

# The state of shadow payroll today: how businesses are managing international employee costs





## Foreword by Richard McBride



Certino has developed a revolutionary, new way of automating and managing shadow payroll and rebilling, specifically designed to help international businesses deal with the massive challenge of managing complex, mobile workforces.

In our second white paper we present the findings of our first shadow payroll survey, conducted in the third quarter of 2018, to identify the challenges involved in managing your international employment tax liabilities.

We asked 1000 senior international HR and global mobility leaders what the implications of managing shadow payroll are for their organisations in order to help you understand the latest thinking and to avoid the pitfalls of getting it wrong.

I would welcome the opportunity to discuss how Certino can help reduce your shadow payroll costs and compliance risks with you in person.

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# The state of shadow payroll today

**T**he advance of digital technology has changed the face of international employment in recent years. Global mobility now operates further, faster and more fluidly than ever before. Business is done without boundaries, with individuals undertaking assignments all over the world.

This is both exciting and rewarding for organisations, but it also presents significant challenges for human resources and finance departments charged with managing this mass of movement on an ongoing basis. Accounts and activity must remain compliant, accurate and up-to-date.

Constituting roughly a third of total employment costs, employee taxes are a major part of this remit. Known as the 'shadow payroll', if not calculated correctly they will expose an organisation to the risk of lost revenue, unnecessary extra costs, financial penalties, compliance issues and ultimately, reputational damage.

In short, shadow payroll must be well-managed.

In our last paper, we talked about the challenges of achieving this, how shadow payroll is currently understood and acted on by organisations - and how Certino's automated solution ensures you get it right.

With this in mind, we wanted to find out more about what these organisations are doing to manage shadow payroll on the ground, in their own operations - and how open they are to Certino's definition and methodology versus their traditional approach.

We commissioned a piece of research to answer some of these questions and enhance our own understanding, and our intention is to repeat this annually.

Our respondents came from a range of different industries; predominantly large enterprises (10,000+ employees) with a substantial global footprint and a significant mobile workforce.

We asked them to share their current interpretation of shadow payroll based on their own experience, and how they and their colleagues are managing it day-to-day. We then asked them to consider Certino's alternative definition and approach, managed through process automation and centralisation.

Almost two-thirds of our respondents are involved with global mobility, and nearly one in five manage tax in their daily roles. All respondents worked on international employee related issues, with varying degrees of seniority (from VPs to managers) and for organisations with headquarters based across the United States and Europe.

In this document, we share our findings and make some informed conclusions about the state of shadow payroll as we see it.

**“International talent mobility is critical to the success of most global organisations, but brings with it a nightmare of additional tax costs and administrative burdens as well as the financial and reputational risks of getting it wrong. Certino's shadow payroll solution is proven to reduce tax and compliance costs by automating the process and improving management efficiency.”**

**Damian J Walsh FCA**

## 70% of international employee assignments require shadow payroll

Traditionally, international employees were predominantly managed using a home or split payroll approach. People on international assignments were treated largely the same way as those based back in their own country for tax purposes. More recently, there has been a slight trend towards a host payroll approach which treats individuals on international assignment in a similar way to local employees in the country they are working in.

Despite this move towards a host payroll approach (where shadow payroll would not typically be required), 70% of international employees are still paid under arrangements (home, split or via a GEC) where shadow payroll is required, probably reflects the increasing proportion of short term or project-based assignments offsetting the decline in traditional long-term assignments.

Shadow payroll remains a significant factor in the management of international employees, and therefore requires mobility and finance functions which are suitably skilled and resourced to deal with a variety of different accounting and tax requirements, while ensuring compliance and duty of care.

Automated solutions in shadow payroll are a recent development and can save time, money and resources in the process.

## Almost everyone is aware of shadow payroll - but their understanding of it differs

97% of respondents were familiar with the term 'shadow payroll' - which you'd obviously expect from global mobility professionals responding to a shadow payroll survey. Nevertheless, this widespread awareness is good news; it shows that organisations understand the concept of international assignment taxes and their active role in global mobility.

However, when you delve deeper and ask them what they

understand the term to mean, it turns out that there are several different, and sometimes conflicting, opinions. This shows that there is still a good deal of confusion in the market about what shadow payroll is intended to do, and how to manage it.

"Two-thirds of respondents largely described shadow payroll correctly, if not completely. In general, definitions focussed only on compliance obligations in the alternate location from which the assignee is paid (e.g. in the host location if the assignee is paid at home). Nobody picked up on the role of shadow payroll in controlling costs or in managing cashflow through feedback to the actual payroll," says Richard McBride, MD at Certino.

To help quantify this spectrum, we called out two specific definitions and asked respondents

**“In my view technology is the only answer for large organisations to make shadow payroll more efficient, and to engage multiple stakeholders across the business in future, as any manual process would simply be too labour intensive. Certino's shadow payroll platform is well placed to deliver on this.”**

**Simon Rogers**

Managing Partner, Talent Mobility Search

to rate the extent to which they agreed with them. First, Bloomberg's 'established' definition of shadow payroll: "A method of maintaining international tax compliance while an employee works abroad. A process in which a US employee working overseas, for example, receives compensation and benefits in the host country that are shadowed, or mirrored, in the US for calculating, reporting and remitting taxes."

And second, Certino's more recent definition: "A comprehensive employment tax management system that covers everything from identifying country specific obligations and opportunities, through the monthly income tax and social security calculations to inter-company rebilling and posting of transactions in accounts."

Although on balance, respondents remain comfortable with Bloomberg's definition - which after all has been around some time - half of those surveyed were open to the idea that the nature of shadow payroll is changing, and can relate to Certino's more holistic definition. While it's positive that companies are embracing change, we must work harder as an industry to educate those involved in what shadow payroll means for businesses, and its impact on business functions such as cash flow, costs and risk.

## Shadow payroll management is inconsistent - and sometimes invisible

This mixed opinion and understanding is borne out in shadow payroll operations themselves, with organisations adopting a number of different approaches to international employee payroll. More than half of organisations prefer to manage this locally with responsibility split between in-house payroll teams and outsourced providers.

**"Many existing shadow payroll processes are reactive and rely too heavily on manual intervention, and so fail to deliver the desired efficiencies or technical assurance which should be essential to any company's tax risk management strategy."**

**Andrew Seear**  
Senior Tax Director  
Global Employment Taxes, AIG

This fragmented approach to an activity that lends itself to be managed centrally suggests that many companies do not take a strategic approach to shadow payroll and continue to 'muddle through'. As well as incurring potentially unnecessary extra costs, this can also result in the absence of a single source of data truth and a lack of visibility in terms of what's really happening on the ground, which leaves companies exposed from a compliance point of view.

In contrast, Certino's position as a single, global shadow payroll provider ensures one trustworthy source of information for everyone involved - a unique offering in today's shadow payroll market.

## There is a lack of confidence in process

The discrepancy in both understanding and process around shadow payroll inevitably means organisations are also calculating it in different ways. Less than a third of respondents are confident their tax payments are correct. That's extremely worrying. Because when it comes to tax, anything less than 100% confident isn't confident enough.

Incorrect tax calculations can have major implications for a business. Excessive costs can be incurred, fines can be imposed for lack of compliance, and resources

and reputation can be damaged. Government tax authorities around the world are targeting organisations that regularly move employees across borders, because they offer potential rich pickings with relatively low risk. So, tax has to be 100% confidently calculated. Certino ensures it is.

## Businesses are losing money unnecessarily

Lack of proper process, due diligence and overall competence in shadow payroll is costing companies money: and in many cases, significant sums. 40% of survey respondents aren't considering available tax reliefs in their calculations. One in four respondents don't routinely rebill international employee costs on time. Quite simply, these are must-do actions and best practice for anyone managing shadow payroll.

"I never cease to be surprised that so many companies seem happy to leave money on the table when it comes to international employment taxes. These are costs and like any other costs should be rigorously managed. This level of waste would not be tolerated in any other area of business and shouldn't be tolerated in shadow payroll either," says Richard McBride, MD at Certino.

Furthermore, more than one in five organisations surveyed - and all major global businesses -

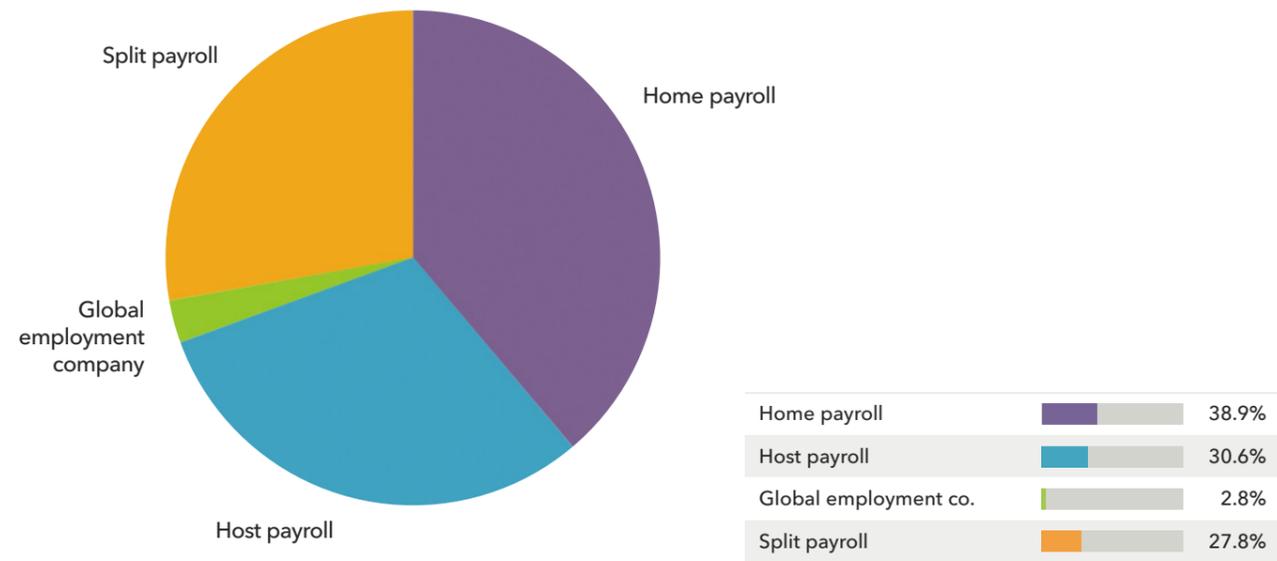
admit they may have incurred 'significant financial penalties' in the last three years alone as a direct result of incorrect tax audits concerning shadow payroll. Unexpected, but also frustrating when you consider these penalties could easily have been avoided with the right solution in place.

The fines themselves can run potentially into millions of pounds, dollars or euros, which can take years to recover from as well as causing extensive damage. ■

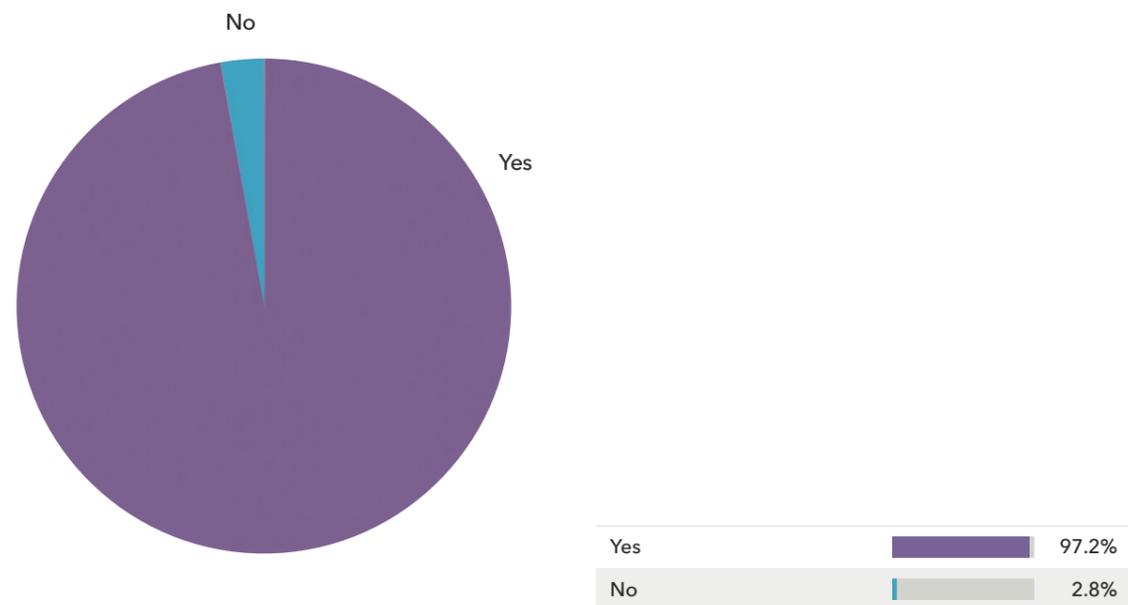
**"A major challenge with shadow payroll is making home and host HR/payroll people communicate with each other and exchange information about payroll changes on a regular basis. This is challenging when expatriates are not day-to-day business for HR colleagues. Certino solves this problem in a way that updated information is automatically uploaded and downloaded every month without HR people having to exchange emails."**

**Andrea Rentzsch**  
Head of Global Mobility,  
Mettler-Toledo International

### 1. How do you currently pay your mobile workforce?



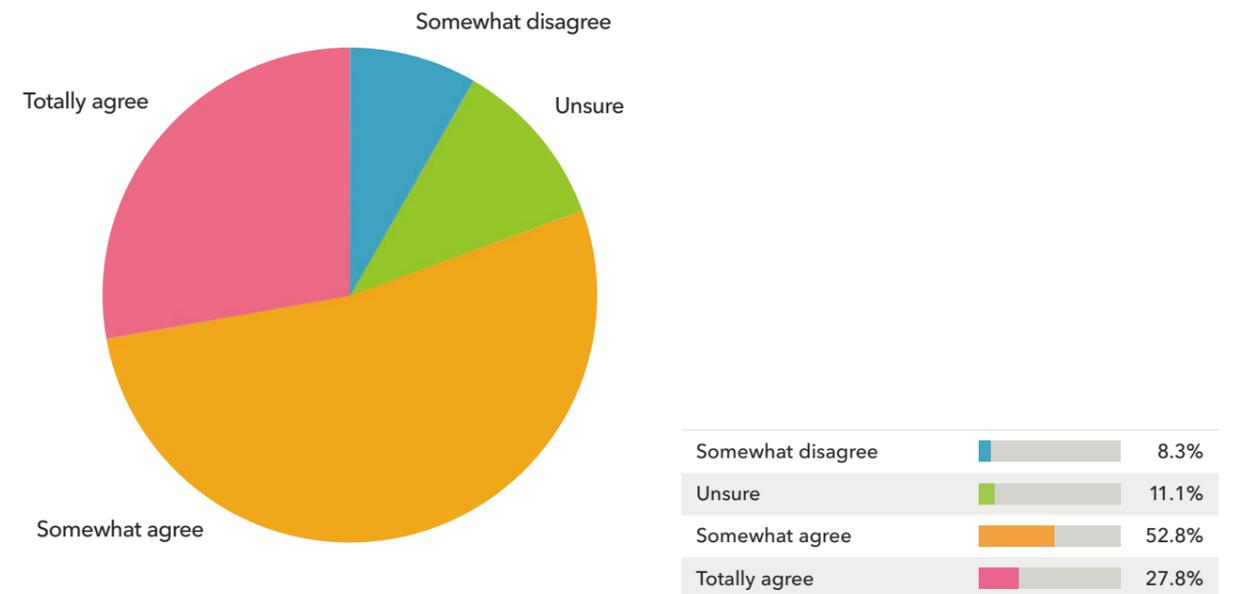
### 2. Are you familiar with the term 'shadow payroll'?



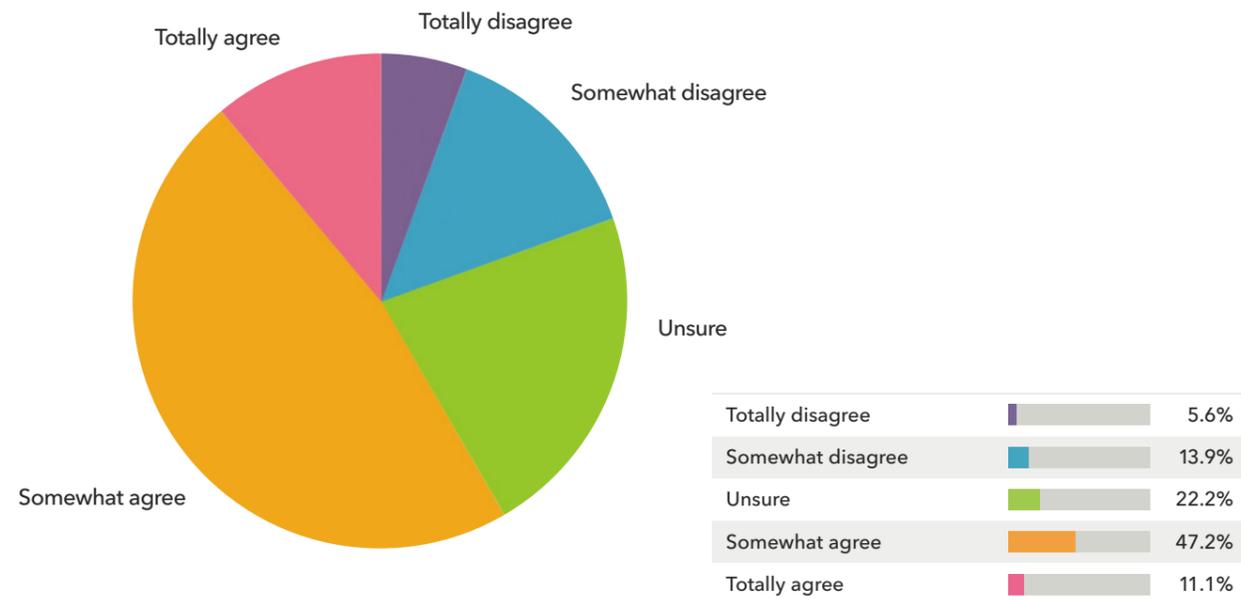
### 3. How would you describe shadow payroll in your own words?



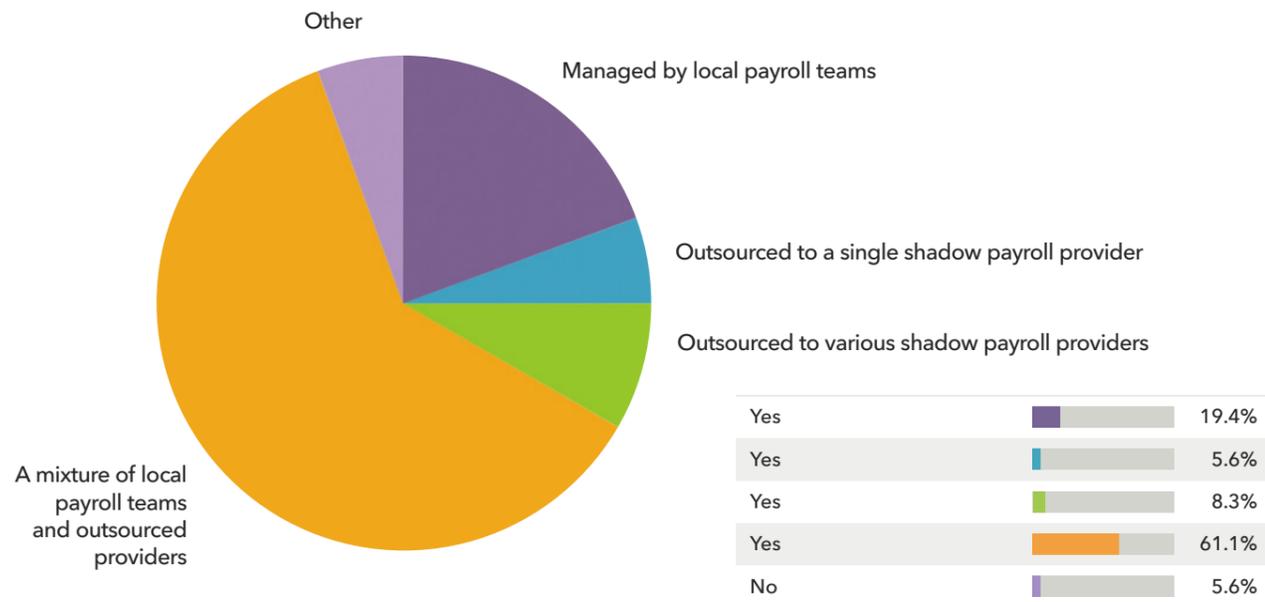
**4. Definition 1 - Traditional definition of shadow payroll: shadow payroll is a method of maintaining international tax compliance while an employee works abroad. A process in which an employee working overseas receives compensation and benefits in the host country that are shadowed, or mirrored, in the country of origin for calculating, reporting and remitting taxes.**



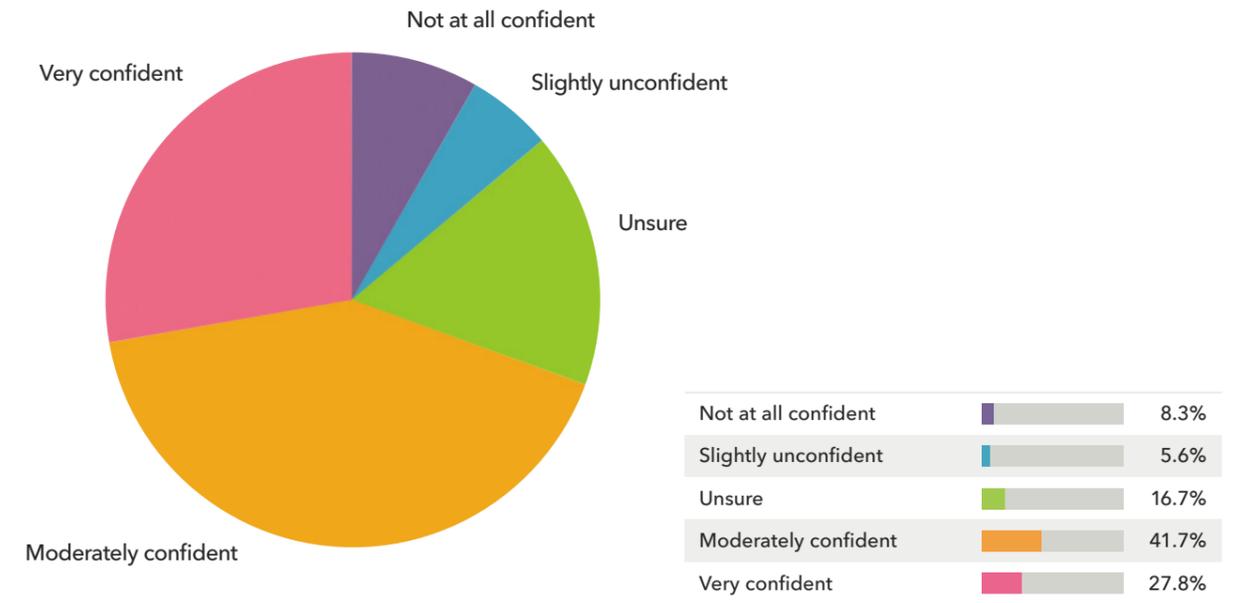
**5. Definition 2 - Certino definition of shadow payroll: shadow payroll is a comprehensive employment and tax management system that covers everything from pre-move planning, monthly income tax and social security calculations to inter-company rebilling and posting of transactions in accounts.**



**6. How do you currently manage shadow payroll?**



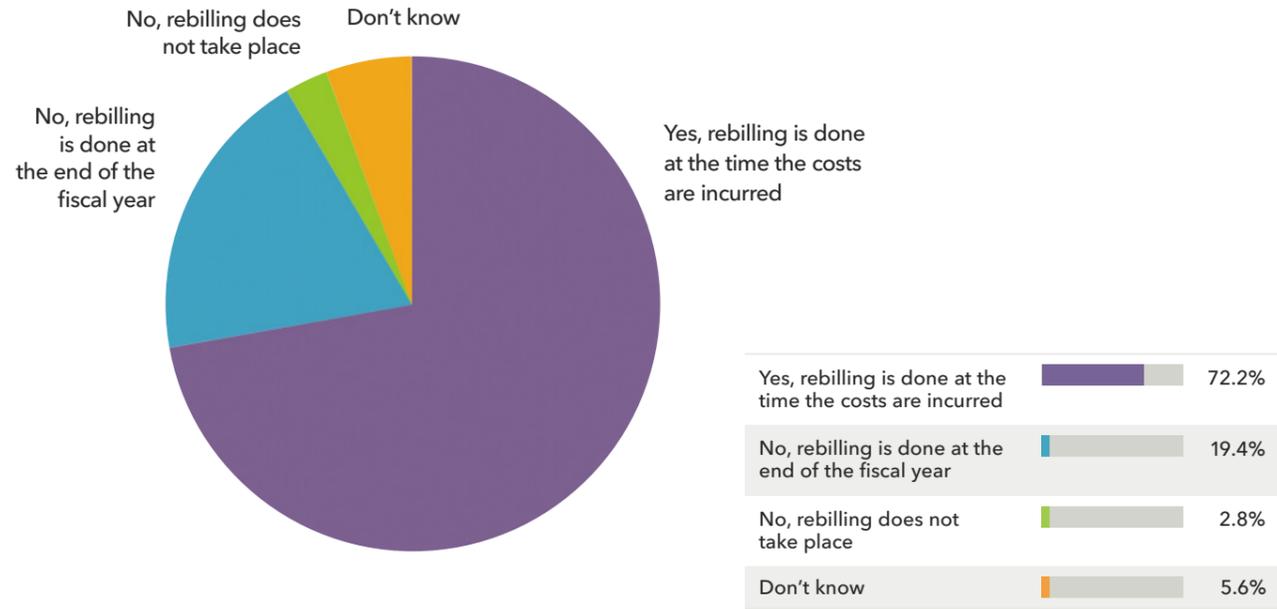
**7. Please rate your confidence in the accuracy of your current process.**



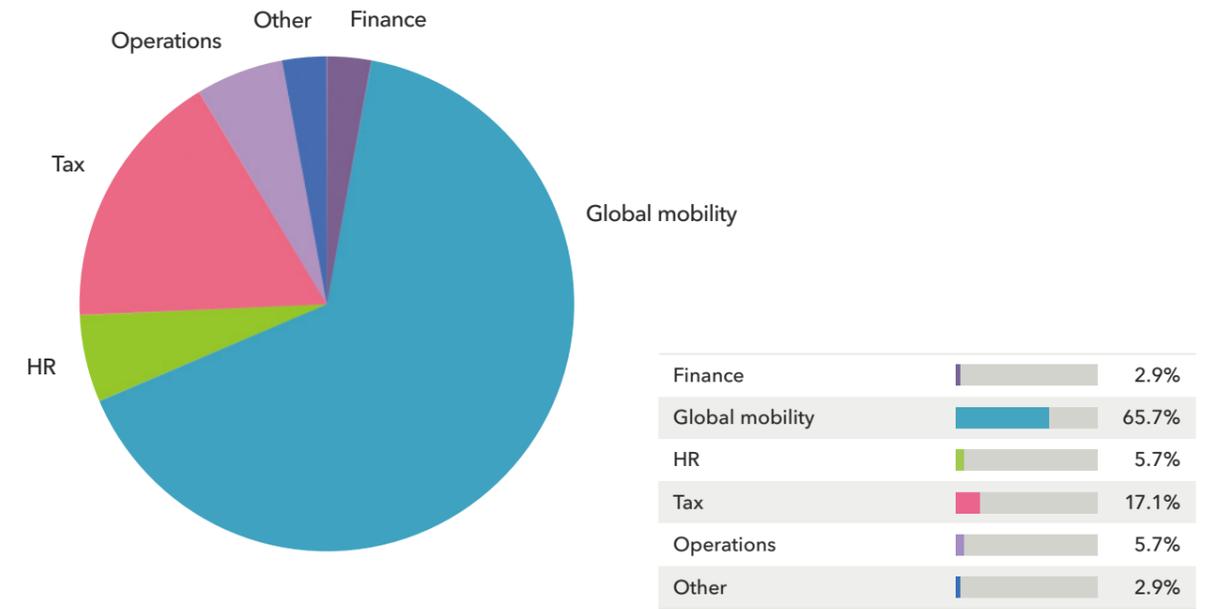
**8. Are you aware whether your current processes consider and apply various expat tax regimes and/or positions when calculating the shadow payroll?**



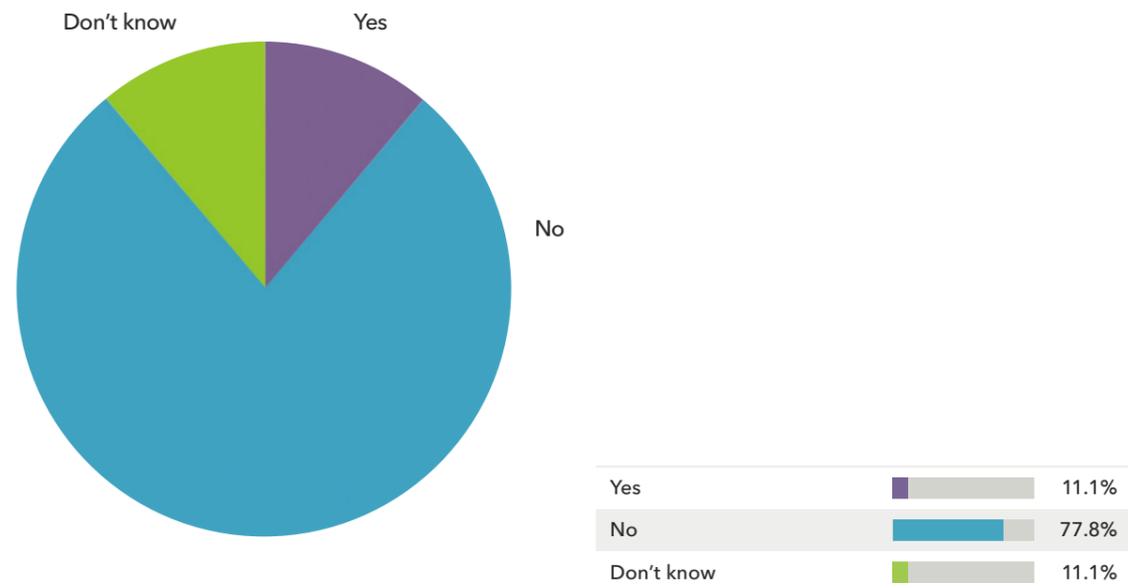
### 9. Do your international employee costs get rebilled to their work locations at the time the costs are incurred (within one to two months)?



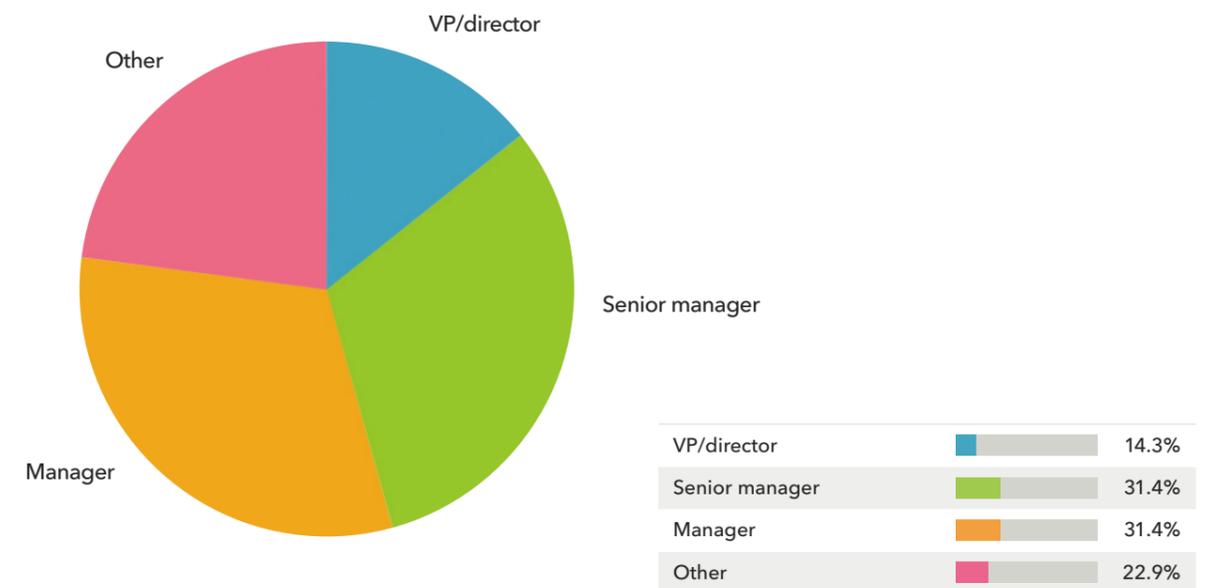
### 11. Please select your job function:



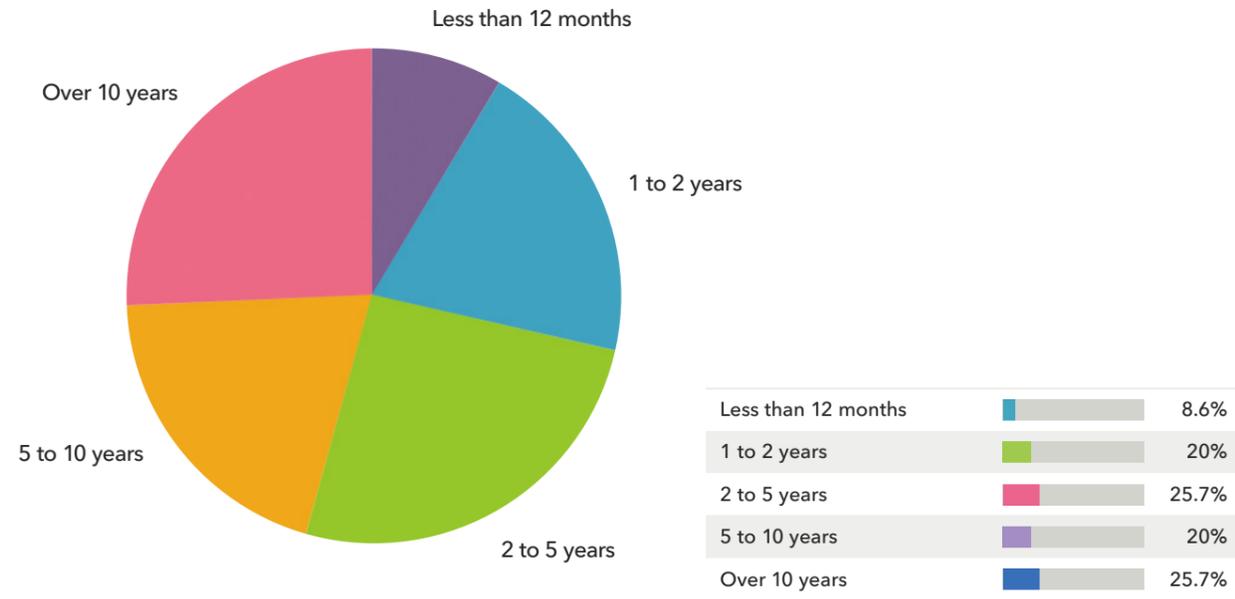
### 10. Has your organisation incurred any significant penalties in tax audits for your mobile population in the last three years?



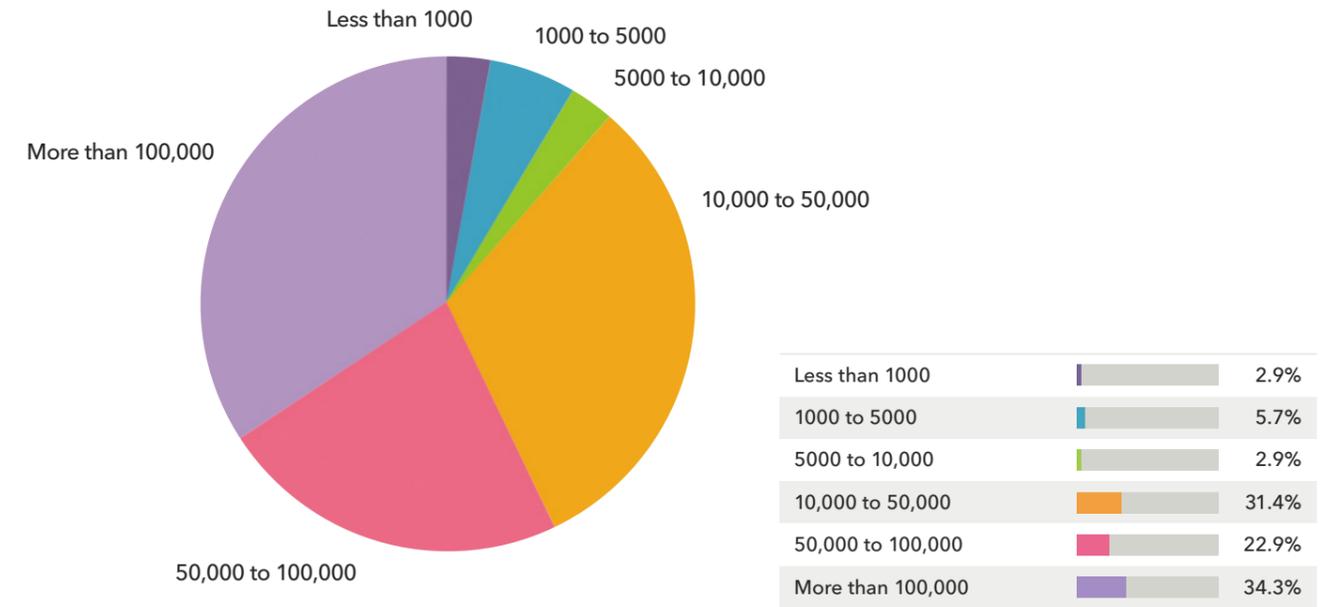
### 12. Please select your role:



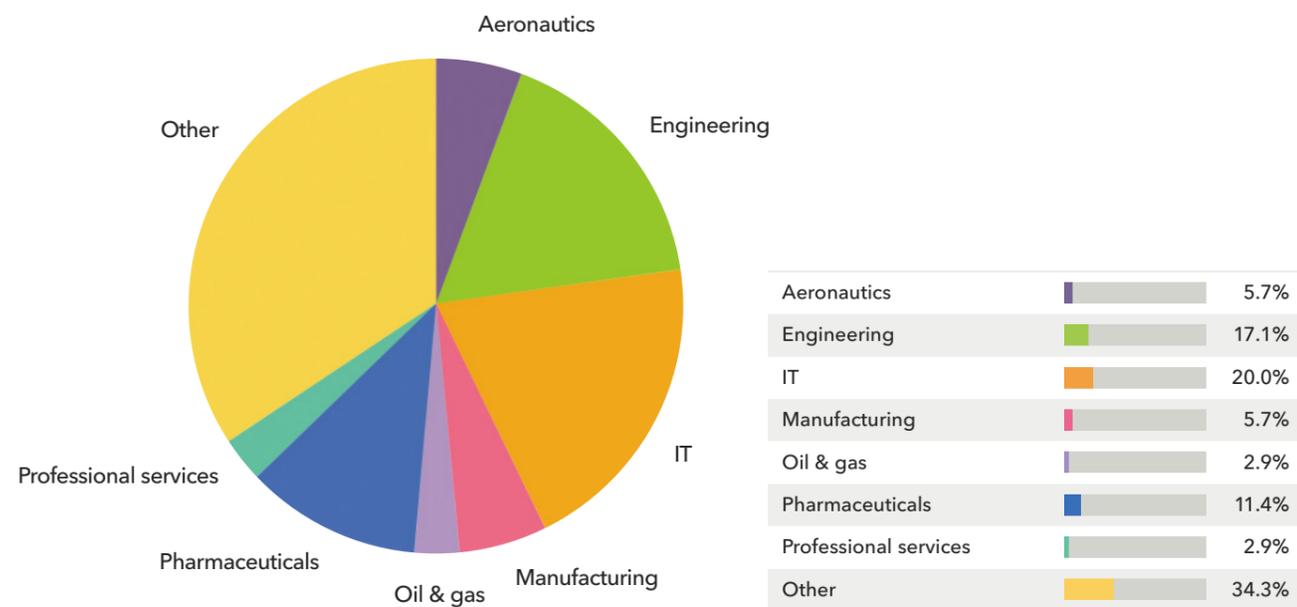
### 13. How long have you held this role?



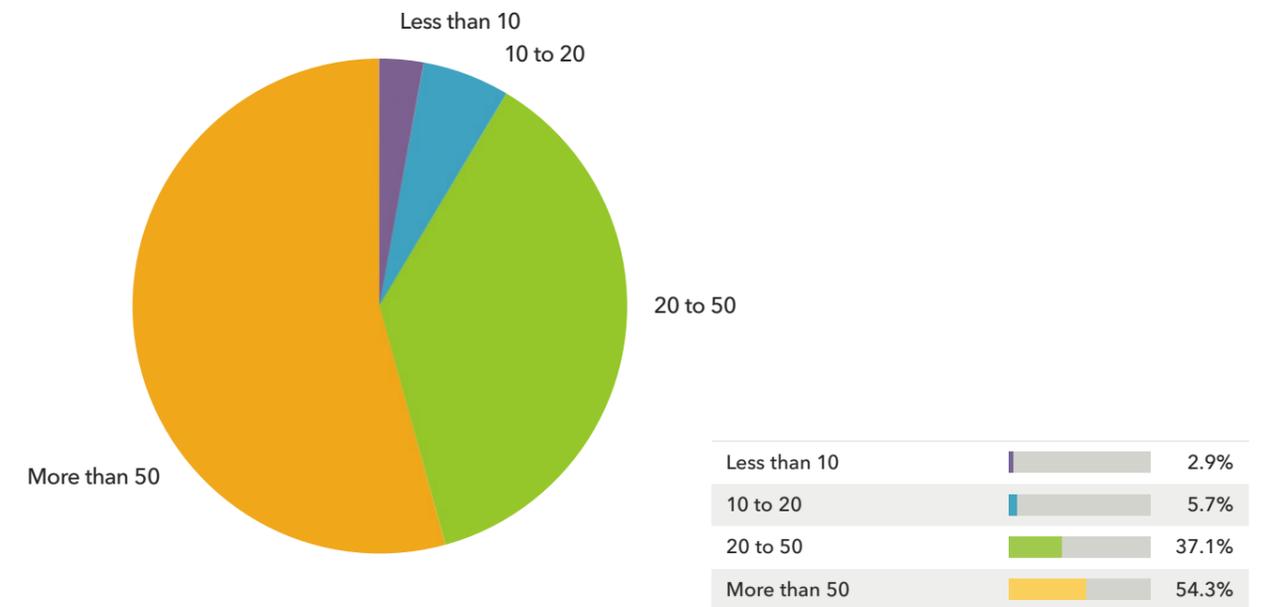
### 15. How many employees does your organisation employ?



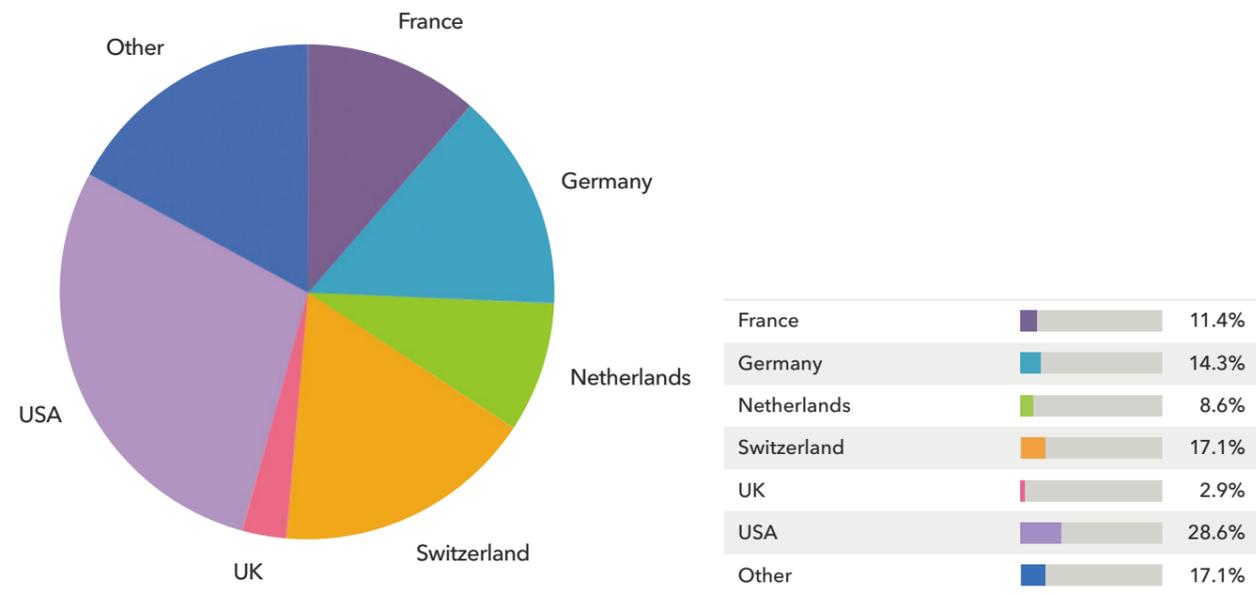
### 14. Which industry is your organisation in?



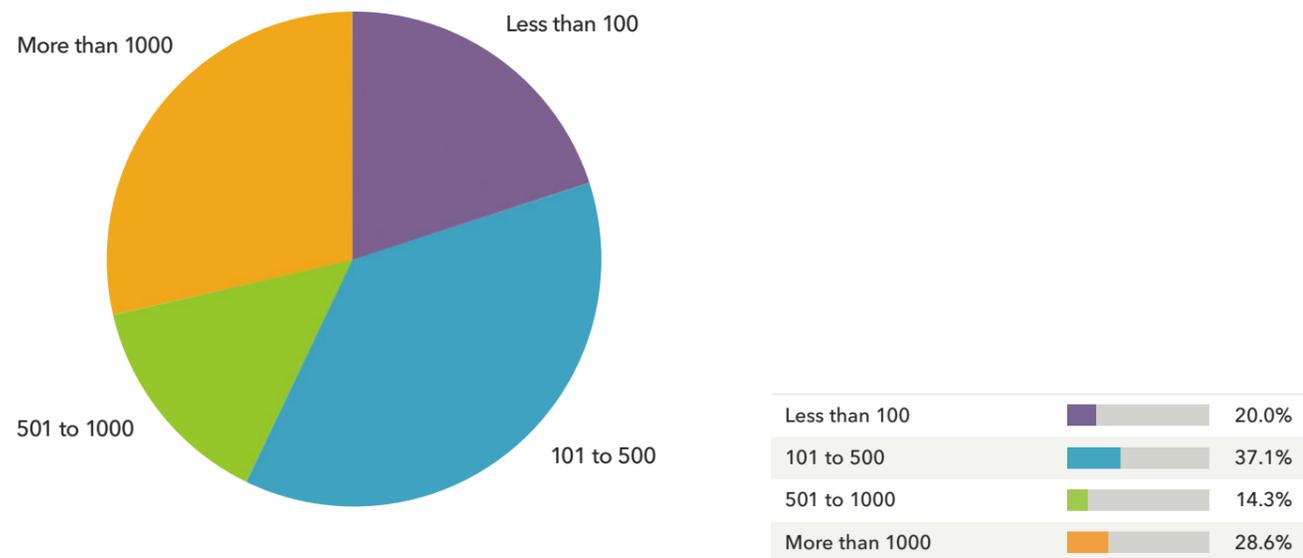
### 16. How many countries does your organisation have offices in?



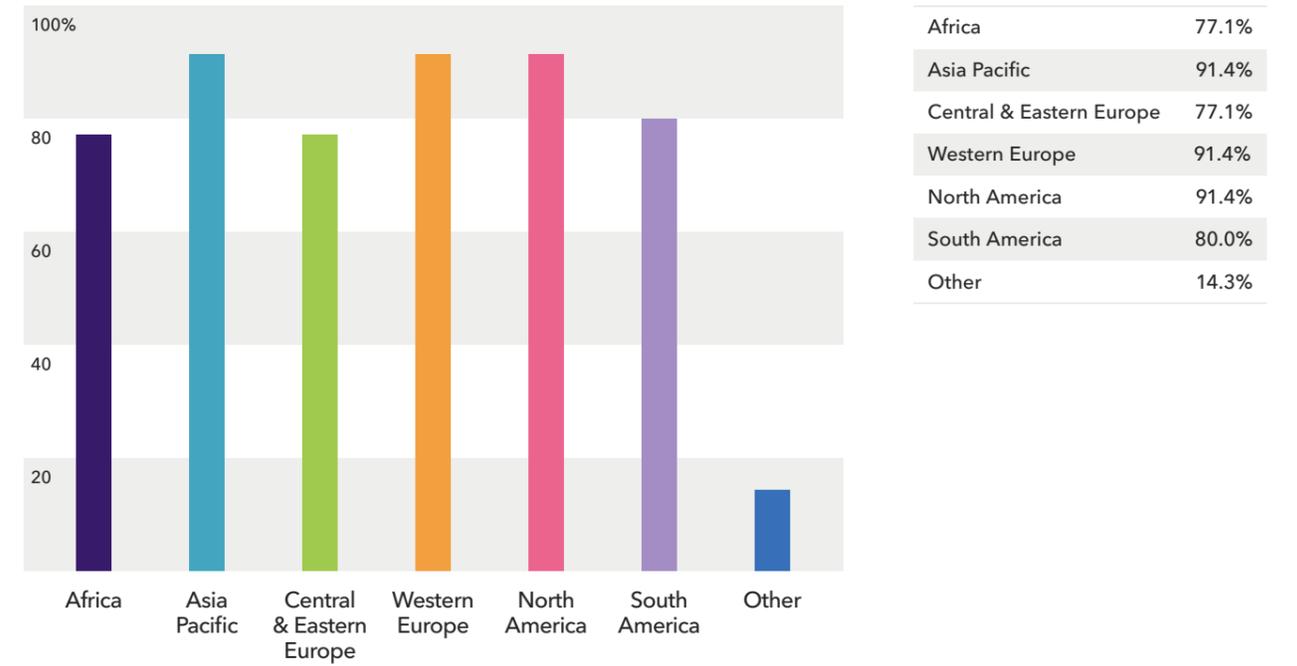
### 17. Where is your organisation's headquarters?



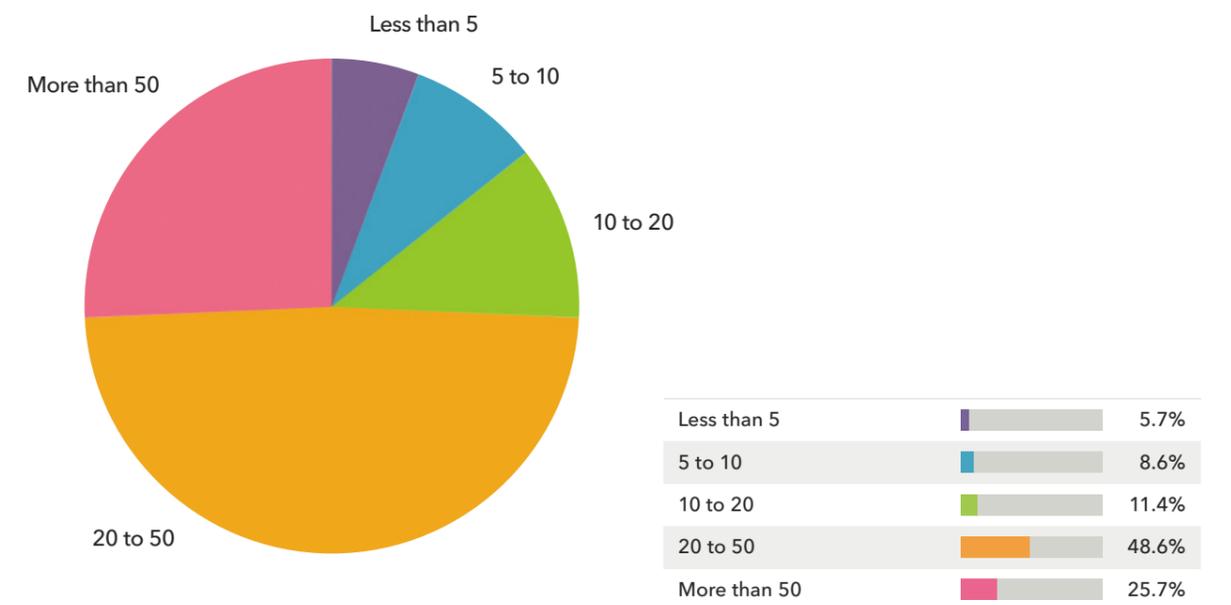
### 18. What is the size of your mobile workforce?



### 19. Which regions does your mobile workforce operate in?



### 20. How many countries does your mobile workforce operate in?



# About Certino

**C**ertino is a revolutionary new way of automating and managing shadow payroll and rebilling that enables large organisations to make huge annual cost savings.

Certino enables companies to replace their current slow manual processes and ensures they pay the right amount of tax in the right place at the right time using ISO, SOC and GDPR data security standards.

Built on in-house experience of managing global mobility solutions in multinational businesses, our purpose-built technology platform and processes provide you with a proven methodology for managing your international employment tax liabilities.

- Reduce costs and minimise tax compliance risks, consistently and easily.
- Stop investing money and tying up resources in manual processes for shadow payroll.
- Leverage your existing systems and run data using automated processes to ensure accuracy and authenticity.
- Fulfil compliance demands, in real-time.

**“Automation is the way forward, activities that do not add value besides compliance and which are high in administration will be automated in the long run. It is a logical step to consider technology for shadow payroll.”**

**Chris Debner**  
Strategic Global Mobility Advisory,  
Mobility Thought Leader



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