# The stateless employee

A growing number of workers are nearly permanently on the road as their employers expand globally. This in turn raises considerable challenges, not least of which in terms of finances and tax.

**71%**

**The proportion of expatriate workers who have experienced more complex finances since relocating abroad, according to HSBC.**

▸ **By Andrea Chipman**

An era of rapid globalization has produced a new generation of "stateless employees." These executives may be born in one country, live in another and spend a significant proportion of their working lives traveling from one continent to another, either as an expatriate on assignment or else simply as an executive constantly on the move. This nomadic workforce is increasingly valuable to companies, but can also pose headaches from a tax and benefits perspective.

This challenge isn't for the companies alone. Expatriate employees that move intermittently from one geographic assignment to another can face considerable difficulties in managing their personal finances too. Those who spend a lot of time overseas can have more complex personal tax affairs, may need multiple bank accounts, and can have difficulties with moving pension arrangements when they relocate. In a survey for HSBC International, 71% of expatriate employees said that their finances had become more complex since relocating.[1]

Salary arrangements may need to be split between home and host country, causing significant reconciliation work when tax returns are filed, to determine how much time the executive spent in each location. Certain compensation structures can make tax affairs even more complex. For example, if an executive receives deferred compensation in the form of equity, rather than cash, this can have tax consequences if equity awards are granted for a particular business year but vested over a longer period during which the employee changes location several times.

Such issues can also crop up for so-called "accidental expatriates", which relates to the phenomenon of executives who are ostensibly based in their home country, but which travel overseas frequently. Employees who are paid in their home country but do a lot of work overseas can trigger local tax liabilities, presenting a challenge to companies to find ways of tracking these individuals in order to be compliant. "We see more and more individuals who are on a domestic contract but overseeing a regional area with a lot of cross-border commuting that can expose them to local taxes," says Nick Bacon, a Partner in EMEIA Financial Services-Human Capital at Ernst & Young.

It may also be unclear how to account for the mobile employee's time and costs, particularly if they move frequently. "If you have someone sitting in a legal entity in India, going to work for an entity in the same group in London, what happens to the individuals' costs – are they borne by London or Mumbai?" asks Bacon. "If there is a supply of staff, it can give rise to a VAT reverse charge, where the host country would have to charge itself VAT on the deemed import of services from the home country."

There are also corporate tax risks for employers in the context of triggering a taxable presence (or permanent establishment) and impacts for their transfer pricing systems when high-value creating employees frequently travel and work abroad. "If you think about financial institutions sending project teams abroad to work on a large deal, they may be based abroad for weeks or months at a time. This could certainly attract the attention of local tax authorities during transfer pricing reviews or tax audits," says Chris Price, the Head of Tax for Ernst & Young's EMEIA Financial Services practice in London.

**Creating mobile retirement plans**

Pension arrangements also pose a major challenge to the mobile workforce. Employees

[1] HSBC Expat Explorer Survey 2011

who live in several countries throughout their career are likely to have multiple pension plans, each in a different currency. When the executive finally retires, reconciling these plans and moving money to where it can be accessed from one location can be a time-consuming process that holds currency and taxation risks.

"Pensions are the one thing people want tied to what they see as their home country," says Sarah Dyce, Senior Manager for Global Mobility at Ernst & Young. "Portability is increasing slowly, but we're a long way from people being able to move their pensions wherever they are in the world." Matthew Ozburn, a director at HR International at Deutsche Bank, argues that it can be extremely complex to advise highly mobile executives to save for retirement in a tax-efficient way. "One of our biggest challenges is in the area of private company pension planning looking over the course of a person's career," he explains. "If most highly performing people will have careers taking place in different countries with different tax-related incentives, you will end up with this challenge of saving in a tax-efficient way to allow mobile people to live well in retirement."

Tax policy on international pensions has been slow to develop. There are currently no tax relief regimes for international employee pensions, and no way to claim deductions on foreign assignments when plans vest. This means that employees can be exposed to tax liabilities, while employers may be taxed in multiple locations on the contributions.

**Tracking compliance**

## Tax track and trace for global executives

**__ Keeping track of globally mobile employees is a major challenge for corporate compliance teams. Senior executives that live in one country, work largely in another, and regularly fly into several others can present a particular challenge from a tax tracking perspective, as can international expatriates. Some countries are even handing executives and their employers an income or social security tax bill when they stay too long in one place, or pass a time threshold after one-too-many short-term visits to a location.**

**But a new app called "Tracer" promises to help globetrotting executives avoid tax traps. Created by Ernst & Young, the app provides a mobile calendar service which, when activated, records the location of an employee and tracks their movements using the phone's GPS. This generates a report that allows employers to analyze the travel data—which automatically excludes holidays and other exceptions, as well as any personal information—and provides alerts when an individual is close to triggering a tax alert in a location.**

**According to Tim Stansel, an Executive Director in the Human Capital practice at Ernst & Young in New York, the app targets two kinds of executives. One is the frequent traveller who works outside of his or her home tax jurisdiction and is at risk for triggering a taxable event; the other is an expatriate on assignment and who needs to track their travel for income tax purposes. "It helps mitigate the potential risks associated with cross border tax and immigration," he says. "At the same time, it allows employees to focus on their job responsibilities by eliminating the need for users to log into a web-based calendar to keep track of their travel." T**

**Domicile debates**

Remaining domiciled in one's home country for pension purposes has been a particularly emotive issue for citizens of European countries, which have traditionally had strong welfare states and extremely generous health care and social security benefits. Increasingly, however, employers are less willing to keep global employees in their home country benefit plans.

Changes in the social contract between government and the population in these countries have also started to weaken this link: "Social security systems are no longer as secure as they were 20 years ago so people are more willing to work elsewhere because they have no idea where and when they are going to retire," says Bernd Kirchner, Global Head of HR International at Deutsche Bank. "In the old days, it was a big selling point if you could tell someone you were sending them on an assignment but keeping them in the German social security system. Now that's not seen as much of a benefit. The opportunity cost is lower today."

More generally, employees who work overseas as expatriates are now less likely to receive the generous benefits that once went with the role. In part, this is because there is a view that international postings should now be seen as an attractive part of the career path, rather than a hardship. This reduction in the financial incentives for expatriate postings can create a dilemma for some employees. While recognizing that the move is good for their own career, it may mean that their spouse – if they are also working – will not be able to work because of visa issues. This can mean that, in real terms, the employee's total household income will fall, making the move less attractive.

Kirchner thinks that, in future, companies will need to do more to encourage mobility among their employees, particularly those below the C-suite who rely on incomes from both partners. "Companies need to find a smart way to make it an attractive package to both partners, even though you can only employ one," he says. "For example, they can offer support for the spouse to apply for a job, visa sponsorship or an explanation of the labor market in the host country."

As companies become more global and as talent flows increasingly in every direction, the stateless employee is likely to become a more important fixture in the workforce. Rather than being the preserve of the top echelons in a company, mobility is likely to be common at all levels, requiring companies to consider the needs of this section of the workforce whenever corporate decisions are made. T