - ▶ The expat is responsible for all tax liabilities



# Assignment cost projection

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Assignee name:	SAMPLE EXPAT	<u>Exchange rates:</u>	
Host country, canton:	Switzerland, Vaud	USD : USD:	1.0000
Home country, state:	USA, Massachusetts	USD : CHF:	0.9337
Hypo country, state:	USA, Massachusetts	USD : USD:	1.0000
Assignment start date:	Wednesday, January 01, 2014	USD : CHF:	0.9337
Assignment end date:	Sunday, December 31, 2017	False USD : USD:	1.0000
Citizenship:	USA	CHF : USD:	1.0710
Base salary in USD:	150,000		
Marital status:	Married		
Number of children:	2		

*Note: As detailed in the Engagement Letter under which this service is provided, this calculation is an estimate only and is NOT intended to represent advice from Ernst & Young recommending or endorsing it as suitable for your specific facts and circumstances. The TCE outputs provide estimated hypothetical, home and host tax calculations. A tax cost estimate is only one of the items you need to consider when making a decision about international assignments and should not be used as the sole basis on which to make decisions.*

# Total assignment cost

	<u>TOTAL</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
<b>BASE COMPENSATION</b>					
Gross base salary	600,000	150,000	150,000	150,000	150,000
<b>TOTAL BASE COMPENSATION</b>	<b>600,000</b>	<b>150,000</b>	<b>150,000</b>	<b>150,000</b>	<b>150,000</b>
<b>RELOCATION COSTS</b>					
Transfer airfare(s) to host - assignee	1,500	1,500	0	0	0
Transfer airfare(s) to host - family	4,000	4,000	0	0	0
Transfer airfare(s) from host - assignee	1,500	0	0	0	1,500
Transfer airfare(s) from host - family	4,000	0	0	0	4,000
Transportation of goods to host	40,000	40,000	0	0	0
Transportation of goods from host	40,000	0	0	0	40,000
Temporary living in host country	8,500	8,500	0	0	0
Temporary living in home country	6,500	0	0	0	6,500
Loss on sale of automobile in home country	6,000	6,000	0	0	0
Furnishings allowance	5,000	5,000	0	0	0
Resettlement allowance	15,000	7,500	0	0	7,500
Closing costs	60,000	60,000	0	0	0
<b>TOTAL RELOCATION COSTS</b>	<b>192,000</b>	<b>132,500</b>	<b>0</b>	<b>0</b>	<b>59,500</b>
<b>ANNUAL COSTS</b>					
Cost of living allowance	200,000	50,000	50,000	50,000	50,000
Host housing	660,000	165,000	165,000	165,000	165,000
Housing setup	4,000	4,000	0	0	0
Home leave (flybacks) - assignee	14,000	3,000	3,000	4,000	4,000
Home leave (flybacks) - family	14,000	3,000	3,000	4,000	4,000
Automobile allowance	208,000	16,000	16,000	16,000	160,000
Language/cultural training - 1st year only	21,000	21,000	0	0	0
Tax compliance / administration	22,000	5,500	5,500	5,500	5,500
Other allowance - not taxable	28,000	7,000	7,000	7,000	7,000
Other allowance - taxable	0	0	0	0	0
<b>TOTAL ANNUAL COSTS</b>	<b>1,171,000</b>	<b>274,500</b>	<b>249,500</b>	<b>251,500</b>	<b>395,500</b>
<b>SUBTOTAL</b>	<b>1,963,000</b>	<b>557,000</b>	<b>399,500</b>	<b>401,500</b>	<b>605,000</b>
<b>INCOME TAX DIFFERENTIAL</b>					
Home Country Taxes	316,316	87,797	64,423	64,824	99,272
Host Country Taxes	1,021,581	251,144	190,843	192,945	386,649
Hypothetical Country Taxes	(192,236)	(48,059)	(48,059)	(48,059)	(48,059)
<b>TOTAL INCOME TAX DIFFERENTIAL</b>	<b>1,145,661</b>	<b>290,882</b>	<b>207,207</b>	<b>209,710</b>	<b>437,862</b>
<b>TOTAL ASSIGNMENT COSTS</b>	<b>3,108,661</b>	<b>847,882</b>	<b>606,707</b>	<b>611,210</b>	<b>1,042,862</b>
<b>INCREMENTAL COST</b>	<b>2,480,661</b>	<b>690,882</b>	<b>449,707</b>	<b>454,210</b>	<b>885,862</b>

EY INTERNAL ONLY

# Tax cost

Assignee name:	SAMPLE EXPAT	<u>Exchange rates:</u>	
Host country, canton:	Switzerland, Vaud	USD : USD:	1.0000
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Citizenship:	USA	CHF : USD:	1.0710
Base salary in USD:	150,000		
Marital status:	Married		
Number of children:	2		

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	<u>TOTAL</u>	<u>YEAR 1</u>	<u>YEAR 2</u>	<u>YEAR 3</u>	<u>YEAR 4</u>
<u>Employee tax costs</u>					
Estimated home national income tax	6,856	6,856	0	0	0
Estimated host national income tax	275,789	67,237	51,345	51,909	105,298
Estimated hypothetical national income tax	(89,628)	(22,407)	(22,407)	(22,407)	(22,407)
Estimated home state income tax	150,898	39,799	30,216	30,449	50,433
Estimated host canton income tax	745,791	183,907	139,498	141,036	281,351
Estimated hypothetical state income tax	(28,812)	(7,203)	(7,203)	(7,203)	(7,203)
Estimated home employee social tax	87,945	22,915	18,626	18,730	27,675
Estimated host country employee social tax	0	0	0	0	0
Estimated hypothetical employee social tax	(36,898)	(9,224)	(9,224)	(9,224)	(9,224)
Estimated employee taxes	<u>1,111,942</u>	<u>281,879</u>	<u>200,850</u>	<u>203,290</u>	<u>425,922</u>
<u>Employer tax costs</u>					
Estimated home social/payroll tax	70,617	18,227	15,580	15,645	21,164
Estimated host social/payroll tax	0	0	0	0	0
Estimated hypothetical social/payroll tax	(36,898)	(9,224)	(9,224)	(9,224)	(9,224)
Estimated employer taxes	<u>33,719</u>	<u>9,003</u>	<u>6,356</u>	<u>6,420</u>	<u>11,940</u>
Total estimated tax differential	<u>1,145,661</u>	<u>290,882</u>	<u>207,207</u>	<u>209,710</u>	<u>437,862</u>

# Questions

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