A practical introduction to global mobility

Glossary of practical tax and payroll terms

Term	Definition
Assignment structuring	Utilising a beneficial tax position in a specific country to legitimately minimise the tax cost of an assignment whilst remaining compliant.
Bi-weekly payroll	Occurs mainly in the United States - but can also be operated in other countries – a bi-weekly payroll is run every 2 weeks rather than monthly as is predominantly the case in most countries. This creates 26 fortnightly pay cycles, rather than 12 monthly.
Certificate of Coverage	Documentation received from a social security authority confirming that an employee should remain within one social security system while they are working in another jurisdiction for assignment.
"Complex" compensation	Often considered a catch-all term for any compensation that isn't part of a normal monthly cycle. The most obvious examples would be bonuses, equity of any kind, termination / severance payments. Generally, these payments will require sourcing over a specific period of time.
Domestic / Local payroll	Generic term for "normal" payrolls, i.e. those who live and work solely in their home country and pay their own taxes and social security.
Double Tax Treaty	A treaty agreement between two competent authorities as part of an international network of treaties between countries to ensure harmonisation of taxes and to prevent double taxation of income wherever possible.
Expatriate regime	Certain countries operate a specific regime for internationally mobile employees that can be beneficial to both an employee and/or a company. Examples include: Modified PAYE / Modified NIC schemes in the UK; 35% ruling in the Netherlands.

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Employee Social Security Gross Up	Similar to a tax gross up, where an individual has had hypothetical social security calculated, any home country employee social security payable (e.g. on assignment allowances) would be met by the company. This amount would be an additional benefit in itself and would also need to be grossed up for tax purposes, if necessary.
Gross Up	A calculation of the taxes due on income taxes paid by an employer on the employee's behalf. By its very nature this is a benefit in kind which is to be treated as additional compensation for the employee.
Hypothetical Social Security	The level of home country social security calculated on stay-at-home income collected from the employee to meet the company's worldwide liabilities under a tax equalisation policy. This amount is often (but not always) physically paid over to the appropriate authorities, along with an additional "Employee social security gross up".
Hypothetical Tax	The level of home country tax calculated on stay-at-home income under the company's policy, collected from the employee to meet the company's worldwide tax liabilities under the equalisation policy. This is not actual tax paid over to the tax authorities, but an equivalent amount collected by the company.
Month 13 (payroll)	A pay cycle that takes place after the final "normal" salary run. Often used to incorporate additional benefits or payments that had not been previously reported. This additional run is completed before the final end-of-year employer documentation is submitted to the local authorities.
Month 13 payment	In certain countries, a "13th Month" (sometimes 14th Month) payment is a legal obligation. This is usually handled by the employee's annual salary being divided between the number of months being considered. For example, an annual salary of £78,000 would be paid as 13 payments of £6,000 rather than 12 payments of £6,500.
Offshore / Expatriate / International payroll	Generic term for payrolls containing internationally mobile assignees. A UK payroll can be given "Offshore" status without having to be situated outside the UK.

“Payrolling” benefits	This is the term for including benefits in a payroll calculation. The idea was mooted by HMRC in the UK as a way to calculate the tax and social security on total compensation on a monthly basis. In countries such as the United States, a payroll generally includes (“payrolls”) all cash and non-cash items as they arise.
Reciprocal Social Security Agreement *(Totalisation Agreement)*	An individual agreement for social security purposes between two competent authorities as part of an international network of agreements between countries for social security purposes to ensure that individuals only pay social security in one jurisdiction.
SAS 70	Statement on Auditing Standards (No.) 70. “SAS 70” is a widely recognized auditing standard developed by the American Institute of Certified Public Accountants (AICPA). It represents that a service organisation has been through an in-depth audit of their control objectives and control activities, which often include controls over information technology and related processes. In today's global economy, outsourced service providers must demonstrate that they have adequate controls and safeguards when they host or process data belonging to their customers. In addition, the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 make SAS 70 audit reports even more important to the process of reporting on the effectiveness of internal control over financial reporting.
Shadow payroll *(Dummy payroll)*	A payroll in a home or host country that exists for the purpose of including an assignee’s income to calculate the tax and/or social security due. No payments to the assignee would be made via this payroll.
Sourcing	A recalculation of “complex” income, such as equity income, based on an individual assignee’s personal circumstances to apportion the income being received by the individual in accordance with the legislative requirements of the home and host jurisdictions. On occasion, there can be a conflict between the payroll withholding position and the individual’s final tax position.
Split delivery	Where an assignee receives certain elements of their remuneration package via payroll in both their home and host locations (and – in rare circumstances – a non-assignment country).

Stay At Home Income	Under a tax equalisation policy stay-at-home income is defined as the types of income the employee would have received as a local employee. Typically this would include base salary, bonuses and any other benefits or allowances that the assignee would have received had they not gone on assignment but will usually be specifically set out under the company's tax equalisation policy.
Tax Equalisation	A company policy to ensure that an employee is **no better or no worse off** for tax purposes from going on assignment to another country. Under a tax equalisation policy the employee would pay the equivalent level of home country income taxes that they would have paid on stay-at-home income.
Tax planning	A plan or assignment structure aimed at minimising the amount of tax payable while complying with all the tax legislation in effect.
Tax Protection	A company policy to ensure that an employee is **no worse off** for tax purposes from going on assignment to another country. Under a tax protection policy the individual is only liable to pay up to the level of home country income taxes due on their income.