

**Erasmus University Rotterdam / Expatriate**

**MasterCourse Human Resources and International Mobility**

**Final paper**

“Global roles within multinational organisations – dealing with requests for a contract switch”

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Amsterdam, November 2016

## **Executive Summary**

Employees in multinational organisations requesting a contract switch to their country of residence pose a significant challenge for their employer. It raises the question of how best to deal with these requests. This is due to the fact that there are many aspects to the issue, multiple stakeholders need to be involved and after weighing all factors, it can be difficult to make a decision, as immeasurable factors come into play.

After identifying the groups of employees most likely to request such a switch and coming to a definition of individuals with a “global role” for whom this topic is particularly relevant, this paper lays out the considerations from various economic and international mobility angles to take into account when deciding upon these requests and argues that, if the decision making authority lies with the correct stakeholders and a robust approval framework is in place, the issue becomes better manageable while being less susceptible to randomness.

An approval process flow is proposed, which incorporates these considerations and acknowledges the internal and external stakeholders involved. Together with the recommendations provided, it is meant to help ensure equity among individuals requesting these changes by applying standardized criteria along which to measure the impact of what is being asked from the organisation.

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## Chapter 1 – Introduction

Multinational organisations can be faced with the issue of employees who perform a global role within the company and request a change in their employment contract to the country of their current residence. This request can be for various reasons, but is often to accommodate their personal situation in a particular way such as the family having moved back to their original home country for the schooling of their children. These individuals with a global role typically travel extensively for business and have their direct reports spread over the world, with constant physical presence in one location not strictly necessary, or even desirable. How should organisations deal with these contract switch requests? What considerations need to be taken into account before making a decision? Which departments within the organisation need to be consulted for their input?

These cases are not straightforward, multi-faceted and often not clearly governed by just one of the International Mobility policies that may be available, as the issue touches upon aspects of various policies and needs the involvement of different specialisms within an organisation. Therefore, to avoid randomness and to ensure equity among individuals requesting these switches, this paper argues that they require a structured approach, close communication between the departments involved and a clear governance process in place with which to judge these requests. If not handled properly, this can lead to frustration with the employee, and in the worst case, resignations from the company due to discontent.

This is a complex yet relevant issue which organisations are facing. The academic literature on global mobility in general is sparse, let alone on this specific topic. As such, the literature does not provide any earlier attempts at a best practice approach to this issue. Due to its complexity, it can be expected that organisations choose for a discretionary approach to requests. This paper attempts to provide a high-level framework along which to judge these requests, the implementation of which should help reduce randomness and boost equity among the individuals requesting such a contract switch.

For the remainder of this paper, it is assumed that these contract change requests come from individuals who currently have an employment contract with a headquarter entity in the Netherlands, and are requesting a switch to another business entity in the country of their current residence, which is assumed to lie outside of the Netherlands.

This paper is structured as follows: Chapter 2 presents the main problem statement and subquestions to be explored. The term “global roles” is looked at in more detail in Chapter 3, which also suggests a working definition. Chapter 4 gives an overview of the various areas of considerations that need to be taken into account when deciding upon such requests; the paragraphs each look into the key considerations from a perspective of psychological contract, tax, social security, payroll, immigration, compensation and benefits.

Chapter 5 looks at the various internal and external stakeholders involved in these cases and comes with a suggested approval process. Finally, Chapter 6 presents a conclusion to the problem statement and provides recommendations on how best to deal with these requests.

### *Limitations*

This paper does not look at the employment law and pension considerations of contract switch requests, and does also not include an analysis of corporate tax / permanent establishment risks. These areas of expertise are especially complex in an international context and it would go too far for this paper to analyze these. It must however be noted that in practice one of the driving reasons behind a request for contract switch is the desire to build up, or resume building up, pension in the country of residence, as they intend to retire to that country at some point.

Also, the individuals spoken about in this paper are all assumed to have a local employment contract and are assumed to *not* be on an expatriate assignment.

## Chapter 2 – Problem statement and subquestions

This paper sets out to answer the following problem statement:

*How should a multinational company judge requests from individuals performing a global role within their organisation for an employment contract change to their country of residence?*

In coming to an answer to the above statement, the following subquestions are examined.

- How are “global roles” within multinational organisations defined? Which criteria can be attached to this?
- In judging these requests, which considerations need to be taken into account from the perspective of:
  - Tax;
  - Social security;
  - Payroll;
  - Immigration;
  - Psychological contract;
  - Compensation and benefits.
- Which internal and external stakeholders should be involved in the decision making and approval process? And what should that process ideally look like?

## Chapter 3 – Global roles

This chapter looks at a set of criteria to determine for defining global roles and explores two groups of employees who in practice often ask for a contract change.

### §3.1 Defining global roles

In an increasingly global business world, where communication and reporting lines are becoming ever shorter, it is arguably becoming less important where one is physically located to be able to perform their job. Within large multinational organisations, reporting lines can be scattered, and similarly the physical presence of team members nowadays is often spread across the globe.

The concept of global or virtual teams is increasingly prevalent within large, global organisations and enables its members to work from practically anywhere in the world. These teams bring the advantage of cost savings in the first place, but also the ability to leverage global talent and increased productivity, enabling reduced time to market. On the other hand, their main disadvantages are its inherent potential to give rise to cultural conflicts and a lack of trust, and may cause social isolation due to a lack of social interactions. Managing these teams is particularly complicated and requires specific leader characteristics and particular skills from the manager (Neeley, 2015; Watkins, 2013).

These teams function better in certain parts of the business where continuous - or at least often - physical presence is not essential for the work to be done. Take for example a software designer who can generally work remotely from anywhere, versus an assembly worker who needs to be in the factory to be productive at all. The new normal team is matrixed, networked and cross-functional.

Within this context, a special group of employees can be identified, consisting of senior individuals who have a global responsibility and need to frequently travel around the world as part of their job.

The question arises when one can speak of a truly global role. In other words, what does the word *global* mean here? It should be clear that having that word in one's job title can be misleading in this respect. An employee can have a global responsibility for a certain part of the business, but this does not necessarily mean it is also a global role.

In academic literature, there is not one generally accepted definition of “global roles” in organisations. Below is a proposal for a number of criteria which should be met before one can qualify as having a global role, as understood for the remainder of this paper:

- Responsibility for annual revenue: > €100m
- Direct reports: > 25 people, spread over a minimum of 3 different countries
- Travel for business: > 50% of the working time on an annual basis

These criteria should illustrate that these roles carry much responsibility and will in practice be limited to a relatively small group of senior employees.

### §3.2 Types of employees seeking a contract switch

Besides the abovementioned population of senior employees with a global role, there are a couple of other groups of employees for whom it can in practice be beneficial to ask for a contract switch, despite not formally qualifying against the criteria mentioned above. Two of the most notable groups are highlighted below and specific example are provided.

### *1. Local cross border commuters (CBCs)*

Local cross border commuters are defined as employees who work on a local employment contract in a particular country (e.g. the Netherlands) but have their (fiscal) residence in another country and commute to their country of residence on a daily or weekly basis, but at least once a week. Commuters are also a recognized term under EU law, which also refers to them as “frontier workers”.

Particularly in the triangle of the Netherlands, Belgium and Luxembourg, this is a well-known contractual set up. For example, Philips and a number of other Dutch multinational organisations that have a large office relatively close to the Belgian border, have several hundreds of local commuters between the Netherlands and Belgium alone.

Take, for example, an employee who has been commuting from Belgium to the Netherlands for the last ten years. As this person has climbed up the ladder in seniority, his or her responsibilities have become more global, meaning that he or she needs to be present in the Netherlands less and is either travelling or can work more frequently from the home country Belgium. For this employee, it can become increasingly attractive from a tax, social security and pension perspective to at one stage request a switch to a Belgian employment contract.

This Local CBC group can be a tricky population to manage, as their set up can give rise to various kinds of complexities in terms of administration, tax, social security, pensions, et cetera. Next to that, economic research brings forward that there is still uncertainty about the drivers of commuting and its ability to stimulate regional economies (Edzes, Venhorst & Van Dijk, 2015).

### *2. International local hires*

Another group is the population of so-called international local hires, whereby for the purpose of this paper, the definition of an international local hire is: “an employee hired from abroad onto a local employment contract and rewards package”. So although these individuals may have received certain benefits upon initial relocation, they are not entitled to an expatriate rewards package and are compensated in line with local peers.

Consider the example of an individual who has been hired to the Netherlands on a local Dutch contract from abroad. The family, spouse and children initially moved together with the individual to the Netherlands, but have recently decided to move back to the country where they were originally living. The individual has given up his apartment in the Netherlands and is now commuting weekly between the Netherlands and where the family lives. Preferably, the individual would like to be able to fulfil as much of his work commitment as he sees fit, either from home or at least in his present country of residence, but is being restricted by the fact that he cannot work 25% or more of his (European) work time from his country of residence due to social security regulations (see §4.2 below).

These kinds of situations can lead to the individual very much wanting to stay with the company, but explicitly on the condition that their contract is changed to their home country, where they are currently residing with their family, and where they wish to retire at the end of their career.

## Chapter 4 – Considerations

This chapter provides an overview of various disciplines involved in dealing with requests for contract switches and sets out the considerations in each of these areas. The below is meant to give an indication of how varied and multi-disciplined the issue in fact is.

### §4.1 Tax

Taxation is a crucial – and often complex - part of the considerations, which is why this is covered first. Generally, when employees start working in multiple countries, their average tax rate goes down due to the fact that they hit the lower tax brackets in the different countries as their income becomes partially taxable in country A and partially in country B (and potentially country C, depending on the individual's work pattern and particular facts and circumstances). This is however not always the case and depends strongly on the combination of countries worked in; it can occur that the average tax rate stays the same or actually goes up as a result of working in two or more countries. This can be due to countries involved not all having a progressive income tax system, or simply due to oddities in the respective national tax laws.

Tax equalization or tax protection is often offered to expatriates and cross border commuters as part of the applicable assignment policy. Whereas tax equalization supports equity, mobility and compliance, it is administratively burdensome and requires a robust policy to be put in place to be able to handle the variety of situations that may occur. Tax protection places more responsibility on the assignee, usually including the filing and paying of home and host country taxes, but also gives the opportunity of gaining financial advantage from an assignment to locations with no or low rates of income tax.

Tax equalization boils down to the premise that an assignee should be fiscally no better or worse off as a result of an assignment. This is usually ensured by a Tax Equalization Calculation (TEC) or similar, which is prepared after year-end together with the tax return, to determine which part of any tax refund or payable amount as a result of the tax return is for the account of the company, and which part is for the account of the assignee.

Similarly, tax protection protects an assignee from a higher level of overall tax due to working in more than one country at the same time, compared to the situation where he/she works in full in the home country. If there is a disadvantage, which is usually calculated by means of a Tax Protection Calculation (TPC), this is compensated to the employee. Any advantage is not reclaimed, meaning that the employee can keep this.

How should a company deal with the question of offering either tax equalization or tax protection to individuals who themselves want to move to a contract in another country? In other words, to what degree should individuals be made responsible for the tax consequences of their request to change contract? On the one hand, one can argue that any tax consequences as a result of such a personal choice should not be borne by the company, as they are an employee's own responsibility. On the other hand, it is in the company's interest that all employees are fiscally compliant so there is a clear business case to offer tax support, particularly as these are generally high-profile, senior employees.

Summarizing, there is a delicate balance to be struck here between the company's interests, being first and foremost compliance and minimizing exposure to tax risks, and those of the employee, being ease of mind in the form of tax filing support. It is a tough decision whether to grant tax support to these individuals and, if so, to what degree and what arrangements the company should make with them, i.e. to grant tax equalization/protection or not.



### *Theoretical framework*

Upon moving to an employment contract outside of the Netherlands, taxation in the Netherlands can remain – so despite having a foreign contract – if one of the following three conditions is met:

1. The “material employment” lies in the Netherlands;
2. The salary costs are borne by the Dutch entity;
3. The individual has more than 183 days of presence in the Netherlands in any 12-month period.

These conditions are described in more detail below.

*Ad 1 – material employment:* In the past, the Netherlands took a formal approach to the concept of employment. This meant that the tax authorities and courts looked at the country in which an individual had his or her formal employment to determine who the employer was. A number of verdicts given by the Dutch Supreme Court in December 2006 led to a decree in January 2010 in which this changed to a material approach (Decree Dutch Finance Ministry, 2010). Under a material approach to employership in the sense of article 15 of the OESO model treaty, the party that is seen as the employer is determined by the answer to questions such as:

- Who gives the work orders and instructions to the individual?
- Where are the line manager and the rest of the team physically located?
- Who carries the material risk of the employment in case of, for example, an accident at the workplace?
- Who bears the costs of the individual’s employment?

The Supreme Court ruled that the employment position should be judged based on the answers to the questions above, and not deduced from just the formal employing entity in the employment contract. If the material employment is judged to lie in the Netherlands, taxation takes place from day one of working here and the 183-day rule (see below) does not apply.

Determining where the material employment of an individual with a global role lies can be particularly complicated. This will need to be determined case-by-case based on the facts and circumstances of each individual situation, taking into account the criteria above.

Generally speaking, if the position is a senior corporate headquartered role, switching to a foreign contract outside the Netherlands will not take away a Dutch tax liability, as nothing should change as a result of the switch with respect to the material employment position. This does trigger shadow payroll obligations which will be handled in the next paragraph. Arguably, if the work percentage in the Netherlands stays below a minimum threshold, it could be agreed with the Dutch tax authorities that no Dutch wage tax is due as a result of the negligible percentage of time spent in the Netherlands. This is however a practical solution rather than based on current legislation.

*Ad 2 – cost recharging:* Under this condition, individual recharging of salary costs is required to trigger taxation in the Netherlands. This would mean that an invoice is regularly sent from one entity to the other, specifying the salary costs of the employee in question and cross-charging these as a management fee from one entity to the other.

The other method of cost charging is on a collective basis, whereby the services of an individual are not specified on the overall invoice but are bundled together with other individuals and billed as one management fee. For taxation to be triggered, it is necessary that cost charging takes place at an individualized level; collective cost charging will not in itself trigger tax liability.

The cost centre under which an individual belongs is a good initial indicator of where that person's employment costs are borne. This however does not tell the whole story, as these costs are often distributed further from that cost centre to another cost centre or centres which can lie abroad. It is then difficult to say who is really bearing the salary costs for such an individual with a global role.

*Ad 3 – 183-day rule:* This condition is relatively easy to check and to monitor by the use of a travel calendar. Assignees are often provided with access to such a calendar to track their work pattern. One thing to note is the difference between tax treaties – some stipulate a 12-month period, whereas others refer to a calendar year or tax year, during which an individual may not exceed 183 days of stay in the host country. Note that this is more or less exactly half of a full calendar year (365 or 366 days) and includes not only work days, but also weekend days and holidays in the host location.

## **§4.2 Social security**

Although not as evident as tax and perhaps not as sensitive as pension, social security is an important topic in these discussions and is therefore looked at next.

As a main rule, an individual is subject to the social security system of the country in which he or she works. There are various exceptions to this, the most important being that one becomes subject to the social security regime of the country in which he or she resides if somebody lives in a particular country and works in multiple countries, and works 25% or more of their time in the country of residence. This 25% is measured over the European working time, so excludes travel outside of the European Economic Area (EEA) and Switzerland. For individuals with a global role this does give some extra room to manoeuvre as frequent travel outside the EEA is often required.

Typically, with these contract change requests one of the underlying reasons is that the individual wants to be able to spend more time in the home country, more than the one day a week on average, which easily brings somebody to the 25% limit.

Certain countries are known for their relatively expensive social security system – both the employer and employee contributions can be significantly higher in the country of residence than the current contracting country. Notorious countries in this regard are Switzerland, France and Belgium where premiums for both the employee and employer are uncapped; so the higher the income, the higher the total level of contributions.

If a cross border worker does become subject to the social security scheme of the home country while being employed in a different country, this requires the foreign employing entity to be registered with the authorities in the country of residence as a withholding agent. This registration is of course possible but can be administratively burdensome (Italy being a notable example here) or just a very complex process triggering all kinds of permanent establishment risks for corporate tax purposes (such as Spain).

The additional costs involved in these social security consequences also need to be taken into account when making the decision to approve or reject a request for contract change.

### *Health insurance*

Out of all the package elements for internationally mobile employees, health insurance is surely one of the most sensitive – together with immigration and schooling. Not having these in place properly can have disastrous consequences for both the company (e.g. fines for visa non-compliance) and the assignee and their family (e.g. medical costs not adequately covered).

For as long as an employee is on the Dutch payroll, he or she is required to have a basic Dutch health insurance. For expatriate assignees, this is not necessary if an A1 statement or Certificate of Coverage is in place.

This basic insurance can be “topped up” by all kinds of additional insurances for extended coverage to include various types of special treatments which may not be covered by the basic insurance package. Expatriates can for example obtain an extra global health insurance through Allianz, Cigna or Bupa, the three main providers in this area.

For cross-border commuters on, for example, a local Dutch contract and residing outside the Netherlands, there is a particular construction with an S1-form from their health care provider which enables them to have access to care in their home country.

Upon a contract switch to a country outside of the Netherlands, a basic Dutch health insurance will no longer be necessary, and the employee will be required to take out a health insurance in their new country of residence.

### **§4.3 Payroll**

Unless there is a salary split in place enabling an employee to simultaneously work for several employers in different countries, an employee can only be on the single payroll system which is actually paying that person his or her monthly salary. When an individual switches their employment contract to a different country, it means that there is also a switch in the payroll to which the employee belongs. In practice, this means individuals will move from the Dutch payroll to the payroll of the country of residence. If no tax obligation remains in the Netherlands, the payroll obligation in that country would cease after the date of contract switch. There can be some trailing tax liability due to for example an annual incentive or vesting of long-term incentives which do not pay out until the year after the end of employment. These will still need to be processed through the payroll.

If a tax obligation in the Netherlands does remain after the contract change (see §4.1 above), a so-called shadow payroll will need to be set up in the Netherlands for the company to report the income that is allocable to the Netherlands and withhold the wage tax due. The setting up of a shadow payroll is administratively burdensome and involves additional fees from the external tax or payroll provider. It is therefore in the company’s financial interest to have as few employees as possible on the shadow payroll.

Having a shadow payroll means that no actual money is paid out to an individual from that payroll, but the monthly payment obligation still remains. The interesting question then arises who is liable to pay that monthly tax – should it be (i) the company that advances this and settles this with the employee at year-end with the tax return, or should (ii) the employee pay this him- or herself every month?

In the Netherlands, there is the possibility to reduce the monthly wage tax withholding in the Dutch payroll, to take into account the (estimated) percentage of foreign working days. This avoids large corrections upon filing the tax return and can be an effective way to achieve (ii) above. Not every country however has the possibility to use this method of working with regard to the payroll.

If setting up a shadow payroll in a certain country is necessary, the employing entity needs to be registered as a social security withholding agent in that country (see §4.2 above).

### *“Hosted Heads”*

In this context, the phenomenon of a so-called “hosted head” is worth looking at further. Extensive research on and therefore a clear definition of it are not available but it can be described as “an employee with an employment contract with and on the payroll of a certain country, without having any direct business links to the entity in that particular country”. Such a person is literally *hosted* on that particular payroll, without actually being linked to that country from a company perspective.

These individuals can have a complex tax situation, with taxation in various countries. As a general rule, they will be taxed on their worldwide income, as tax residents of the country where they reside, with an allocation over various countries based on their travel pattern, which is to be reconciliated at year-end.

Under these hosted head constructions, the salary costs of the individual are typically recharged to various different countries. So despite the hosting country paying the salary, the costs are ultimately borne by another entity or even multiple entities. This is mainly because the hosting country does not want to pay for this person and the revenue/profit being generated by the individual should be allocated to that other entity as well.

With contract change requests, employees usually have little to no link with the entity in their country of residence, usually due to that country having very little business activity. So in effect, many individuals are asking to become a “hosted head” when requesting a contract change. Understandably, most organisations like to have as few hosted heads as possible on their books in the various countries, because ultimately they are an irregular set up and can draw attention from either senior management or the authorities during audits.

#### **§4.4 Immigration**

These contract changes can have immigration consequences as well. The immigration status of a foreign employee in the Netherlands is linked to his or her formal employer. If this Dutch employer is no longer there due to a change of contract to a country outside of the Netherlands, this can impact the immigration status of not only the assignee but also of the dependent family members.

Let us for example take the case of a Turkish national working in the Netherlands for a Dutch organisation, with his family living here with him. If the employee decides to move away from the Netherlands while the rest of the family remains living in the Netherlands temporarily for whatever reason, this can cause visa issues, as the sponsoring person disappears and with that, the residence rights of the other dependent family members.

A more likely scenario is that this employee requests a contract change to Turkey, for example, and the rest of the family is already living there. If this individual will continue to perform part of his work in the Netherlands while under Turkish employment contract, this individual will need a new work permit. The current work permit will no longer be valid once the assignee leaves the Dutch payroll and ceases to have his Dutch employer, so will need to apply for a new permit which is compliant with the new contractual set up.

#### **§4.5 Psychological contract**

The previous paragraphs have described considerations from the relative technical and financially driven aspects of the subject. This paragraph looks in more depth at the considerations from a human angle and in particular the psychological contract.

Individuals not only sign a formal employment contract with their employer but also a psychological contract. This represents the mutual beliefs, perceptions and informal obligations between an employer and an employee, setting the dynamics for the relationship and defines the detailed practicality of the work to be done (Rousseau, 1989).

Extensive research into psychological contract breach in the specific situation of expatriate assignees (Jansma, 2015) has been undertaken. Particularly for expatriates, this is an interesting and important topic, as they are assigned abroad for a certain period of time and, depending on company policy, may not have a return guarantee to their home country entity after their assignment ends. They then rely far more strongly on what is *not* written in their assignment contract than what is, such as trust in their capabilities, the fact that they are seen as high potentials and are therefore being sent on assignment in the first place.

The research found a negative correlation between perceived psychological contract breaches on the one hand and satisfaction and performance on the other, stating that assignment-specific support, individual development, career support, repatriation planning and training may well have been undervalued elements in the whole expatriation process.

This perceived contract breach can take its form in a number of ways, including:

- No clear assignment goals set at the start of nor monitored during the assignment;
- No or insufficient support from the home country during assignment;
- No clear plan upon repatriation;
- No support from home country line manager, no clear ownership of the assignment.

Looking at the subject of this paper, this is where the social exchange theory comes into the discussion: when an employee can show a strong track record and has performed well for the company over prior years and may feel that he/she has given up a lot for the company, they expect the company to be reciprocal with this kind of contract switch request and approve it without any resistance.

High-performing employees who request such a contract change could perceive a psychological contract breach when such a request is not approved. They may feel that they have shown continued commitment over a longer period of time to the organisation and gone out of their way to accommodate the business' needs and now want to see some commitment back from the company. Feelings of resentment and resistance to change, as well as demotivation can then follow if this expectation is not met.

It is difficult to find the balance between respecting the individual's needs, while also keeping in mind the interests of the company. As the previous paragraphs have shown, there are a multitude of factors to take into account and it is not straightforward to weigh the importance and/or impact of each of these to come to a balanced judgment. The additional tax costs as a result of a contract change can be relatively easy to measure. The costs of setting up a shadow payroll, for example, or having to apply for a specific visa are equally quantifiable. Any emotional or personal damage, however, as a result of perceived psychological contract breach is much more difficult to measure. What is the cost of somebody whose contract change request is denied

and subsequently decides to leave the organisation?

Adding a layer of complexity to these discussions is the fact that these individuals in questions are often labelled as key talent and can therefore not be lost (so-called 'flight risk'). One can of course never be certain that somebody will indeed decide to leave if the switch does not take place, so this can be (ab)used as a bargaining tool.

## §4.6 Compensation and benefits

These requests for contract change also need to be looked at from a compensation and benefits perspective. As the individuals in questions are not employees on a temporary expatriate assignment, their compensation and benefits package is based on the local reward guidelines of the country where the contract is issued. For an individual requesting a move from the Netherlands to, for example, Denmark, this package can look very different in the two countries.

Table 1 below gives an overview of the most important compensation & benefit elements which can be different between countries.

<i>Compensation &amp; benefits element</i>	<i>Details</i>
Pension	<ul style="list-style-type: none"> <li>• A common reason for individuals to want to switch back to a contract in the country of residence, to avoid having relatively small build ups in various countries around the world.</li> <li>• Pension rules can be very complex, particularly in an international context when employees wish to transfer the build-up of pension in one country to another before the retirement date.</li> <li>• The pensionable salary base and the employer contribution are not the same in every country, meaning a change in pension structure when moving contract.</li> <li>• In the Netherlands, recent legislative changes amended the pensionable base over which one can fiscally deduct the employee contributions. Most employers have solved this by offering a cash allowance over amounts above the applicable threshold (2016: €101.519). If an individual moves to another country and contract, this allowance may drop off if the new employing country does not have a similar pension allowance ruling.</li> </ul>
Social security premiums	<ul style="list-style-type: none"> <li>• Employee contributions for social security can vary widely across countries. The Netherlands is known for having a very good social security system for a relatively small outlay.</li> <li>• Contributions can be due over a capped level of income, meaning that the total contributions in a year are also capped at a certain maximum. This is the case in for example the Netherlands.</li> <li>• However, contributions can also be uncapped and therefore the higher the salary, the higher the contributions. This is the case in for example Belgium, UK and France.</li> </ul>
Company car entitlement	<ul style="list-style-type: none"> <li>• This entitlement can vary across countries and is usually linked to the seniority or type of role within the organisation; some countries may grant a company car only to executives, whereas others also grant these to middle management layers.</li> <li>• The tax treatment of these cars can also vary strongly – in the Netherlands for example, a taxable benefit is calculated as a percentage of the catalogue value of the car.</li> <li>• There can also be differences in what is included in the lease contract; some countries include a fuel card, insurance, maintenance etc. whereas others may not give a fuel card (or only to the most senior executives).</li> <li>• Overall, this element of the package can have a considerable cost impact when moving from a package with a car to a package without a car.</li> </ul>

Expat tax ruling	<ul style="list-style-type: none"> <li>• A large number of countries have some form of favourable tax ruling for employees hired from abroad or staying there on a temporary expatriate assignment.</li> <li>• The 30%-ruling in the Netherlands is a prime example of this. This ruling gives holders the benefit of having circa 30% of their gross salary being paid out to them, exempt of tax.</li> <li>• Employees hired from abroad on a local Dutch employment contract may qualify for the beneficial 30%-ruling in the Netherlands. Assuming they fully work here, this ruling can be effectuated in full, giving a substantial tax advantage. If these individuals switch their contract to another country, they will generally lose (part of) their Dutch 30%-ruling upon switching because the withholding agent is no longer there.</li> <li>• They may try to make up for this by gaining the expat tax ruling in their country of residence. The question is whether this exists in the first place and, if so, whether they will meet the criteria and qualify.</li> <li>• This loss of 30%-ruling can lead them to negotiate the local contract harder to make up for the financial disadvantage.</li> </ul>
Holidays	<ul style="list-style-type: none"> <li>• The number of leave days' entitlement can vary strongly across countries, although in Europe this will generally tend to be around 25 days.</li> <li>• For the US and Asia, this number can be a lot lower.</li> </ul>
Working hours	<ul style="list-style-type: none"> <li>• Generally 36 or 40 per week, although differences can exist.</li> </ul>
Sick and maternity leave	<ul style="list-style-type: none"> <li>• Can vary across countries, but will generally not be a <i>deal breaker</i>.</li> </ul>

Table 1

Although a fundamental building block of the compensation and benefits package, one element not mentioned above is the *salary*. Contract switches can cause issues when trying to 'squeeze' people back into the home country salary bands as these can be a lot lower or tighter with less room for manoeuvring than the current contracting country. When people move from one country to another, they can become an outlier on the bands.

Different countries within the same organization can have different approaches to broad banding. There is also the potential issue at executive level that people simply do not fit within the salary structure of the new country of contract.

## Chapter 5 - Stakeholders involved and approval process

The previous chapters set out the various areas of consideration when dealing with requests for a contract change. This chapter looks at which stakeholders within the organisation ideally need to be involved, and why. It also suggests a potential approval process flow along which to judge these requests.

It should be taken into account that in practice the situation can arise where the responsible line manager and/or HR Business Partner has already given approval for a request for a contract switch before a final decision is taken by the competent and authorized parties. This makes the discussions and negotiations with an individual more difficult when pushed back on by the relevant internal stakeholders.

The list of internal stakeholders which are involved and their relevance/interest is provided in Table 2 below:

<b>Internal stakeholder</b>	<b>Interest / relevance</b>
<i>HR</i>	The human resources department is often involved from the start of the discussion, either through an HR Manager or HR Business Partner, as the initial request from the employee should usually be directed in the first instance to the HR department.
<i>Tax</i>	A key party in these discussions as they will need to provide advice taking into account that tax, social security and payroll compliance are at the top of their business agenda. Tax can be seen as one of the end-responsible parties, together with Reward and International Mobility, in the sense that Tax can veto a request.
<i>Reward</i>	Plays a key role in the decision making process as they are responsible for the compensation & benefits aspects of individuals' packages. Also one of the end-responsible parties, together with Tax and International Mobility.
<i>International Mobility</i>	Traditionally regarded as the Center of Expertise for all mobility-related matters and in the lead for vendor management, compliance and ensuring equity with other populations of assignees. End-responsible party, together with Tax and Reward
<i>Finance</i>	Together with the business / line management, Finance is responsible for being able to oversee the financial consequences of a contract switch.
<i>Business / line management</i>	The line manager is the person with the best insight into the individual's performance, track record and is a good position to judge the necessity for a contract switch and also to judge the impact it may have on the team and day-to-day business.
<i>Talent Management</i>	Depending on the organizational structure and size, Talent Management is either responsible for all employees or a selected group of senior executives. Global roles are usually part of this population as they are generally seen as critical roles. Therefore, in these discussions it can be beneficial to have Talent Management also involved, to help think about the impact on succession planning etc.

Table 2

Table 3 below gives an overview of the *external* stakeholders who also have a part to play in these requests.

<i>External stakeholder</i>	<i>Interest / relevance</i>
Tax / social security provider	Able to advise on tax and social security consequences of the move, and provide cost estimate for the move
Immigration provider	Able to advise on any potential immigration consequences of the move



Destination services provider	To assist with deregistration and departure services in the country being moved away from.
Removal vendor	To assist with the removal of household goods from the previous location back to the home location.

Table 3

*Suggested best practice approval process*

A case-by-case approach has the benefit of providing flexibility and recognizing that there is no one-size-fits-all-approach to these contract change requests. However, it is also susceptible to exceptions being made and makes it difficult to ensure equity among all the submitted requests.

Table 4 below gives an outline of the step-by-step process being proposed as a best practice approach to help overcome these shortcomings and to increase equity. This includes involvement from all the key stakeholders summarized above, both internal and external, and stipulates the steps, the corresponding action holder(s) and further detail.

<i>Step</i>	<i>Action holder(s)</i>	<i>Detail</i>
1. Request for a contract change	HR Business Partner or HR Officer sends request to Reward/International Mobility	Stating clear reasons for the change, including business rationale
2. Undertake analysis	International Mobility and Group Tax	To determine tax risks/and social security consequences of the switch.
<i>In the meantime, no commitment can be given to the employee regarding approval of the request.</i>		
3. Tax briefing	To be set up by International Mobility between the employee and the external tax provider	The aim of the briefing is to make the assignee aware of the tax and social security consequences of the switch. Subsequent cost projection prepared.
4. Liaise with new home country HR	International Mobility	Determine hosted head risk, discuss willingness to host the individual on their payroll.
5. Final decision	To be taken by Reward and International Mobility	After receiving input from the external tax adviser, to be decided along the criteria mentioned above.
6. If taxation in NL remains: draft agreement with the employee	International Mobility	The agreement should confirm that: <ul style="list-style-type: none"> <li>- All tax consequences of the move are for his/her own account;</li> <li>- No tax protection/equalization to be applied;</li> <li>- Arrangements need to be made on payment method of the monthly Dutch wage tax;</li> <li>- Tax return support is provided for at least the year of transfer.</li> </ul>

Table 4

The 'final decision' phase in the above schedule will need to take into account the input and/or advice from the various stakeholders but the question remains which guidelines/standards should be adopted when making this judgment.

The following approval guidelines are proposed. If:

- the individual has a truly global role, as defined in §3.1 above; and
- the advice based on the approval flow described above is positive; and
- the line manager approves of the contract switch; and
- the cost to the company does not materially increase as a result of the switch;

only then can the contract change request subsequently be approved by International Mobility, Reward and Tax.

One can of course debate about what is seen as a "material" cost increase. This should be set at a certain percentage of total employer cost to avoid it becoming a murky discussion and will be judged on the cost projection made, but should eventually remain at the discretion of International Mobility, Reward and Tax together.

## Chapter 6 - Conclusion and recommendations

### *Conclusion*

Requests for an employment contract change to a different country may seem innocuous, but are in fact a complex subject for organisations to deal with. Due to their complexity, judging them touches upon various disciplines within the field of international human resources management. Also, various parts of the organization are involved, each with a different interest in how to deal with these requests.

Adding to the complexity is the fact that the discussion cuts across two sides - on the one hand, there is the financial and measurable side of things, and on the other hand there is the psychological/emotional and immeasurable side.

Organisations should recognize that there are various forces in play and leave the decision-making authority with the most competent departments to be able to deal with these requests, while putting in place a clear step-by-step approval process along which to judge them. This will help reduce inequity and clear internal communication of these guidelines will make employees aware that this is a serious issue which the company has duly considered and is willing to accommodate if certain conditions are met.

With global developments, including Brexit, impacting people's decision on where to live and work as well as the world becoming a smaller and more connected place to work in as a result of ongoing technological innovations, it is likely that the group of people requesting such a contract switch will in future increase rather than go down.

### *Recommendations*

Having stated all of the above, this paper ends with the following practical recommendations to help implement the process and guidelines outlined above in practice:

- When deciding on these change requests, the guiding principle should be to put the company's interest first, while respecting the employee's circumstances and trying to facilitate their request;
- An organisation should make an effort to show open mindedness when making the decision regarding yes or no to a contract with the Headquarter entity;
- As they have the most expertise knowledge in house, the governance around these decisions should lie with the departments best equipped to judge these requests, namely International Mobility, Reward and Tax. The discretionary authority should not lie with stakeholders such as line managers, HR Business Partners, or Talent Acquisition who are often not in a position to take an objective view.
- Before putting in place the proposed approval process flow, it is recommended that organisations work with their dedicated tax and social security provider to make a straightforward cost projection template in advance, which can be used with each individual request.

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