Global Mobility: Back to Basics

KPMG’s Mobility Consulting Services team is publishing a series of articles on key global mobility policy provisions prevalent within most of today’s multinational organizations’ programs. Our “back-to-basics” series examines such policy elements from a foundational level, with a view to help HR professionals better understand a provision’s intent and design, what options are available, and achieve alignment to larger global mobility objectives. Whether you’re new to global mobility or if some time has passed since you last thought through a particular provision, this series of articles is for you. Additionally, other teams that support global mobility in your organization (e.g., Finance, Payroll, Tax, Legal, or Host-Country HR) may benefit from better understanding global mobility’s approach when managing international assignments.
A global short-term assignment (STA) is typically defined as a temporary transfer across national borders that generally lasts more than three months and less than a year. More often than not, STAs are unaccompanied assignments (i.e., spouse and dependents remain in the home country).

This edition of Back to Basics will review key STA practices and associated complexities that are often overlooked by organizations because of their short-term nature and a generalized assumption of a reduced level of administration, costs, and compliance risks.

### Reality check – 2015 GAPP Survey Snapshot

According to KPMG’s 2015 Global Assignment Policies and Practices Survey, 81 percent of companies have short-term assignments.

<table>
<thead>
<tr>
<th>Type of Assignment</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Long-term or standard (e.g. 1 to 5 years)</td>
<td>96%</td>
</tr>
<tr>
<td>Short-term (e.g. less than 12 months)</td>
<td>81%</td>
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<tr>
<td>Commuter</td>
<td>26%</td>
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<tr>
<td>Rotational</td>
<td>18%</td>
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<tr>
<td>Inter-regional</td>
<td>22%</td>
</tr>
<tr>
<td>Permanent transfer/indefinite length</td>
<td>48%</td>
</tr>
<tr>
<td>Unaccompanied (spouse and family remain in the home country)</td>
<td>36%</td>
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<tr>
<td>Developmental/training</td>
<td>36%</td>
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<tr>
<td>Assignee requested</td>
<td>18%</td>
</tr>
<tr>
<td>Project/contract-specific</td>
<td>19%</td>
</tr>
<tr>
<td>Other</td>
<td>42%</td>
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### Why organizations use short-term assignments

There are many reasons for organizations to use STAs. Some examples include filling a skills gap, providing international work experience and/or training, knowledge transfer, and, perhaps most frequently, project-based work.

Due to the short-term nature, there is the presumption and/or written policy that employees assigned to an STA will maintain their home country residence and, more often than not, will be unaccompanied. As such, a full relocation of an assignee’s household goods or personal effects would not occur. The assignee’s home country household and physical contents of the residence remain intact. Initially, an STA may seem to be more cost-effective and easier to administer. However, as we will show, STAs should be treated the same as longer-term assignments in terms of policy and administration. This seems counter-intuitive because often business managers do not think that the same level...
of support is needed for STAs. However, from a policy perspective, similar support is often needed, just at a different level. From a compliance perspective, preassignment risk assessment and required support for short-term assignees should be the same.

**Business trips versus short-term assignments**

It is important that assignment lengths and policy types be well-defined and, more importantly, these categories and associated policy treatment should be communicated throughout the organization.

A business trip that continues to be extended may need to be reclassified as an STA, which could trigger additional compliance requirements and assignment costs. Until recently, business trips typically fell outside the realm of a global mobility program. However, as the regulatory environment is shining a brighter light on business travelers, more companies are looking at establishing business traveler programs that sit within the Global Mobility function. Visibility to all categories of mobile employees is critical to properly manage corporate and individual cross-border risk and ensure ongoing immigration and tax compliance.
Variations in policy provisions

As STAs are a mainstay in global organizations, the importance of documenting applicable STA provisions and support cannot be emphasized enough. STAs essentially have the same life cycle as any international assignment: predeparture/relocation, during assignment and repatriation/postassignment phases. When developing an STA policy, any organization should follow the same process and methodology as they would for any other assignment policy by determining an overarching compensation philosophy and associated policy provisions.

The length of the assignment adds to the complexity of an STA. Broadly speaking, under STA policy, most organizations recognize business trips or extended business travelers, short-term assignments, and multiple-year long-term assignments. As previously noted, STAs are generally defined under policy as assignments over three months but less than 12 months. While consideration of the associated tax impact is typically a driver when determining assignment policy lengths, in practice the actual length of a STA is often driven by business needs, which can cause variations in policy provisions.

The 3–12 month range for STAs is not arbitrary. Rather, it mirrors what historically had been tax law. The 12-month mark generally reflects a shift in tax home. When the tax home shifts, tax filings and liabilities do as well. While the above does not hold true for every country’s tax rules today, it is helpful for one’s understanding of an STA policy to know the origins of the rules.

Let’s look at two scenarios:

- Jane Expat is starting an unaccompanied assignment from New York City to London for three months.
- Joe Expat is starting an unaccompanied assignment from New York City to London for nine months.

Both assignment scenarios fall under their employer’s STA policy, as they are less than one year in length. Similar support is needed for both assignments; however, there will be some differences in provisions and support due to the assignment lengths. Therefore, STA policies should establish these parameters, but also have a degree of flexibility more than a long-term assignment policy.

While every organization’s STA policy may vary in design and approach, we will review the basics and potential variations that would be most typically applied between the Jane Expat and Joe Expat scenarios.
Predeparture
In both scenarios, Jane Expat and Joe Expat would typically require the same level of predeparture compliance-related support: securing proper immigration documents, an individual tax briefing per home and host country requirements, and a preassignment orientation to review the terms and conditions of the assignment under the applicable assignment policy. These provisions set the stage of the assignment for both assignees. Also, a medical exam may be highly recommended or even mandatory based on the host country immigration requirements.

The importance of these predeparture tasks are also addressed later in the compliance and administration sections.

Relocation
Relocation parameters are where there may be some variations between our two scenarios. Jane Expat, on assignment for three months, would typically need to bring fewer personal effects than Joe Expat would need on a nine-month STA. Oftentimes STA policies will set a six-month threshold for applying more comprehensive personal goods shipment parameters. Typically, assignments of less than six months would receive excess baggage reimbursement up to a capped amount. Often, STAs over six months provide for a nominal air shipment of personal goods.

In addition, there are certain leading practices around other STA provisions, which may not be necessary for every assignment based upon an individual’s personal situation and circumstances. For example, a miscellaneous relocation allowance is generally associated with longer-term assignments to support setting up a temporary household in the host country location. Some STA policies may provide nominal cash amounts to a short-term assignee (e.g., US$ 500). Short-term assignees, like long-term assignees, often will need to purchase minor household items regardless of the short-term nature of their assignment. Items such as condiments or food storage containers will be purchased and ultimately thrown away. Imagine our assignee Jane going shopping and purchasing food only to realize she has nothing to store the leftovers in! These small details are easily overlooked and often a miscellaneous relocation allowance can help an assignee to “not sweat the small stuff.”

Other examples of leading practices seen under STA policy are cross-cultural and language trainings. These provisions can be provided at varying levels of support from books to self-study courses to formal classroom instruction. Depending on the business drivers around the STA, these might not be needed, but could be provided in some form as they often assist in supporting an assignee’s success.
On assignment

International assignment policies are often developed under an overarching compensation philosophy (e.g., home-based, host-based, or headquarters-based approach compensation packages) and the associated provisions follow this foundation. Short-term assignment policies overwhelmingly adopt a home-based philosophy. This is because of the short-term nature—the assignee typically would not be transferring employment to the host country entity. As such, retirement/pension, social security, or other benefits would remain with the home country employer. However, emergency medical coverage may need to be supplemented to enable coverage in the host location should this support not be available abroad under home country medical plans.

In general, the two main areas of support during the on-assignment phase address cost of living differential assistance and housing.

Per diem

Typically, short-term assignees receive a per diem as opposed to long-term assignments, which typically provide a cost-of-living adjustment (also known as a goods and services differential):

- A per diem is a cash payment to an employee to cover certain temporary away-from-home living expenses. Its components are generally lodging and meals and incidental expenses, which are expressed as a daily rate. When delivered at a government-determined rate to cover business travel expenses, the per diem can often be delivered to an assignee tax-free depending on home and host country tax regulations or treaty agreements. If, on the rare occasion, family were to join the assignee, the family’s portion will typically be taxable and the associated tax rules would need to be addressed before any allowance and policy decisions are made.

- A Cost-of-Living-Adjustment (COLA)/Goods and Services Differential is a differential payment to (or withholding from) assignees to address differences in purchasing power between home and host countries. It is usually derived by applying a cost-of-living index to an employee’s home country spendable income. Under some STA policies, and often depending on assignment length, organizations also may offer a similar “short-term allowance,” calculated through a third-party data provider, which is tailored to the spending patterns and nuances of an STA.
The difference between these two types of cost-of-living approaches is that a per diem recognizes that an assignee’s home “spendable” is still associated with the home country and, as a result, gives the assignee assistance each day while living abroad for covering meals and incidentals. For example, an unaccompanied STA assignee, whose family remains at home, continues to assist with the maintenance of the household; therefore, the assignee’s portion of his or her home spendable income is still active. Short-term assignees, especially those that reside in a hotel, do not have the food or household items that they have at home and will need to make those purchases abroad. In some cases, if the short-term assignment is of a longer nature (e.g., eight months), then providing a COLA/short-term allowance may make more sense, as the assignee would be purchasing items associated with a longer-term stay. Covering daily incidentals versus maintaining purchasing power are also philosophically different and should be considered in policy approach (i.e., what is this allowance intended to do?).
Housing assistance
Housing is typically driven by what is most practical or available in the host location. Instead of a hotel room, a serviced corporate efficiency apartment, if available, may not only be cost effective, but also more comfortable for the assignee in the host location for longer STAs, especially because finding true short-term apartment rentals could be difficult in many locations.

Home leave
As STAs are usually unaccompanied, scheduled trips back home are often provided depending on the length of the STA, and after a certain period of time spent abroad has been reached, for example after 3–4 months of continuous stay. Using our Jane and Joe Expat scenarios, Jane would typically not receive a home leave, but Joe would. (For more information on home leave policies, please consult our “Home Leave” edition of Back to Basics).

Transportation
Transportation is generally determined by host-country practice, adequacy of local public transportation options, or business need. Global mobility professionals should reach out to their host-country HR contacts or check with third-party providers as to what is practical, available, and cost-effective.

- How will the assignee get to the work location?
- Can he or she walk to the office?
- Is there safe public transportation?

For example, in our Jane and Joe Expat assignment scenarios to London, bus and underground transportation are common modes of transportation and widely used locally. Noncity, suburban, or remote assignment locations often found in industries like mining, oil and gas, or engineering, may require automobile options or other customized transportation solutions.

Can a short-term assignment policy cover project-based assignments? It depends. Under some scenarios, project-based assignments can fall under an STA policy. However, some companies develop specific project-based assignment policies.

Depending on the business and industry (e.g., construction or oil), a project may have its own budget and assignment costs factored into the overall plan. Applying the standard provisions of an STA policy could be more costly than what was budgeted. Also, depending on the location, projects may have camp housing and other types of on-site concessions as well as transportation provided for the assignees. A higher level of due diligence for global mobility professionals in organizations that have project-based work may be required to develop a policy aligned with project-based work assignments.

Project-based assignments versus short-term assignments
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Wire transfers and ATM fees

Often companies provide funds to the assignee’s home-country bank account, and the employee accesses the funds through the local ATM system. However, ATM access is not always the answer, as banks assess fees and often apply a less favorable exchange rate. If the assignee can open a bank account in the host country and the employer can deliver the amount needed in the host-country currency (e.g., the per diem), then this would alleviate both the exchange rate and fee issues. If opening a bank account is not an option, another option is to provide a limited number of wire transfers in the policy to enable easier access to funds without costing the assignee money. The policy should address the numbers of wire transfers or ATM fees that the company will handle.

Repatriation

Repatriation typically follows the same pattern as the initial relocation. Depending on the host location there may be some compliance requirements. But, in general, provisions for excess baggage and/or the air shipment of personal goods to the home location will be the same as what they were at expatriation.

Regardless of assignment type and length, global mobility programs should align with human resources and talent management, as most assignees will cite even the shortest time spent abroad for work has a significant impact on career and professional development. Therefore, short-term assignees should also have the ability to share their experience of working abroad, and its positive impact, with their colleagues. In doing so, this will help to support continuing employee engagement and potentially inspire others to also consider the experience of an international assignment. Employee engagement is imperative to retention, and this is an area where global mobility and talent management intersect. Business leaders have the ability to capitalize on the potential positive effect. For more information on repatriation, please refer to our Repatriation edition of Back to Basics.

In sum, the policy provisions of short-term assignments often require the same guidance to employees and the business as long-term assignments. While there may be variations due to the actual length of a short-term assignment, parameters need to be set for consistency and ease of administration under a STA policy framework.
Even though an STA may seem easier to administer and less costly than longer-term assignments, the compliance aspect does not decrease because the assignment length is shorter. In fact, it is often more complex.

Immigration requirements need to be considered to obtain the appropriate work permits and/or visa. Assignees need to be advised that they should not enter the host country to begin their assignment without such documentation in place and further educated on the possible negative consequences to the company and themselves for attempting to enter the host country without proper documentation and clearance. Obtaining immigration documentation, even for a six-week assignment, could take several weeks and in some cases months depending on the jurisdiction and timing of the application. Failure to comply may result in severe consequences to both the organization and the individual (e.g., fines, penalties, barred entry into the host country, and even incarceration).

Regarding tax compliance, many global mobility professionals believe that if an assignment is under six months, or 183 days, then there will not be an individual tax impact. This is not always the case. While double tax treaties exist between many jurisdictions, they still need to be reviewed in terms of the facts and circumstances of the assignment.
For example, an assignment of only 90 days could trigger tax depending on who is paying for the assignment—the home or host country. Tax treaties typically will address who is bearing the cost of the assignment as one of the factors for determining which jurisdiction can tax the individual regardless of days spent in the location. Therefore, do not assume that under six months or under 183 days always means no individual tax impact.

As a result of the variations of tax laws and assignment structure, tax compliance needs to be reviewed on three levels: corporate, individual, and social. This article will not cover all of the details surrounding such matters, but will highlight leading themes and considerations that should not be overlooked.

Purpose and intent of the short-term assignment can also have a significant tax impact. For example,

- The issue of intent – If the intent of the assignment changes with respect to the assignment period, it can result in loss of tax benefits.
- Documentation – Letters of assignment and interentity agreements need to be in sync to preserve tax benefits.
- Assignment extension – Often requires reevaluation of the associated tax impact, the applicable changes to policy provisions, and required updates to documentation (e.g., letter of assignment, interentity agreements, and immigration papers). This may result in tax filings and tax reconciliations (e.g., tax equalizing or tax protecting the assignee).
- Tracking assignee presence abroad – Failure to manage this issue may result in individual, payroll, and potentially corporate noncompliance.

When it comes to country rules and tax treaty issues:

- Home country tax residence – Residency may continue resulting in the need to authorize home country tax filing preparation and possible inflated tax costs.
- Economic employer concerns – Charge-back to the host country may result in loss of treaty exemptions.
- Host country tax treaty exemption – As mentioned previously, a 183-day period is not straightforward in that the counting periods may vary from country to country agreements and is not always 183 days.
- Domestic tax concessions for short-term assignees – Proper review of home country jurisdiction rules.
- Social Security issues – Certificates of coverage may be required; some countries have treaty exemptions.

In summary, key individual tax variables that should be evaluated for STAs cover:

- Taxing jurisdiction: home, host, or both
- Home and host country tax residency position
- Double tax treaty considerations
- Tax concessions available for STAs
- Taxability of assignment allowances
- Tax treatment of dependents’ portion of specific allowances (note: if an assignee brings dependents, traditionally nontaxable short-term business expenses may not all be nontaxable)
- Elimination of double taxation.
Regarding corporate issues, the intention is to provide high-level “words to the wise” when working with business leaders before sending an employee on an STA. Depending on the amount of time and the role/responsibility of the assignee in the host country, a Permanent Establishment (PE) for the home country employer may be created in the host country jurisdiction. Once a PE is created, business profits/revenues of the home country employer can be brought into taxation of the host country jurisdiction. Even one individual’s STA can subject the home country legal entity to host country corporate tax! Proper preassignment risk review and tax planning is imperative to ensure specific documentation and actions are taken to avoid such exposure.

For many businesses, the idea of a short-term assignment being more costly and complex than a long-term assignment is counter intuitive. However, risk of noncompliance is even greater. It is critical for global mobility professionals to leverage the support of corporate tax and/or their external tax advisors to create awareness and to educate business leaders and assignees of these risks. Security concerns, technological advancements, and the continuing need for revenue have increased the scrutiny of all persons crossing borders.

To hypo or not to hypo…

Because STAs are assumed as not taxable, tax equalization is usually an afterthought; that is, it is often not considered until after the assignment tips to becoming a taxable scenario in the host country.

If an STA is known to be taxable from the beginning, then the assignee can be prepared for tax equalization and the effect it has on his/her personal tax filings. Even in this situation, however, more often than not, an ongoing hypothetical tax is typically not retained. When an STA is subject to tax in the host country location, companies will typically either:

- Implement a shadow payroll in the host country location to remit taxes per payroll cycle
- Calculate associated tax gross-ups on compensation and expenses to be paid in the host country (timings of tax payments may vary—ongoing, quarterly, or at year-end).
Cost projections

As mentioned in the compliance section of this document, there is a common misconception that STAs are not taxable in the host country. While this could be true, if the facts and circumstances of the move (e.g., home/host country tax treaty, length in country, charge-back to host country) prove the STA taxable, there could be a significant increase in the cost of the assignment. A global mobility professional could implement a well-planned policy that is aligned with the talent management strategy of the organization, yet underestimating the cost of an assignment will negate all the good work completed if the assignment’s cost is significantly more than what the business budgeted.

To avoid surprises, a cost projection should be prepared. Cost projections need to include all of the provisions that an assignee would receive under the STA policy and the estimated tax costs. It may be prudent to run these projections in multiple assignment length scenarios or other potentially changing factors for proper planning to take place. Once reviewed, the business can assess whether the assignment is still affordable and the global mobility professional can also prepare the assignee for additional tax compliance that may be a result.

Payroll

Payroll compliance is another area where short-term assignments could become complicated. In general, regular home-country payroll withholding and reporting stay the same for an assignee on a STA. However, there could potentially be host country withholding and/or reporting requirements, especially if the assignee is eligible for any tax treaty relief. In addition, host-country legal/immigration requirements may require the assignee to be on the host-country payroll.

When it comes to STAs and payroll, there are both compliance aspects and practical/logistical considerations that need to be evaluated before assuming that an assignee remaining on the home payroll is sufficient for fulfilling both corporate and individual obligations in the home and host countries.
In conclusion

STAs are important moves. They fill skill gaps, provide international work experience and/or training, provide knowledge transfer, or support projects. Because they are for a shorter duration, their complexities are often underestimated.

As with all assignments, proactive planning is one of the keys for a successful STA. It is important to review the following questions prior to the assignment’s initiation:

- What are the individual and corporate tax implications? (A cost projection should be run)
- Should a long-term assignment policy approach be considered at the outset for longer STAs that may exceed one year?
- If extended will a new visa/work permit be required?
- Will a new assignment letter or amendment need to be issued?
- Is the assignment a sequential STA or is it going to be a long-term assignment, resulting in a change in the assignment type and delivery of policy provisions (e.g., per diem is switched to a COLA or more “permanent housing” is provided).
- Is a sequential STA even an option?

The reality is that STAs are vital to global organizations and they make sense for a variety of business reasons and purposes. A problem for many organizations is that business leaders often choose to send employees without consulting key global mobility stakeholder advisors in human resources, corporate tax, finance, or payroll to support proper planning and decision making.

The solution is to build a preassignment process that proactively manages potential corporate and individual risk and highlights any associated STA risks and costs to the business and other stakeholders to enable informed decision making and proper planning. A detailed STA policy sets the framework for proper administration of STAs and provides transparency to assignees and the business regarding the typical provisions included and anticipated costs against targeted budget.

Lastly, a process is only good if it is followed. Leadership support, education, and proper communication of policy and process are critical for STAs—and all assignment types—and can effectively foster compliant global mobility programs.
If your organization...

- Has a globally mobile workforce
- Has international assignment programs that need help with managing their assignee populations
- Has international assignee programs that do not have documented policies or have not recently updated or benchmarked their policies
- Needs to understand its current international assignee program resources, identify gaps, introduce technological resources, and improve work flow
- Needs to improve reporting and tracking processes and procedures that address stakeholder needs in a timely manner and help improve guidance and information sharing throughout the organization
- Wishes to improve and streamline their current global mobility processes and procedures
- Recognizes a need to institute improved governance to build a more sustainable and efficient international assignee program and manage potential exposures

KPMG can help

KPMG’s Global Mobility Services practice has the people, experience, and international presence to effectively address your organization’s needs. Our services include:

- International assignment tax compliance services
- Mobility consulting and international HR consulting
- Employment tax
- Global business travelers services
- Global incentive compensation services
- Global mobility technology
- International social security services
- International tax exempt services
Previous editions on Home Leave and Repatriation from the Back to Basics series can be found on KPMG's TaxWatch Institutes Web page.

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