Short-term business travelers — understanding the challenge

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Agenda

► Introduction
► Increasing the risk profile
► What are the risks?
► Global consequences
► Immigration
► Path to full compliance
► Where are you now?
► Summary
Short-term business travelers’ (STBT) trends increasing the people risk profile

Are you at risk?

1. Shift from assignment/transfer to business trips
   - Increased domestic and global business travel
   - Governments need revenue and are seeking to protect local labor markets
   - Governments are taking a tougher line on enforcement; tax and immigration audits increasing
   - Disclosure requirements are strengthening. In the new environment, companies need to be “audit ready”

2. Accelerating pace of globalization
   - Increasing sophistication of authorities with enhanced information sharing
   - Companies are:
     - Quantifying risk
     - Reviewing policies, processes and controls
     - Addressing compliance

3. Increasing regulatory and enforcement scrutiny

Cost competitiveness
Operational agility
Market reach
Stakeholder confidence
What are the risks?

- **Inherent risks**
  - Permanent establishment risk
  - Regulatory compliance
  - Employment law risk
  - Risk of prosecution
  - Budgetary risk
  - Business reputation risk
  - Unhappy employees
  - Non-compliance with local legislation can result in failure to properly budget and allocate costs.

- **Short-term business travelers**

- **Senior assignees in certain countries** can create permanent establishment (PE) risks for the employing entity.

- **Unknown employees** could pose risk of other employment law exposure to the company.

- Tax and immigration laws in many countries have criminal penalties including imprisonment for violators.

- Allegations of tax evasion by an employer or its employees in a particular country can seriously harm an organization’s reputation and may impact its ability to operate in that country.

- Employees do not want personal tax and immigration exposure.

- Non-compliance with complex immigration, withholding tax, social security and other reporting requirements creates a potential for penalty assessment.

- Non-compliance with local legislation can result in failure to properly budget and allocate costs.
The global consequences are real
Companies are paying the price

Canada
► Company officer **barred from entry for six months** for working without a work permit.
► US business traveler **fined $8,000** for misrepresentation by seeking entry as a tourist when coming to work in Canada.

US
► **$20m** assessed in under-withheld taxes, penalties and interest for domestic short-term business travelers.
► In 2013, the largest immigration fine in US history, **$34m**, was levied for B-1 visa holders found to be working.

UK
► **£40m** + paid in back taxes and penalties for failure to accurately report home paid income in UK.
► 72% of 407 UK immigration investigations resulted in prosecution and criminal sanctions.
► 46% included jail sentences.

Germany
► **€100m** restatement of published financials to correctly report employer paid tax expense — stemmed from SEC enquiry into related matter and discovery of internal control breakdowns.

China
► **$25m** in back taxes and **$8m** in penalties — manufacturer subjected to largest payroll audit ever in China.

India
► **€5m** penalty and opening of a full three-year investigation — European multinational failed to report home paid amounts. Professional fees exceeding **€1m** to date.

Brazil
► **$1m** in uncollectible employee debt — loan agreements not written in local language deemed unenforceable.

Hong Kong
► Business was **raided** and two people **arrested** for violating their condition of stay.
The bottom line

- Tax authorities globally are focused on business travelers crossing borders.
- Substantial assessments, fines and penalties are coming out of audits.
- International business travelers are being stopped and questioned at immigration checkpoints.

The tax and immigration authorities are looking for revenue — increased attention in this area is inevitable.

Have you been audited in this area?

Have you encountered business disruptions resulting from employees being stopped?
The path to full compliance

Models/characteristics

- Corporate ownership and global reporting
- Integrated and standardized approach to risk mitigation
- Optimal use of technology
- KPIs and SLAs established

- Increased corporate ownership
- Partial visibility and control over workflow and processes
- Single or few service providers
- Some standardization of data formats and processes

- Minimal corporate ownership
- Limited or no standardized policy and process
- Variety of service providers

Segmented Comprehensive

Ownership

Awareness

Develop policy

Process

Segmented implementation

Compliance

Standardized processes and execution

Maturity

Developing

Established

Advanced

Leading
## Where are you now?

<table>
<thead>
<tr>
<th>Ownership</th>
<th>Needs attention</th>
<th>In process</th>
<th>Highly satisfied</th>
</tr>
</thead>
<tbody>
<tr>
<td>Who owns the STBT initiative?</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>What drives compliance?</td>
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<tr>
<td>Do STBT objectives align with the business strategy?</td>
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<tr>
<td>Which functional units participate in the STBT initiative?</td>
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</table>

<table>
<thead>
<tr>
<th>Policies and process</th>
<th>Needs attention</th>
<th>In process</th>
<th>Highly satisfied</th>
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<tbody>
<tr>
<td>Do you have policies which cover STBTs?</td>
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</tr>
<tr>
<td>Do you have processes which cover STBTs?</td>
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<tr>
<td>To what extent is compliance with the above tracked?</td>
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<td>When were the above last updated?</td>
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| Data                                                                      | Needs attention | In process | Highly satisfied |
|                                                                          |                 |            |                  |
| How much STBT data is available (travel, payroll, calendars, equity etc.)? |                 |            |                  |
| Who owns the data and to what extent is it available?                    |                 |            |                  |
| How do you know when someone arrives or departs to/from a jurisdiction? |                 |            |                  |
| How do you track telecommuters?                                          |                 |            |                  |

| Issues and challenges                                                    | Needs attention | In process | Highly satisfied |
|                                                                          |                 |            |                  |
| Are your STBTs currently under audit by country (or local) authorities?  |                 |            |                  |
| Do you have sufficient resources to manage your risk?                    |                 |            |                  |
| Are STBTs covered by your internal audit and due diligence protocols?    |                 |            |                  |