

2018

# GLOBAL PAYROLL

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## Inside This Special Issue:

Global Tips,  
Global Resource Directory,  
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and More!



# Country Spotlight Costa Rica

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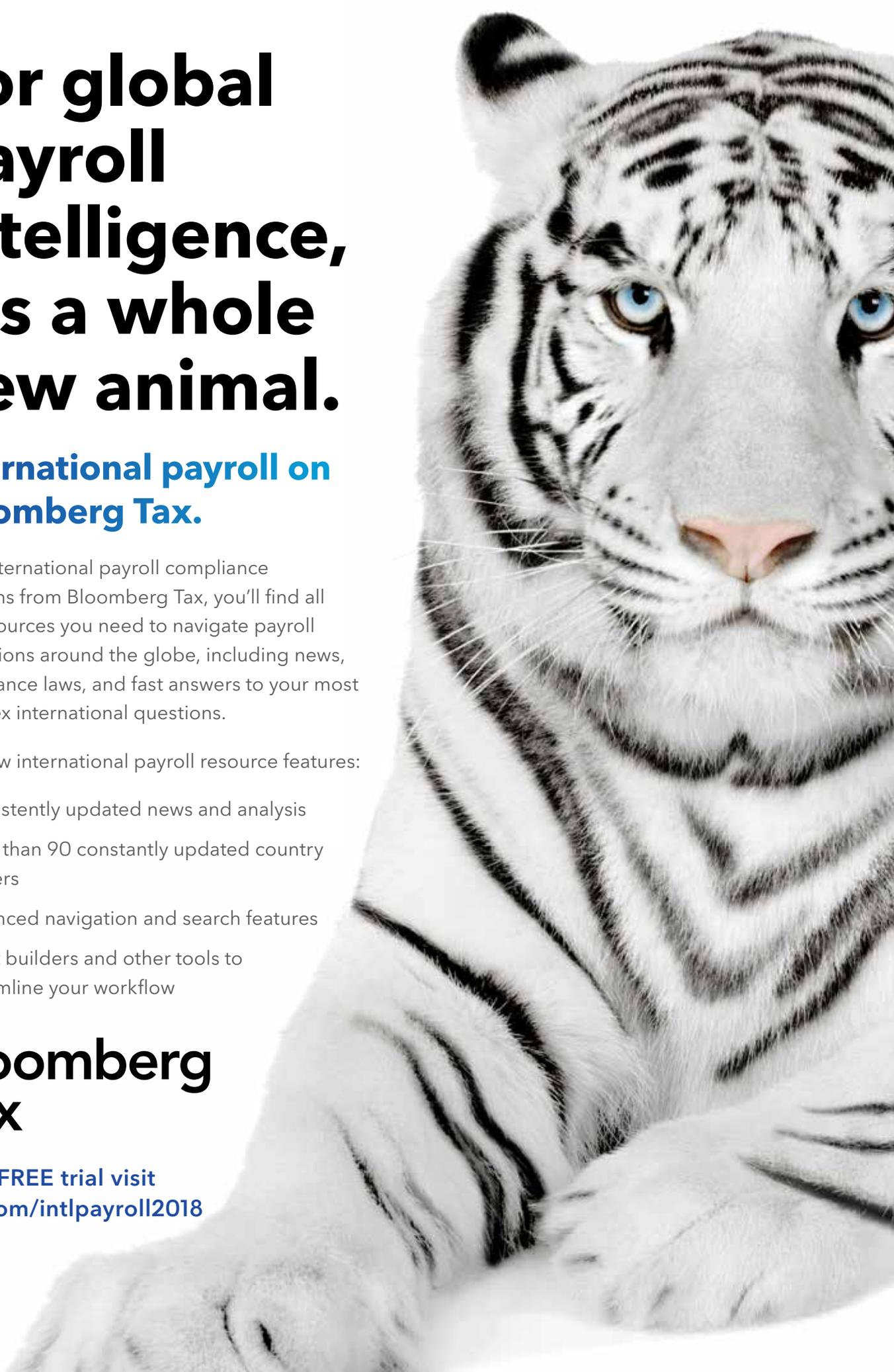
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This 40-page special edition of *Global Payroll*, GPMI's exclusive monthly subscriber e-magazine, is just a sample of some of the articles that appear in a full-length edition. Each month you will receive similar international payroll news and features as part of a complete lineup of GPMI benefits. Whether you need information about paying nonresident aliens, foreign nationals, and expatriates; international employee data privacy; or global risk management, *Global Payroll* is your source.

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GPMI subscribers connect with the community through networking discussions, collaborative opportunities, and access to education and publications dedicated to global payroll strategies, knowledge, research, employment, and training. GPMI also publishes several global payroll texts and white papers for subscribers.

The publication you are holding is a printed sample of the content you will receive in digital form with *Global Payroll*, GPMI's mobile-friendly, monthly magazine. Payroll experts from around the world write for *Global Payroll*, which includes regular features such as:

- **Country Spotlight**—An in-depth look into the tax laws and payroll regulations of a specific country
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The Global Payroll Management Institute aims to increase the global payroll professional's skill level through education, training, publications, certification, and networking opportunities, and to obtain recognition for payroll work as practiced in today's business and legislative environments and as a professional discipline.

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**Dan Maddux**  
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# 5 Challenges of Managing a Workforce Across Asia

BY ADAM LIVERMORE AND HELEN KONG

As a business expands and becomes more global, human resource (HR) managers face obstacles ranging from language, culture, and specific regulations to HR systems and more. As such, firms should have a strong understanding of each country they enter—and expect certain challenges along the way.

By anticipating these issues before they occur, HR managers can better plan and create systems for strong communication and coordination, leading to eventual success in emerging Asian markets.

Through our professional experiences with managing multiple offices throughout Asia and consulting clients with Asian operations, we have identified five specific problems that HR managers often experience.

## 1. Speaking the Same Language (Literally)

While multinational companies have already had to deal with myriad language and cultural misunderstandings, the issues have often been limited to regions where there is, to a certain extent, a commonality of languages or cultural expectations.

For instance, European languages largely have similar language roots, and the business norms do not differ significantly from one country to the next. In Asia, however, there is a much greater diversity of language families without high proficiency in a common working language, like English.

Thus, firms should be prepared to pay a premium to attract talent with both professional and language capabilities.

This is a bigger problem for low-headcount countries that lack specialist resources, such as Vietnam and Indonesia. It is less of a problem in countries where the average English capabilities are already high, such as Mongolia, the Philippines, and Thailand.

## 2. Speaking the Same Language (Figuratively)

Beyond the basic idea of communication with staff, cultural norms can vary widely and have a direct effect on doing business.

For example, HR managers in India have to be acutely aware of the wide variation between regions, as simple ideas can become quite complex.

Let's take the example of annual leave. In India, there are numerous regional holidays, with many based on religion. However, the permitted public holidays as well as the number of leave days differ from region to region. Chart 1 describes the number of public holidays in Delhi and Mumbai.

Out of 12 public holidays, Delhi and Mumbai have eight in common. Out of that eight, three have differing leave days.

To deal with variations, companies working in India should prioritize configuring a company enterprise resource planning (ERP).

Beyond knowing and respecting local schedules, HR managers also have to learn about local practices and concepts.

In China, there is widespread acceptance about the idea of "mianzi," or "face." "Face" means personal reputation and community standing. Sometimes, local HR managers will pretend to understand more than they do, leading to compliance holes and exposing headquarters to risk.

People do not wish to "lose face," and they will also be careful about causing others to lose face. This may come up in performance reviews. Managers may generally equivocate on the performance of an employee to avoid giving negative feedback.

## 3. Understanding Local HR Systems

Companies will also find that there are localized concepts deeply embedded within countries that may be completely unfamiliar to outsiders.

A prime example is the concept of a "hukou" in China. Chinese HR managers are familiar with the hukou, but it can be difficult for others to understand.

Essentially, a hukou can be thought of as a domestic passport for Chinese citizens, linking each individual to their home city. It is important because the home city ascribed to that individual's hukou will affect his or her social insurance benefits.

Hukous tied to large cities like Beijing, Shanghai, and Shenzhen are advantageous because it allows those holders to apply for benefits in those cities, including purchasing local property or sending children to local schools. Therefore, companies have to consider the hukou of employees, and also are expected to help employees apply for a change of hukou if necessary.

Moreover, social insurance systems can be hard to navigate as each country is different. Some have intricate networks, like China, while others are relatively simple. Chart 2 explores the diversity of social insurance systems and illustrates how complicated it can be for HR managers to oversee them collectively.

## 4. Attracting and Keeping Talent

When HR works in an emerging Asian country for the first time, it experiences a number of recruitment challenges because of the different methodologies in each country. Lacking an understanding of the local recruitment situation, HR will likely experience a longer hiring process.

In China, recruitment is largely done through a few major websites that publish hiring advertisements. The recruiter can reach out to interesting candidates for interviews, which

are usually conducted through telephone, Skype, or in-person. Candidates with proficient levels of English are easy to find. Background checks through reliable and reasonably priced services are becoming increasingly popular.

Recruitment channels are similar in Vietnam. However, background checks remain difficult to carry out and are thus uncommon. Moreover, it is more difficult to find talent with English proficiency.

Typically, in either China or ASEAN, checking a potential employee's credit will be very difficult as the local credit system has not been sufficiently developed. Companies have to develop a workaround for this issue if they wish to check this information.

In India, recruitment is mostly done through a recruitment agency. In fact, only large companies have internal recruitment teams that directly hire staff. Recruitment agencies handle all levels of hiring ranging from highly senior to very junior positions. In addition, background checks are rare as they are more difficult to carry out and thus more expensive. However, background checks will yield a large volume of information.

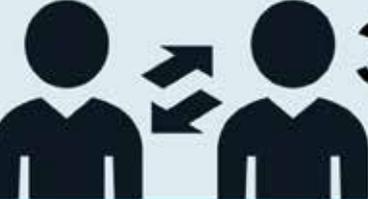
Companies should also be aware that there is a lot of high staff turnover in emerging Asian countries—particularly at the junior levels. If the company wants to keep young staff, then HR managers need to make concerted efforts to retain them. For example, the company could hire internal HR staff with good soft skills, especially interpersonal competence, to increase staff loyalty.

Furthermore, companies should realize that they will need to provide higher salary increases for young talent as well as training. Otherwise, there is high risk that junior position staff will leave before they reach management level within the organization.

**5. People Are the Bottom Line**  
People are a vital ingredient for any company's success. Companies working in more than one country have to be acutely aware of respecting local culture. In practice, HR managers have to undertake the majority of responsibility.

A highly organized internal system can be one solution if the company is large enough to scale to that size. Additionally, companies can inquire about appropriate external service providers in one or more of the countries in which they do business. ■

## 5 Challenges Managing a Workforce Across Asia

- **1. Speaking Same Language (Literally)**
- **2. Speaking Same Language (Figuratively)**
- **3. Understanding Local HR Systems**
- **4. Attracting, Keeping Talent**
- **5. People Are the Bottom Line**



# The Next Step in Global Payroll Evolution

BY MARC-OLIVER FIEDLER

**M**anaging global payroll, particularly across a large number of countries, is complex and challenging. The differences in local laws and regulations are so distinct that a single global solution is unable to cover the footprint of a multinational company without extensive investment in localizations. The one-size-fits-all global solution is elusive and may never be realized. Even the largest global payroll vendors do not have one single global payroll solution that is capable of processing payrolls across countries. Instead, they have many different payroll engines processing payroll in different countries. For customers who need to process payroll for employees across many countries, this has long meant that they end up with a hodgepodge of local payroll solutions that are fragmented and disconnected.

In the consumer world, we have seen new marketplace models pop up that have brought together consumers and providers in traditionally highly localized, fragmented markets. The digital marketplaces of Amazon and eBay have allowed consumers to readily and with confidence buy goods from providers halfway around the world with whom they

would have never been able to transact before. Marketplaces like Booking.com, Kayak, and TripAdvisor have allowed travelers to identify and procure services from the best local service provider (in this case hotels or restaurants) without having set foot in the country. In addition, these marketplaces have helped to dramatically simplify and standardize the involved business processes across countries and vendors: it doesn't matter whether you book a hotel room in New York, Beijing, or Kinshasa, you use the same interface and follow the same simple clicks to complete your transaction.

Finally, the self-regulating mechanisms of the marketplace (i.e., consumer reviews of products and vendors and marketplace control mechanisms) ensure a high degree of trust and confidence is established between remote customers and vendors. And all of this has been possible with the advent of modern internet technology that connects local buyers and sellers through standardized interfaces. So, in summary, the digital marketplaces have given consumers increased reach and choice, better transparency, simplified processes, and trust and confidence in the provider.



Digital marketplaces have given consumers increased reach and choice, better transparency, simplified processes, and trust and confidence in the provider.

The global payroll industry is ripe for a transformation similar to what other industries have undergone with the emergence of open, digital marketplaces. Global payroll marketplaces will allow multinational businesses to confidently select the best local payroll solutions anywhere in the world and connect to and transact with these solutions in a highly standardized manner, driving unparalleled process efficiency and transparency across their entire global payroll operations. As a result, companies can overcome the historical challenges of fragmented local payroll environments and tap into the same benefits provided by the consumer marketplaces outlined above: increased reach and choice, better transparency, simplified processes, and trust and confidence in the provider.

In the consumer world, the marketplaces did not appear overnight but were the result of an ongoing evolution in the respective industries (see Figure 1). Similarly, there is an evolution in the payroll industry toward an open marketplace model. This evolution and the characteristics of the three different evolution phases are described here.

### Phase 1: The Decentralized Model

Historically, companies have adopted specific local solutions to ensure they are paying employees in a compliant way, often outsourcing their payroll to a local service provider. This tends to be the way most businesses start their foray into international payroll, opportunistically setting up decentralized payroll operations using local solutions from local or regional service providers. While this decentralized approach is a pragmatic way to quickly get started and taps into the local know-how of in-country payroll experts, it comes with a number of drawbacks:

1. **Lack of process standardization**—Each country follows different processes and uses different tools, driven by the local vendor and local systems. It is very difficult to standardize processes, making it virtually impossible to generate operational efficiencies through shared services models or central automation tools.

2. **Lack of data aggregation**—Payroll and employee data sits in local systems and it is very difficult to generate aggregated data visibility. Even simple data consolidation exercises like “How many employees do we have across the organization?” require prohibitive manual effort.
3. **Large number of vendors to manage**—Multiple vendor relationships must be negotiated and managed around the world, often without a clear sense for how the selected local partner stacks up in comparison to its local peers.

### Phase 2: The Aggregator Model

In response to shortcomings of the decentralized model, about 10 years ago a number of global players introduced the so-called aggregator model. As the name suggests, a central provider offers to aggregate the local solutions on behalf of the customer. It offers both commercial and operational harmonization: single global contract and pricing, as well as streamlined processes and data. However, while the aggregator model does achieve some level of aggregation and hence simplification, it comes with some major flaws of its own:

1. **Lack of choice**—Customers are bound to a closed network of vendors dictated by the global provider, with a huge switching cost to get in and out of the closed network. To adopt an aggregator solution, customers have to rip and replace all their existing local payroll systems. This presents a tremendous burden in terms of time, operational risk, and financial cost.
2. **Inflexible**—These solutions tend to be rigid. They do not support a mix of in-house and outsourced payroll setups (which tends to be the case in large multinational companies) and lack accommodation of customer-specific service levels or reporting needs.
3. **Expensive**—Because aggregators charge a margin on top of the fees of the local providers and add their own significant overhead into the calculation, the fees for the aggregator solutions are typically two to three times the rates of domestic payroll solutions.

So, while the aggregator model starts to address the challenges of the fragmented processes and data, it comes with its own set of drawbacks typified by a lack of choice, decreased flexibility, and economics.

### Phase 3: The Open Marketplace Model

The next logical step in the evolution of global payroll is the creation of open marketplaces for global payroll that allow multinational customers to readily select and collaborate with any local payroll expert around the globe in an open, transparent, and secure environment.

While the marketplace model has some of the same characteristics as the aggregator model—i.e., providing access to local solutions through one central platform and aggregating and harmonizing data and processes—it is fundamentally different in how it delivers these value elements. In the aggregator model, customers are locked into a specific set of local vendors and solutions that are dictated by the aggregator, dramatically limiting their choice and flexibility. The marketplace model is inherently open and vendor-agnostic, meaning any local vendor can provide its services to the customer via the marketplace as long as it abides by basic policies and norms. This means that customers can bring their existing set of preferred local vendors into the marketplace, benefiting from the aggregation and harmonization provided by the marketplace without having to replace their local vendors, which of course would be very disruptive and costly (which is precisely what they would have to do in the aggregator model). And of course, in the marketplace model the customer can switch local vendors at any point in time, which naturally fosters healthy competition, and we know that competition is vital to ensure innovation and best value for the customer.

So, in many ways, this open marketplace model offers the best of both worlds: free choice and flexibility paired with an ability to standardize and aggregate processes and data across local solutions. Customers can choose their preferred local vendor, indeed selecting the vendor based on first-hand reviews provided by other customers (similar to the reviews in marketplaces like Amazon or TripAdvisor). At the same time, by collaborating with the local vendors through the marketplace platform that provides central tools such as workflow management, compliance tracking, consolidated reporting,

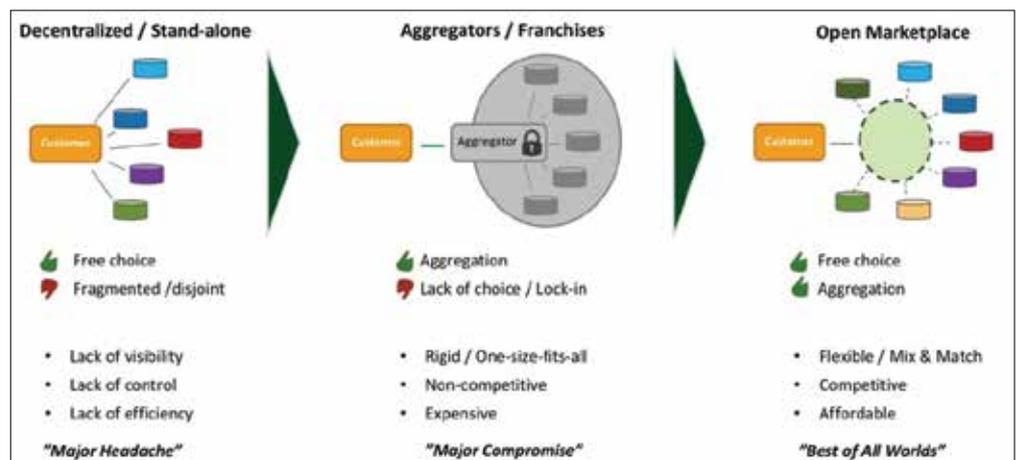
and KPI monitoring, the customer can simplify and standardize the day-to-day payroll operations across different countries.

The move toward an open marketplace model for payroll involves a few important implications for both customers and vendors. Vendors must adhere to the principles and norms of the marketplace. This may mean some level of adjustment to how the local provider is used to operating and conducting business. And the same is true for the local payroll administrators on the customer side. They, too, will need to adapt to the processes and norms that come with the open marketplace (e.g., workflows, tools used). However, in most cases these adjustments will be fairly minor and transitional, and the benefits for both customers and vendors to participate in the marketplace will far outweigh the costs to adjust.

Ultimately, the same benefits emerge from the open marketplace model for payroll that have transpired in the pioneering marketplaces of the consumer world: increased reach and choice, better transparency, simplified processes, and trust and confidence in the provider.

Modern technology is irreversibly driving new business models that bring unparalleled connectivity, transparency, and efficiency. Marketplace models have taken many industries by storm by providing clear benefits to customers and vendors: more choice and better price points for customers, extended reach and access to a global client base for vendors. The payroll industry is ripe to undergo a major transformation and to reap the tremendous benefits of the marketplace model: freeing up thousands of labor hours through more efficient processes, creating rich business insights through better consolidated data views, and, most importantly, driving unparalleled value and innovation through more choice and flexibility. ■

Figure 1—Evolution of Open Marketplace Model



# Documenting Pay Practices in Multiple Locations

BY SHARON C. TAYFIELD

GLOBAL  
PAY

**W**ith many companies having an international presence, payroll managers are often tasked with setting up or documenting pay practices to cover multiple locations. Ensuring that these pay practices contain sufficient information to enable external service providers or local teams to process the payrolls accurately requires some basic steps to be followed when it comes to drafting payroll practices.

Generic rules are usually a good starting point. Pay practices that differ from region to region can then be added to the generic rules. Pay practices should cover how joiners' and leavers' compensation will be handled, as well as whether there are special rules governing benefits in pay periods that are less than the standard pay period length. Let's look at some of these rules.

### Generic Rules

These are the rules that apply across all regions/countries in which payrolls are administered related to the pay day, base pay rate, calculation for joiners, leavers, and mid-month salary changes, and incomplete time data.

**Pay Day**—The pay day should be identified with reference to the letter of appointment and the local legislation. When pay day falls on a non-banking day, the document needs to give clear instructions on how this will be managed. When pay day falls on a bank holiday or a public/statutory holiday the normal process is for that pay day to move to the previous working day.

**Base Pay Rate (BPR)**—Base pay is the rate of compensation an employee receives in exchange for services. It does not include extra lump sum compensation such as bonus or overtime pay and would normally not include benefits. (There are countries that utilize a “cost to company” methodology, and these would generally need reworking to be incorporated into a standard global approach. Examples of countries in this category are South Africa and India). The base pay rate calculation would usually be consistent across different regions, but if there are different categories of employees or if there are specific in-country legislative requirements, there could be differences in the calculation of the base pay rate. (Where the calculation is different this should be clearly described in the pay practice document.)

The base pay rate is primarily needed for part period calculations. The rate could either be expressed in hours or in days depending on the unit of measurement (UOM). Base pay rate will normally be calculated with reference to the annual full-time equivalent (FTE) salary or the compensation rate (COMPRATE). FTE allows part-time workers' working hours to be standardized against those working full-time.

COMPRATEs may be hourly, daily, weekly, monthly, or any other frequencies operating in the region. Some examples where the UOM is recorded in hours illustrates how the conversion is made to derive the base pay rate. For example:

Annual FTE salary/1,950 hours (where the standard working month is 21.66667 days at 7.5 hours per day)

COMPRATE (stated as a monthly figure)/162.5 hours (where the standard working month is 21.66667 days at 7.5 hours per day)

**Calculation for Joiners, Leavers, and Mid-month Salary Changes**—The document needs to provide instructions on whether benefits would apply from the initial start date of employment or whether there is a waiting period in place. It is not uncommon for pension funds and other payroll benefit providers to have specific rules in place stipulating that no part period contributions are permitted. An employee joining after the start of a calendar month would therefore not contribute to these benefits in their first month of employment. Likewise, an employee leaving mid-month would also not contribute toward the benefit. Some benefit providers, however, do accommodate part period contributions. The pro rating of contributions may not necessarily follow the same pro rating methodology used to calculate salary.

The normal calculation for starters and leavers would be the base pay rate multiplied by the number of days or hours worked. (Dependent on the UOM in which the base pay rate is recorded.)

Where an employee is entitled to a mid-month salary change, the normal approach is to calculate the difference in the compensation rate between the new and old compensation rate and apply that to the time period worked at the new rate—then add the result to the old compensation rate. Where the standard monthly time period worked is 162.5 hours and the compensation is stated as a monthly figure, the calculation would be recorded as:

$$\text{New Compensation} - \text{Old Compensation} / 162.5 \times \text{number of hours at new rate} + \text{Old Compensation for the period.}$$

### Incomplete Time Data

Where an organization has a time recording system, whether that is a human resource management system (HRMS) or a specific time and attendance system, any pay practice document should record how the information will impact the payroll and whether the time data needs to be used to calculate the gross pay entitlement. Where time data received from the system is not complete in that the total hours/days provided is less than the standard time period (after taking into consideration any holiday, sick, or vacation time) and



the employee is not a starter or leaver, the norm is to assume that the employee has worked for the incomplete time period. This would be retroactively corrected if necessary. The pay practice should highlight if this approach will not be followed and outline the approach that should be followed.

### Pay Practices Unique to Country/Region

A number of pay practices relate to an organization, and it is important that each one is recorded in the pay practice documentation even if the pay practices differ from region to region. Examples of some pay practices that differ from one country to another are:

- Adoption leave
- Bereavement leave
- Commuting assistance
- Excess fares allowance
- Holidays
- Jury duty and witness service
- Maternity leave
- Overtime
- Parental leave
- Part-time employment
- Paternity leave
- Personal time off
- Sick leave
- Travel time
- Vacation leave
- Work shifts and schedules
- Temporary additional hours supplement
- Additional vacation and holiday pay

This is by no means an exhaustive listing but seeks to illustrate areas that would need to be covered in the pay practice documentation.

### Overtime

The document should incorporate how overtime hours will be provided to payroll or the external service provider, or whether the time recording data needs to be analysed to determine whether to process any overtime at 1.5 or 2 times. In cases where the service provider or payroll teams are required to derive overtime hours worked, the time and attendance data would need to have sufficient details

captured to facilitate this calculation and also would be required to be provided to these parties within an acceptable time period to ensure that all calculations can be performed within the payroll deadlines.

Where employees work shift patterns, a method of identifying workers on different shift patterns is required, and the pay practice would need to specify whether any of the shifts would be eligible for shift premiums. Many employers pay a shift premium to employees who regularly work between 8:00 p.m. and 6:00 a.m., for example. Employees working these shifts are commonly remunerated at 50% of BPR as a shift premium. This is not to be confused with overtime. Overtime is time worked in addition to the normal working hours and is calculated as a percentage of BPR for those additional hours.

Management-level employees are usually not eligible for overtime payments in terms of their employment contracts. (They may receive time off in lieu of overtime.) The European Union has issued a number of directives on overtime and the number of hours worked by employees. Employers and employees can agree to opt out under certain circumstances. The directives seek to limit the maximum average working week. The directives also seek to make provision for a specified minimum rest period in every 24 hours and a specified minimum rest period in every seven-day period, restrict the average hours worked at night in any 24-hour period, and provide a specified minimum annual leave period. Details of any opt-out arrangements should be reflected in the pay practice documentation.

### Business Travel Time

In light of the increasing global mobility of employees, it is not uncommon to find a travel policy within larger organizations. The pay practice should cover when business travel is considered normal work time and when business travel would not be considered normal work time. The norm is that where an employee is required to travel on a normal day of rest (normally a Saturday, Sunday, or public holiday) they would be entitled to take a subsequent work day as compensatory time off. This is termed TOIL (time off in lieu).

The pay practice should have sufficient details to ensure that there would be no doubt as to how to process time recorded as travel time on the payroll.



### Company Car, Car Allowances

Employers offering company cars/leased vehicles or car allowances usually have special rules in place around eligibility for these benefits. Country tax legislation covering company cars differs considerably in terms of the value placed on the benefit and the value of private mileage/kilometres that an employee can undertake before additional taxes need to be paid. Pay practice documentation should therefore set out whether the employer will provide any tax assistance for employees in countries where the private mileage/kilometre threshold is lower than other countries.

Employees receiving car allowances generally are not permitted to submit claims for reimbursements. This could vary from country to country, so again the pay practice would need to set out the rules to be adopted in that country.

### Excess Fares Allowances, Relocation Allowances

Employers can require employees to change work locations within a country or within a region. Normally, if the new location is within a commutable distance/time from the employee's current home location, then there would be no requirement for any supplementary allowances. Where the distance/time is in excess of the policy, then the employee is often compensated with an additional allowance to cover the extra cost. This allowance is often referred to as an excess fares allowance (EFA). If the new location is not within reasonable daily travel, the employee may be granted a relocation allowance or reimbursement of relocation expenses.

### Temporary Additional Hours Supplements, On-Call Supplements

Occasionally employees may be required to work additional hours or temporary additional hours as a result of the nature of their specific job. Examples of this may be employees providing training where the training necessitates either an earlier start or where, for example, the employee has an event to host or organize that requires either an early start or late finish. In the horse racing industry where night races are held, it is not uncommon for employees to receive a special night time allowance on the occasions when night racing takes place. The temporary additional hours supplement may therefore have a broad range of naming conventions.

Employers will generally have very specific rules in place to ensure that a maximum number of hours can be compensated per month. Where additional allowances are paid, the policy should clearly state whether these allowances should be taken into consideration in the calculation of other benefits—for example, whether the allowances should be included in “pensionable” salary or whether they should be taken into consideration in determining bonus payments. (This also would apply equally to the other allowances covered above.)

### Various Leave Options

Leave can be regulated by legislation in different countries and can include adoption, bereavement, maternity, paternity, sick, holiday, and study leave, to name but a few different types. Employers may also have their own policies covering a range of different leave types. Pay practices should indicate what the rules are governing the granting of each leave type and what conditions need to be met to qualify for the leave. Employers can reward employees who have a long service history by increasing the leave accrual for certain leave types at specified anniversary dates. The point at which the leave accrual occurs and the rules around forfeiture need to be well documented as leave management is an area of payroll which often results in queries from employees. Therefore, ensuring that the allocations are correctly made initially will save time and resources for any payroll team.

### Obtaining Clarity on Compensation

Pay practices should always ensure that both internal payroll departments and/or external service providers have no doubt regarding how employees should be compensated. Additional allowances should clearly state whether they should be included in the calculation of other benefits and whether they are to be utilised in determining bonus payments or should be included in leave/vacation pay calculations where this is not specified in local legislation. The scope of pay practices and what should be covered in pay practices is vast, and as with any aspect of payroll management they need to be implemented correctly to ensure compliance and provide a framework for measuring accuracy of the payroll. ■

# Emerging Trends in Global Payroll Integration



**Sandy Shurin**  
Senior Manager, Global Rewards  
Deloitte Tax LLP

BY SANDY SHURIN,  
WITH FRANK J. MENDELSON

## 1 What emerging trends in global payroll are attracting your attention?

We are witnessing a growing number of individual mobility types. These include short-term assignees, long-term assignees, payroll transfers, business travelers, and cross-border commuters. This means we need to identify the different technical obligations for each population. The interplay between local legislation, treaties, and global standards makes this a complex area to navigate.

In addition, we're seeing different classifications such as non-employee directors, contractors, traditional employees, and others that may have existed in a company's headquarters location that are now located in its foreign locations. For example, it includes more foreign national/foreign resident directors and contingent workers abroad.

## 2 Is there a frequently asked question that will no longer be part of the conversation in payroll in the near future?

"Can't the individual just fix this with their tax return?"

We're seeing a number of regulators globally ask if individuals really need to be filing tax returns. Some places have already taken steps to abolish the need for an individual tax return—but this applies only to certain cases. In those locations, accurate payroll reporting

becomes even more critical. Even if a technical obligation exists today, I expect that audit activity around payroll reporting may increase where an underlying assumption is that wages have been reported and taxes withheld/remitted correctly.

This will naturally place a greater burden on payroll to have a comprehensive understanding of compliance obligations.

## 3 What are some of the key best practices and strategic choices you apply to manage risk and compliance?

First, decide what your goals are. I often advise my clients to focus on either specific populations such as executives, domestically mobile employees, globally mobile employees, non-employee service providers—or specific locations. This might be countries/regions that are growth areas for the company, or locations where the company has increased audit risk for any reason. Once you feel comfortable you've met your initial goals, tackle another population or location.

I've seen companies try to start with a payment type (for example, variable pay for all plan participants in all locations), but this tends to be too broad. So if you are worried about a type of pay, then look at the specific people or places impacted by that compensation vehicle.

Also, when assessing risk mitigation, try to remain flexible, even when it seems painful. In some cases, a new earnings code can be the difference

between accurate reporting and audit risk, or the path to executing on a business decision regarding a tax position. In some cases, it can be more involved. Either way, if the functionality exists, it can promote payroll as a function having a positive impact on risk mitigation.

## 4 How can a payroll department integrate on a strategic level with corporate finance, human resources, and other departments to provide a competitive advantage?

I spend a lot of time in the global long-term incentive area, and I've come to learn that payroll increasingly serves a vital role for numerous functions. The following examples illustrate some of the areas that payroll serves:

- When I'm in a meeting discussing compensation costs for deduction purposes, where, and for how much—we will quickly turn to payroll to see how we can leverage the detail that resides in-house.
- Mobility program managers typically do not explain to individuals how they will be paid, what taxes they can expect to have withheld, and what benefit programs they can/cannot participate in without payroll's validation. We're seeing some cases where individuals are being shifted between different retirement plans when they work in multiple countries, with a resulting net impact on the amount of the retirement benefit they receive.
- Stock administration teams often lean on payroll to accurately record transactions that are typically initially executed by a third-party broker/administrator.
- If finance wants to know the anticipated impact to cash flow from, for example, different withholding settlement strategies, payroll can play a vital role in that forecasting. Of course, there are plan participants themselves (how often have we heard, "Well, I thought my W-2 had everything I was supposed to report"?).
- Payroll can also help inform certain risk areas, such as permanent establishment risks in locations where individuals may perform services without going on a local payroll, as well as compliance obligations when new entities are added to, or removed from, an organization chart.

## 5 What resources do you use to stay current on the latest legislation and trends in payroll?

This is probably the question I get most at the end of a long meeting or call where we've walked through

planning considerations or technical requirements (assuming everyone is still awake and asking questions).

I'm fortunate to have an incredibly talented global network of professionals behind me, and in turn I try to be their U.S. resource. We're dependent upon each other, and believe that when we're all well-informed we're better able to serve our clients. Whether it's gender pay gap regulations in the U.K., compensation deduction rulings in Belgium, tax authority announcements in Bulgaria, or proposed tax changes in the United States, our global member team is in constant contact (literally on calls at all hours, as well as regularly issuing technical updates). Ultimately, I hope our clients benefit.

## 6 What are the biggest challenges for payroll teams?

Unfortunately, payroll oftentimes can still be "the last to know" when the business makes a decision. For example, if a target company is acquired, this may place the business in jurisdictions in which payroll does not have sufficient technical experience.

The business may also decide to acquire a new population of individuals who present a challenge from a payroll reporting perspective. Intercompany cost-sharing arrangements may also impact payroll compliance, though that decision will typically reside, at least initially, with other stakeholders. Payroll is often on the execution end of a decision, when it also would have been able to add valuable input in the decision-making process.

## 7 How can companies better leverage payroll data for strategic decision-making? How will payroll data emerge as a critical analytic business tool?

We've done some interesting analyses with payroll data around compliance risks, as well as planning considerations. Payroll data can be the key to understanding trends in employee movement around the world, or domestically between states. This data can identify compliance gaps and inform decisions such as whether the business should consider opening/registering an entity in a certain location, and help with talent discussions around whether to hire more local talent rather than bear the costs associated with ongoing employee mobility. As an example, we have leveraged different data visualization tools to pull this data together to help forecast anticipated payroll obligations associated with certain forms of multi-year compensation (allowing users to click on and drill down into specific scenarios). ■

# What to Know About Payroll in Costa Rica

BY KRISTINE WILLSON, CPP

Costa Rica (meaning “rich coast”), officially the Republic of Costa Rica, is in Central America. It is bordered by Nicaragua to the north, Panama to the southeast, the Pacific Ocean to the west, the Caribbean Sea to the east, and Ecuador to the south. It has a population of about five million, of which nearly a quarter live in the capital and largest city of San Jose.

Costa Rica has pristine rainforests that are protected, as is evident from the abundance of plants and animals found there.

The tropical climate is year round and the seasons are defined by how much rain falls during a particular period. The “dry” season (December to April) is known to the residents as summer, and the “rainy” season (May to November) is known as winter.

Costa Rica is called the “Silicon Valley of Latin America” and has attracted commercial giants such as Microsoft, GE, Abbot Laboratories, Continental Airways, and Intel Corporation. Costa Rica’s economy has transformed over the past decade, moving away from its longtime dependence on agriculture to one based on technology and tourism.

## Labour Laws

The Ministerio de Trabajo Y Seguridad Social (MTSS) or the Costa Rican Ministry of Labour and Social Security determines minimum daily salaries for almost every profession (see Table 1).

These become part of the Labour Standard Act or Employment Act. Law No. 832 gives the National Wages Council the power to determine specific minimum wages across the country for occupational lines. The fixed component of minimum wage is established twice a year, in January and at mid-year (July or August).

**Working Hours:** According to Article 136 of the Costa Rica Labour Code (CRLC), effective working hours shall not exceed eight hours in a day and 48 hours a week. However, if the work is not unhealthy or dangerous, a company may stipulate an ordinary workday of 10 hours, provided that the workweek does not exceed 48 hours.



**Currency:** Costa Rican Colones (CRC) (as of this article’s writing, the current exchange rate was 560 CRC to \$1 USD)

**Language:** Official language is Spanish; however, there are also many local indigenous languages, such as Bribri

(English is the first foreign language and the second most taught language)

**Tax Year:** October 1-September 30 (but taxpayers may request an alternative period that runs from January 1-December 31)

**Payroll Period:** Cannot be more than 15 days for blue collar workers or one month for white collar workers or household aides



The CRLC stipulates three shifts:

1. **Day shift**—work performed between 05:00 and 19:00
2. **Night shift**—work performed between 19:00 and 05:00
3. **Mixed shift**—work that includes periods of time comprising both day shift and night shift

**Overtime Pay:** Overtime cannot exceed four hours per day for a total of 12 working hours per day.

Time worked over the CRLC limits is considered “extraordinary” and is paid at an additional 50% of the regular salary.

Additionally, six hours of night shift work should be paid an equivalent to eight hours of a day shift.

Managerial positions or work that by its nature cannot be done during regular hours (e.g., agents and employees who work on commission) are excluded from the maximum hour limitations, but still cannot be required to work more than 12 hours a day.

**Employment Contracts:** The CRLC, Articles 18-42, defines the employment contract. The contract is legally binding on both the employer and employee. There are specific provisions for the contract relating to certain professions (e.g., farm work, the employer is obligated to pay the market rate, etc.). Three copies of the contract are required to be submitted within 15 days. One copy is for the employer, one copy is for the employee, and one copy is provided to the Employment Bureau of the Ministry of Labour and Social Security.

The written contract must contain:

- Name, nationality, age, sex, and marital status of the employee
- Address of both parties
- Number and details of identity cards
- Precise descriptions in case the employee has a temporary residence
- Duration and nature of the employment contract with remuneration decided and payment details
- Working hours and overtime agreements
- Workplace
- Any other provisions including remuneration for services, notice periods, date and place the contract is signed with a legal witness to the signing

The CRLC does recognize verbal employment contracts in certain instances (e.g., work relating to crops, domestic services, temporary work lasting for not more than 90 days). In the instance of temporary work, the employer must issue a written document stating the work to be done and must pay the worker every 30 days.

**Table 1—Minimum Wages (effective from 01-01-2018 to 31-12-2018)**

Skill Level	Education Level	Minimum Wage per Day	Minimum Wage per Month
Unskilled worker		10,060.75 Hours per day specified: 8	
Semi-skilled worker		10,940.34 Hours per day specified: 8	
Skilled worker		11,141.73 Hours per day specified: 8	
Specialized worker		13,141.39 Hours per day specified: 8	
Generic unskilled worker			300,255.79 Days per month specified: 26 Hours per month specified: 208
Generic semi-skilled worker			323,572.06 Days per month specified: 26 Hours per month specified: 208
Generic skilled worker			339,572.06 Days per month specified: 26 Hours per month specified: 208
Technical worker	Diversified Education		355,847.32 Days per month specified: 26 Hours per month specified: 208
Generic highly skilled			381,335.61 Days per month specified: 26 Hours per month specified: 208
Technical worker	Superior Education		438,542.68 Days per month specified: 26 Hours per month specified: 208
	Diploma of Higher Education		473,642.47 Days per month specified: 26 Hours per month specified: 208
	Bachelors University		537,222.66 Days per month specified: 26 Hours per month specified: 208
	University Graduates		644,689.30 Days per month specified: 26 Hours per month specified: 208
Superior specialization worker		20,394.10 Hours per day specified: 8	



**Severance pay:** If an employee is fired without cause and has worked at least three months, the employer has to pay a severance payment. The amount is based on time worked and could be up to 22 days per year worked with a cap of eight years. The CRLC has a specific calculation table to determine the total amount due the employee.

**Income Tax Filing**

**Income Taxes:** The employer acts as a withholding agent for its employees. The withholding rate ranges from 0% to 15% of gross wages, and tax is paid to the tax authorities (Ministry of Finances’ Unified Tax Registry) on a monthly basis.

**Payment Due Dates:** Monthly

**Social Insurance Programs:** The employer must contribute 26.33% of the gross wages paid to its employees, and the employees contribute 10.84%. Employer-paid Workers’ Compensation Insurance is 1.5% - 4% of gross salaries.

**Health Insurance:** All employers are mandated to register every employee with the Social Security Administration (CCSS), which manages the health system along with the Ministry of Health. Employer contributions usually amount to 34.5% of salary, and the employee contribution is 9.7% of salary.

**Time Off**

**Christmas Bonus:** Every worker in Costa Rica has the legal right to receive an additional month of wages paid by the employer as a year-end Christmas bonus unconditionally. The bonus must be paid by the employer between December 1-20. The bonus is prorated if the employee works less than a year.

**Holiday:** See Table 2 for a list of Costa Rica’s national holidays. An employee who is required to work on a legal holiday must be paid double wages.

**Annual Leave (Vacation):** Workers are entitled to a minimum of two weeks’ paid vacation for each 50 weeks of continuous employment with the same employer. The wages to be paid to the employee during vacation must be based on the average weekly wage earned during the previous 50 weeks of employment.

The CRLC does not allow accumulated vacation time, and only under special circumstances will the law allow breaking the vacation into a maximum of two separate vacations.

The employer can decide the best time for an employee to take the mandatory vacation time.

**Sick Leave:** An employee who is on sick leave receives at least 50% of his/her salary for the first three days. From the fourth day on, the CCSS pays 60% of the salary if the employee has a medical certificate issued by a CCSS doctor. The employer is not required to pay salary after the third day except for maternity leave.

**Maternity Leave:** The employer must allow for one month of maternity leave prior to birth and three months after birth, paying 50% of salary for three months. The CCSS pays the other 50%. ■

Table 2—Costa Rican 2018 National Holidays	
Date	Holiday
January 1	New Year’s Day
March 29	Holy Thursday
March 30	Good Friday
April 11	Juan Santamaria day
May 1	Labour Day
July 25	Guanacaste Day
August 2	Virgin of Los Angeles Day (Unpaid legal holiday, if worked must pay double wages)
August 15	Mother’s Day
September 15	Independence Day
October 12	Cultures National Day (Unpaid legal holiday, if worked must pay double wages)
December 25	Christmas Day



*– David, Aquatic Custodian*

***“I can’t believe they  
pay me to do this.”***

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# Meet Michael A. Elliott, CPP, VP Global Payroll Services, Wells Fargo

BY FRANK J. MENDELSON

*Editor's Note:* Michael A. Elliott, CPP, is VP, Senior Business Initiatives Manager—Global Payroll Services—Wells Fargo Corporate Global Payroll Services. He is Six Sigma Green Belt Certified, with more than 23 years in the financial industry. He has held roles in finance, mortgage, OED, PMO, and payroll, and is the current Centers of Excellence (COE) Leader for the Wells Fargo, Global Payroll Services—Effectiveness COE. He and his team are focused on developing key HR talent, leveraging internal and industry benchmarking to identify gaps to meet future business needs. They publish the monthly global payroll dashboard/scorecard for 40 countries, comprising six global regions.

## ***What do you see as the changing role of the payroll professional?***

The trend in global payroll is leaning toward being more centralized from an operating model, with subset teams in-region to support employees and contingent workers.

Having a connection with your HR partners is a key success factor to plan for, as is being looped into conversations for business changes and integration. The need to collect data (metrics) to tell your story and support your business partners is critical—now and in the future.

I've known colleagues who have found themselves in decision-making situations, who had to rely on what they thought or felt would be the best solution, without data to back up their decisions. That can be a dangerous position to find yourself. Accurate and timely data can greatly support your team's position on certain decisions, requests for funding for new initiatives, or even to validate what you do—and why. Having timely and accurate data, especially industry benchmarking and gearing ratios to tell your story, can also be your defense to justify having your team continuing as a viable option for the firm.

## ***What are some of the emerging trends in global payroll?***

The 24/7 model will be critical. Having timely support for employees will require payroll to think differently about the operating model and service delivery. I feel that robotics, mobile applications, and other technologies will quickly help



**Michael A. Elliott, CPP, VP**  
Global Payroll Services, Wells Fargo

fill the gap in some areas, but the ability to have a global staff with readily accessible data and speed-to-market results will be key for our industry. I definitely feel opportunities exist for more mobile applications to support global payroll; however, security and data privacy issues continue to slow the developments in this area. This is the future opportunity, but we still have much to solve in this arena.

## ***Is there a frequently asked question or function that you expect will no longer be part of the conversation in global payroll?***

Most questions being asked today, especially around systems access and updates, will possibly be eliminated or greatly diminished once more stable mobile applications

are developed. Having self-service options and support available via mobile device will be a contributor to reducing the questions asked and the calls required to call centers or other support environments.

***What resources do you use to stay current on the latest trends and legislation?***

More information is becoming readily available through reliable sources; online and real-time. The Global Payroll Management Institute (GPMI) is a great resource, and I always encourage my staff to check the GPMI website as one of the first-stop resources. It's also important to continually challenge your staff to stay tuned to government publications, updates on regulatory changes, etc., especially if they are in-country or in-region, where the changes occur. An educated staff is your best asset, and allowing a venue (e.g., email, company blog) for them to keep you aware of changes can really be a time- and cost-savings opportunity, if managed properly.

***How can a payroll department provide support on a strategic level to corporate finance, human resources, and other departments?***

This is probably the most under-utilized opportunity facing the payroll industry. The payroll department, especially in large organizations, manages some of the most substantial amounts, tax payments, filing of documentation, etc. Yet many payroll teams still function as order-takers within their companies, due to management not promoting the value the team offers to the firm.

Payroll should always be at the table for critical business decisions and, in many cases, having the data to tell your story can act as the segue to get you there.

The skills to paint the future vision of the organization are key; making payroll a key element of that vision is critically important. If you are a leader and not at the table for these important conversations, it never hurts to ask

for a place. If asked why you should be there, start with promoting your team's responsibility for managing and paying everyone on time. Then present the value you and your team bring to the organization, and describe how the partnership is vital to the organization's success. Payroll should never be an afterthought but a key contributor to business planning and decisions.

***What are the biggest challenges for payroll teams?***

First, maintaining a well-trained staff that understands

how to interpret and incorporate changes within regulatory and governmental rulings.

Second, the rapidly changing environment facing our industry. As more companies become global, understanding how well your team can adapt to the changes and what skill gaps exist can be a challenge for leadership to identify, understand, and close in a timely manner.

Third, if you are planning to implement a global team, you need to understand both the cultural aspects and time zones in which the teams operate. Different cultures function and interact in very different

manners. Being flexible, and including your global teams in the decision process, will ensure a more successful experience. You might also find yourself being on calls at any hour to accommodate your global team's schedules.

***What would you advise for a company moving from a domestic to a global payroll in Latin America?***

The Latin America market is very relationship-focused. If you are planning to move business to that region, you need to understand a few things. Having a payroll provider (third-party supplier) to calculate your payroll for automated upload might be the right solution for your business model. The costs might be high, but the risks can be substantially lower with that model.

Additionally, the Latin America region is predominantly a Spanish-speaking region. Like many countries throughout the globe, many countries in Latin

“The ability to have a global staff with readily accessible data and speed-to-market results will be key for our industry.”

America require employers to have documentation, website publications, etc., translated to indigenous languages. Knowing the regulatory rules and having a bilingual staff to support your employees within the region will add a huge tangible asset to your operating model and employee satisfaction.

***With the emergence of technology and data-driven HR decision-making, how do you see the role of the payroll professional evolving?***

Technology will shape the look and feel of payroll in the near future. How we process payroll today will be very different in five or 10 years. Many of the processes and tasks we now conduct will become obsolete, especially with the incorporation of robotics and artificial intelligence. Payroll professionals, more than ever, need to stay abreast of changes and continue to build their business acumen. Payroll teams will become smaller, but they will also be expected to make decisions using and interpreting data.

This will lead to new opportunities for payroll professionals to expand their scope of knowledge and transition into new roles, offering a broader view and perspective to drive results. If we can grasp that single concept, we will see ourselves continuing to be a valuable asset to our companies.

***Why and how did you become involved in payroll?***

I had been on a short-term ex-pat assignment in Hong Kong and Singapore in 2009 with another company. When a role for international payroll became available with Wells Fargo, I was intrigued. At the time, I had no formal education in the actual practice of producing payroll, but did understand governmental and regulatory processes. Once I was hired and began to be exposed to the global payroll process, I quickly found payroll an amazing practice. I really enjoyed learning the intricacies of regulatory requirements, payment schedules, methods

of pay, etc., which are very different outside the United States. It really is an amazing community of practice for which we provide the most important asset to employees: their pay. You can have the best salesperson in the world working for your company, but if you're not paying them on time and accurately, they won't be working for your firm for long.

***What are some pieces of learned wisdom from your on-the-job experience that you can share on being an effective, efficient, and strategic business partner?***

Technology is your friend, if you understand how to leverage it, to make your life easier. I still find many payroll professionals completing tasks that could be automated through programs like Microsoft Excel. I always encourage employees to educate themselves, both for now and the future. Staying on top of your personal development is key from a knowledge and functional ability standpoint.

***What kinds of skills, training, and education***

***would be most useful for someone moving into a managerial role in payroll?***

Behavioral skills training is an incredible resource I recommend to all managers. Understanding the concepts of Situational Leadership, Strengths Finder, the Seven Habits, etc., will help you understand your leadership style and the style of others you manage. Possessing the ability to work well with others having different styles without compromising the integrity of your work is a great skill we all should continue to develop and modify.

***What were some of your early career lessons?***

I mentor (both formally and informally) employees seeking career advice and I continue to find many of the same reasons I had when seeking new opportunities. One question I always ask is, "Why are you looking to make a change?" Inevitably, after asking the "Five Whys," in

“Payroll should always be at the table for critical business decisions and, in many cases, having the data to tell your story can act as the segue to get you there.”

most situations, I find the employee wants to make more money. Money is great and I understand “why” individuals continue to seek more money. However, money should never be the key driver for your career choice. Follow your passion first—and the money will ultimately follow. I made two major mistakes early in my career. First, not knowing my value (meaning what I should be paid for the skills I had at the time) and two, not understanding exactly how my skills might align with a targeted role.

I strongly suggest prospective employees research the specific requirements for targeted roles and job shadow when possible.

#### ***What are the most important qualities of effective leadership?***

Leadership is not about you, but your team.

Being flexible and truly caring about your team are critical behaviors a successful leader must possess. Every day, you should be thinking about how to grow and educate your team to prepare for the next role, phase, or upcoming change in their career. I constantly ask myself, “If I weren’t here tomorrow, who on my team would have the necessary skills to step up and move into my role?” If you ask the same question and your answer is “no one,” then you should begin identifying the gaps to fill and begin planning to develop your team in those areas.

#### ***How has your approach to change management helped to make a successful organization?***

Change management should be the opportunity to help your team realize the potential for new opportunities. Unfortunately, many organizations do not plan appropriately for change and simply let it happen, hoping everyone will adjust.

As part of a dynamic leadership team, we are adamant about planning for change. We consider the human capital and talent assessments needed to support the change, business process, systems migration, training, communication, and other external factors that might

impact our organization. I always anticipate change, although not all change can be known. I believe if you are connected with your team and transparent, change can actually be a positive prospect.

#### ***How do you hire?***

For newly created roles, I research the company’s internal database for similar roles and try to coordinate a conversation with other managers regarding what they looked for when hiring for the role. This tactic allows me

the opportunity to assess what skills were needed when the manager hired for the role and any new skills they might find are needed for future considerations. Sometimes managers have even recommended talent within their organizations who might be looking for a new opportunity. Having a conversation with other managers is a great strategy to understand the work within other lines of business and establish new relationships.

When I back-fill a role, I always look for the skills the previous resource had as the minimum for the new candidate. I additionally

research other businesses with similar roles (internal and external) to understand potential trends. From there, I write the requisition and then I ask my peers to review. It’s important to gain additional insight for your posting and ensure you’re not looking for the 1-in-a-billion resource, which you may never find.

My advice is look for 80% perfect or near-perfect fit, and then build the additional 20% to grow the employee. Again, this might not be the perfect formula for everyone, but if you’re only seeking the 100% perfect fit, you might be passing up some really great talent that could bring new perspective and ideas for improvements and efficiencies.

#### ***What books are on your recommended reading list?***

Dr. Stephen Covey’s *The Seven Habits of Highly Effective People*. If I hadn’t read anything else, that is the one book that helped me to think differently. ■

“Payroll teams will become smaller, but they will also be expected to make decisions using and interpreting data.”

# Apprentice Levy Is Latest U.K. Payroll Tax



BY WILLIAM KIRWAN

Businesses operating in the U.K. need to be aware of a new apprenticeship levy now in effect. The tax is part of a government plan to improve vocational skills and increase the number of apprenticeships in the U.K.

This article summarizes the U.K. apprenticeship levy at a high level and should apply to all U.K. employers, though businesses operating in the U.K. should be mindful that Scotland, Wales and Northern Ireland have apprenticeship programs of their own.

The levy consists of a 0.5 percent payroll tax assessed on any organization with a payroll (effectively all payments attracting Class 1 National Insurance Contributions) of over £3 million (\$3.76 million), or any group of connected companies with a total payroll over that threshold. If your company is part of a group that meets the requirement, you will need to share in payments, even if your own payroll is under £3 million. It's up to individual business groups to decide how their payment shares will be divided.

The good news: Employers also receive an annual allowance of £15,000 to offset payments. Groups of companies must also split this allowance.

If you pay the tax, you are eligible to create an online account enabling



you to receive funds from the levy you pay towards apprentices' training. The funds must be used to train apprentices using recognized providers. The funds cannot be used to pay apprentices' wages, travel expenses, license fees or other expenses. Amounts withdrawn are subject to a maximum depending on

the sector and type of apprenticeship. Apprentices must work in the U.K. at least 50 percent of the time.

For more on the worldwide movement to digitize tax collection, [read the full blog article at https://www.radiusworldwide.com/blog/2017/4/overview-uk-s-new-apprenticeship-levy](https://www.radiusworldwide.com/blog/2017/4/overview-uk-s-new-apprenticeship-levy). ■

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# Emerging Trends in Global Technology



**Bob Foster**

President and CEO  
iiPay

BY BOB FOSTER,  
WITH FRANK J. MENDELSON

## 1 How is the changing role of the payroll professional—typified by greater interaction with the human resources department, data analysis, and strategic planning—making an impact in the field?

Today's payroll professionals are stretched thin. They're asked to perform a wide assortment of tasks, often with disparate technology and limited resources. If you're a global payroll professional, there's another level of difficulty involved. You're forced to keep up with payroll laws and regulations in multiple countries—not just here in the United States.

The demands on today's payroll professionals require direct interaction with human resources (HR). It has become more expected that they be certified in the field. The standards have been raised, which is a good thing. It ensures competency and credibility.

It's interesting that payroll professionals were among the first to use a computer, but they've been the last to go to the cloud. They're aware technology can smooth the process, but often get stuck with disparate systems because they're too busy to learn new technology. We're seeing a trend where those who make the change are able to produce better reporting, conduct more thorough data analysis, and plan more effectively.

## 2 Is there a frequently asked question that will no longer be part of the conversation in payroll in the near future?

"Should we outsource our global payroll?" With the changing role of the payroll professional and the changes in technology, it will become integral that companies outsource global payroll to a provider that automates the process from beginning to end, consolidates data in one place, allows easy accessibility, and delivers support services with their cloud-based technology.

## 3 What are the emerging trends demanding your attention?

I see four primary areas:

### 1. Robotics, Also Known as Automation

Human error through manual input causes the most instances of failure in any HR process. Having an automated system with seamless integration takes away this common issue, reduces the risk of noncompliance, and ensures accuracy. It also frees up the payroll professional to take on tasks such as data analysis and planning.

### 2. Global Gross-to-Net

Every day is day one on the internet. It's important to think like that. True innovation is always an ongoing process. There has been a need to challenge the current operating model of utilizing in-country providers to process the payrolls. Enhancements with gross-to-net technology are making innovative leaps and setting a mandate in the marketplace.

### 3. Cloud-Based Systems

Many businesses are moving their payroll to cloud-based services. This means they are run-on servers and can be accessed using any internet connection or on any web-enabled device. The primary benefits of a cloud-based system are: regular updates and back up of data, simplified data entry, and access from almost anywhere.

### 4. Data Security

Hackers infiltrating technology have become all too commonplace. We spend a significant

amount of time focusing on this. Companies are more concerned than ever about the security of data and information, especially the payroll industry. Cloud-based systems that allow access on tablets and smartphones cause even greater concern. However, if companies go through due diligence in selecting their payroll service providers, they will find that most of the cloud-based systems carry very strict data security protocols. This is a good way for a company to ensure their information is secure.

## 4 How can a payroll department integrate on a strategic level with corporate finance, human resources, and other departments to provide a competitive advantage?

As professionals utilize cloud-based services, it gives them more time to be a strategic partner to the rest of the business. Payroll departments need to focus on providing other departments with tangible data and reports that impact the business and provide a competitive advantage. As technology and automation free payroll professionals to think and act more strategically, they have the opportunity to showcase the skills and knowledge that make their roles invaluable.

## 5 What is the one thing that happened in the past year that you didn't see coming but has had a most profound impact on payroll.

This year has been interesting. We still don't know all the ways that payroll will be impacted by major political decisions made in 2016. From the U.K. voting in favor of leaving the EU, to Donald Trump winning the U.S. presidential election, 2016 proved to be full of surprises, many of them having huge long-term impacts on businesses, including payroll departments. I suspect we will see companies moving from one country to another because they do, or don't, like certain nationalistic approaches.

I would say the most direct impact would be the change that South Africa and many U.S. states made to their minimum wage, increasing it to rates equal to or greater than many salaried workers earn. The change impacts wages, headcount, workload, overtime pay, and salaries.

## 6 What are the biggest challenges for payroll teams?

I see three primary challenges for payroll teams:

### 1. Constant Change

With evolving technology, new legislation, and shifting work hours, it becomes challenging for any business professional,

but it's especially important for payroll teams to remain flexible and adapt to (and embrace) change. It's helpful to participate in training like webinars, workshops, and conferences to increase knowledge and stay in the know. Don't be afraid of change. Most of the time, the changes will also bring cost savings and improve efficiency.

### 2. Keeping Up With Payroll, Tax Laws, and Remaining Compliant

According to the Internal Revenue Service, about 33% of employers make payroll mistakes that cost billions of dollars in penalties each year—and that's just for the United States. When your company is global, that risk increases. There are varying tax laws by country, and even different mandates for correcting mistakes. It's a lot to keep up with! That's one reason more companies are outsourcing global payroll to organizations that can consolidate data, take responsibility for compliance with laws and regulations, and provide reportable data back to the company.

### 3. Getting Accurate, Real-Time Reporting

The need for detailed, accurate, real-time reporting is one of the major reasons for moving to a global payroll system. With a single system in place, and the automation we discussed earlier, the company can view and retrieve data quickly and without the risk that human involvement carries. This also allows for simpler, more meaningful analysis of data.

## 7 What would you advise for a company moving from a domestic to a global payroll?

First, realize it's the smart thing for your business, and implementation isn't as scary as you think. If your business is global, there are definite benefits to managing your employees on a global platform. If you don't manage your business globally, reconsider and take a deeper look. With company growth, you will often find that work is being done on an international model even if it's not discussed often.

Invest the time to create consistent standards for reporting and data management. Global data and consistent standards are the foundation of global payroll. There will still be variances due to country-specific differences, so make sure you include an allowance for that.

Make sure you get buy-in. The level of support by executive management can greatly impact a global payroll effort, for good or bad. The executive is accountable for the global business, so if you can get them to see the benefits, they will support the effort. Utilizing a single global system allows management to leverage the payroll professional's skills and knowledge for more meaningful tasks, which can, in turn, make the company more competitive and profitable. ■

# Customer Service

## We're All in This Together



BY JANELLE BARLOW, PH.D.

Two disparate events can be linked in an instructive way for those dealing with customer complaints. There was one month that has been challenging for anyone flying in and out of San Francisco. An abundance

of fog has put the airport into limited operational status on numerous occasions. When this happens, the airport may have only one runway that it can use. In addition, all the major airlines schedule as many flights as possible during the most popular takeoff time slots. So, traffic in and out of San Francisco has not been a

pretty picture. No doubt this happens in other parts of the world as well.

The second event was the ransomware and denial-of-service hacking that threatens to shut down many global websites and computers. At a minimum, the website hacks probably mean many websites will run painfully slowly or not operate at all.

What's the link? Both of these events (and ones like them) will generate enormous numbers of customer complaints. Global service providers need to be on the alert as to how to respond, or everyone could face some very unhappy customers in the coming months. What can you do if you face similar events?

These are not fixable problems in any meaningful way, or at least in any immediate way. Therefore, customer education, as rapid as possible, is essential. Let your customers know that we are all in this together. The airlines, of course, have some degree of culpability for this overcrowding of airports such as in San Francisco or in other parts of the world. The alternative, however, is unacceptable. If airlines don't schedule flights during peak demand periods, their competitors will. It would be an act of sacrifice and too much to ask of any particular airline.

At the same time, airline service providers need to protect themselves from customer sniper attack. Here's what a sniper attack looks like in a mild form. A passenger comes up to the ticket agent and is informed that her flight is late yet again (the seventh out of eight flights where this has happened in a month). In a loud voice, the passenger threatens to never fly this particular airline again.

The ticket agent can say, "Thanks for saying something. You are right. It's a mess, and I personally apologize that you are going to be delayed. Something needs to be done about this over scheduling of flights during ... the morning ... afternoon ... evening. But they're not listening to me. I got caught in the same situation myself last week."

The immediate subtext of the communication is, "We're in this thing together. We are buddies together being negatively impacted by the



system." It works! It's exactly what was said to me while I was attempting to fly into San Francisco on a flight delayed more than an hour and a half. And when the gate attendant said (more or less) those words, my stance toward him changed 180 degrees. How could I be upset with someone who was enduring the same situation as I? We were in the mess together.

I walked away from that encounter appreciating the skill of that ticket agent.

What are the situations you face, where a "We're in this together," message might help?

Let me suggest that you may need to use this mantra this month if any of your internal systems go down, become impossibly slow, or don't deliver the way they normally do because of hacking problems. If you are on the telephone with someone who wants to tell you that your website isn't worth a hill of beans, swing into your "we're in this together," mode. You will likely find you have a partner on the other end. Then promise to do anything you can to help them. If

your company is hacked and it takes you some time to get up and running again, it may be an opportunity for you to get closer to your customers.

I called a company this week to order a connector for one of my computers. Their telephone system was nonfunctioning. I called several times and by some miracle actually got someone to pick up a line. The first thing I said was, "You have to know that your telephone system doesn't work." He sighed, "Yes, I know. Isn't it terrible? We've been living with it for a month. We aren't getting much help in fixing it either. I'm just so glad you got through."

And then we handled my question. I hung up the telephone feeling sympathy for this company, with not a hint of anger or residual disappointment.

These are real-world problems, and many of us are sharing similar situations with our customers. We're all in this together! Shared experiences make it easier for people to endure inconvenient situations. ■

# Choose Substance Over Style With Vendors

BY KEITH RODGERS

Maybe I'm getting more cynical as I get older, but every so often when I'm sitting in a sales meeting, I find myself wondering if the person on the other side of the table could be selling me a used car rather than a global payroll service.

"Consolidated reporting, electronic pay slips, full automation, flashing lights on the dashboard, turbo-charge, airbags, 40 miles to the gallon, one previous owner, and she only drove it to the shops, bless her ...."

Trust me—it's a pretty simple transition from one to the other.

In fact, there's nothing I hate more than being sold to by someone who believes in the power of persuasion, as opposed to someone who takes the effort to establish what it is you actually need and then works out how best to deliver it. If—all else being equal—my choice of a global payroll vendor comes down to a one-way broadcast from a slick car salesman with shoes as polished as his sales patter, versus an operational payroll executive who tells it like it is and listens to what I have to say, I'm only going one way—and it doesn't involve a car loan.

I know I'm not alone in thinking like this, but I also know that the way you react to someone in a sales situation can hinder as much as help you. The fact that someone's sales pitch is polished doesn't necessarily mean he or she is superficial. The person might be well-rehearsed, experienced, quick-witted, and articulate (and a beautiful dresser). Likewise, the fact that someone's turned up for a meeting wearing

a pair of overalls and looking like he just lost a fight with the sump pump in his employer's global mainframe (I assume those things have sump pumps—they surely don't just rely on gravity for their water cooling?) might not necessarily mean he's an operational wizard who can resolve your deepest technical problems. He might just be the person who does the oil change.

This issue inevitably comes up in global payroll vendor selection cycles, because you tend to spend a lot of time in small rooms with complete strangers dealing with something that's high-stakes, detailed, and extremely stressful. Inevitably, your personal reaction to the people on the other side of the desk, good or bad, will color your judgment. The problem is, it might lead you to draw false conclusions.

Take the people who are good at selling: What's genuinely positive about the experience of dealing with them? Well, if they've done their homework, come prepared, understand the basics of your situation, and ask intelligent questions to find out the rest, that's great. If they know their products and services, can work out which ones are most relevant to you, and are prepared to talk not



just about the strengths but also acknowledge some of the limitations, that's also good. If they can share real-life customer stories, good and bad, and help you understand the ups and downs ahead of you, too, that's even better. And if they're sociable, that's a bonus.



But what's not to like? Well for one thing, keep in mind that the team of people sitting in front of you selling their company's services may not be the same people who deliver them. In an ideal world, of course, you'll meet your potential future account manager and the head of the implementation

team during your selection cycle. But that doesn't mean the person doing all of the talking and all of the reassuring in your meeting is going to be holding your hand all the way through the process. A good salesperson will be a critical asset in helping you with your decision-making, not a friend for life.

And what about the bad salespeople? Well, first, keep in mind that not everyone is good at speaking in meetings—particularly if the boss is breathing down his or her neck. The fact that someone isn't polished or even particularly coherent doesn't mean that person is not worth listening to. Likewise, you shouldn't be making business decisions on the basis of whether you "click" with the people on the other side of the table. After all, the bulk of the software or services you'll be buying will be automated and have little to do with any human interaction.

This is not to say that you shouldn't take into account what you see. For one thing, the way people behave in front of you often reflects the culture of the company you're thinking of doing business with. If you have multiple vendor representatives in a room who always defer to the team leader and don't speak up, you might worry that you're dealing with too hierarchical an organization that doesn't empower the individuals working on your account. If

the senior people are dismissive and unresponsive, you'll worry whether that attitude percolates down through the organization.

But, while style matters, substance matters much more. It's what you hear, not how you hear it, that should ultimately influence your decision. ■

# What to Know About Payroll in Albania

BY DRILONA LIKAJ

Albania lies on Southeastern Europe's Balkan Peninsula. The Adriatic Sea lines its western border, and Greece, Macedonia, and Kosovo border the east. Albania is a developing democratic country with historic roots in the Ottoman Empire, Nazi Germany, and communism.

After the collapse of communism in 1991, Albania transitioned from a socialist republic to a democratic republic.

Albania is currently a candidate for membership in the European Union (EU) and is a member of the United Nations, NATO, World Bank, and other international organizations.

## Social and Health Insurances

The central institution for social insurance is the Institute of Social Insurance, which operates according to Law No. 7703, 11/05/1993.

The contribution rates that employers and employees pay for social and health insurance are as follows in Table 1.

The employer withholds social and health insurance contributions due from employees from their gross monthly income. The employer is liable to pay the total amount of social and health insurance by the 20th of the next month. The relevant tax declarations are submitted to the General Directorate of Taxation using its website.

Self-employed individuals in the private sector are liable to pay 23% of the minimum base salary as determined every year by the decision of the Council of Ministers for social insurance and 3.4% for health insurance at double the minimum base salary.

Monthly payroll slips are required for public and private institutions.

## Personal Income Tax

Companies are liable to pay the personal income tax (deducted from the gross salary of the employee and paid on behalf of the employee), based on the base gross salary of the employee (see Table 2).

## Employment Procedure

The employment contract must be in accordance with the Employment Contract Template of the Labour Code, which includes clauses such as:



**Currency:** Albanian Lek

**Tax Year:** Calendar year

**Wage Payment:** Monthly

**Tax Agency:** General Directorate of Taxation



- Identity of the parties.
- Employment duration period—defined or undefined, start date, and workplace.
- Working hours per week and wage information. In accordance with the Albanian Labour Code, the standard number of working hours per week is 40. Additional working hours per week are compensated as overtime.
- Annual holidays.
- The rights and liabilities of both parties.

The two types of employment are:

1. Full-time employment
2. Part-time employment

The employment contract is concluded in accordance with the Labour Code and includes any particular requirements from the employer and employee. It also includes any additional specifications arising from internal requirements, but they must always be in accordance with the local regulations.

Documents to be submitted upon employment:

- Employment contract
- Certification confirming that the employer is willing to pay social and health insurance and tax returns on behalf of the employee. The employer submits the certification to the Regional Tax Directorate.

Periodic obligations include:

- Monthly net salary
- Monthly payment of social and health insurance and tax returns

### Protection of Employment

Obligatory payments of the employer and the Social Insurance Fund occur in the following cases:

**Holidays:** Annual leave duration is determined in the employment agreement, but cannot be less than 28 calendar days for each year of service in the company. If the period of service is less than one year, the paid leave days are in proportion with the period of service—i.e., if the employee has been in service up to nine months, the paid leave days will be  $9/12 \times 28 = 21$  days. The employer should give the annual leave within the working year or up to the end of the first quarter of the following year, but the annual leave cannot be less than seven consecutive calendar days. The employer determines the date of annual leave commencement by taking into consideration the employee's wishes.

Official holidays are paid as well—a chart of the official (national) holidays is often published at [www.bankofalbania.org](http://www.bankofalbania.org) and a listing of 2018's national holidays is in Table 3.

**Table 1—Social and Health Insurance Contribution Rates**

	Social Insurance	Health Insurance
Employer	15%	1.7%
Employee	9.5%	1.7%

**Illness:** The employee has the right to sick leave for the whole period of sickness until the doctor confirms they are able to return to their working duties or until the Commission of Medical Doctors declares permanent lack of ability for work.

During sick leave, the employer pays the employee at least 80% of their salary for the first 14 days of illness. From the 15th day onward, the Regional Social Insurance Directorate compensates the employee for 70% of their average salary for the past six months if the employee is insured for fewer than 10 years, and 80% of their average salary for the past six months if the employee is insured for more than 10 years. The period of temporary disability for work benefit begins on the 15th day of the medical report and can last no more than six months.

**Illness of dependent child:** The employee has the right to 15 days of paid leave per year in the case of illness of their minor child who is younger than age 3, and 12 days of paid leave per year if the child is age 3 or older. Also, the employee has the right to take 30 additional unpaid days off per year.

**Maternity:** Women are entitled to maternity leave for 12 consecutive months, including a minimum period of 35 days before childbirth and 63 days after childbirth. Women

**Table 2—Personal Income Tax Rates**

Monthly taxable income in Albanian lek (ALL)	Tax Rate
0-30,000	0%
30,001-130,000	13% on the amount over 30,000
130,001 and above	ALL 13,000 + 23% on the amount over ALL 130,000



who carry more than one child are entitled to maternity leave for 390 days, including a minimum period of 35 days before childbirth and 63 days after childbirth. The employee may start to work at her request before the expiration of her maternity leave, but not before 63 days after the childbirth.

During maternity leave, employees are entitled to salary compensation from the Regional Social Insurance Directorate. For the first six months the employee will be compensated with 80% of the average monthly salary of the previous year, and for the following six months with 50% of the average monthly salary of the previous year.

The employee has the right to salary compensation for maternity leave only if she was insured by the Regional Social Insurance Directorate for 12 months prior to the pregnancy and during the pregnancy period.

**Payroll Calculation Procedure**

**Full working days, no bonuses, and no overtime:** Net salary is payable to the employee monthly. The total days worked are calculated on the payroll list, as is the base gross salary. Deductions are then made according to the legislation in force and the net salary is derived.

**Bonuses and overtime:** Overtime is hours of work exceeding 40 hours per week and is compensated with at least 25% more than for regular working hours.

Bonuses are considered one-time income for the employee and thus are not included in the gross salary for contribution purposes. They are included in the gross salary only for the calculation of personal income tax.

At the end of each month, the employer is obliged to transfer the net salary to the employee’s bank account.

**Termination of Employment**

If the employment period ends according to the agreement, there are no obligations for either party.

If the employment period ends before the contractual date, the employer is obligated to pay to the employee the full amount of salary up to the expiration date of the contract. When the employee resigns before the contractual expiration date, they are liable for penalties for the remaining period, as determined by the contract. ■

**Table 3—2018 Official Bank Holidays Schedule**

1 January	New Year’s Day
2 January	New Year’s Day
14 March	Summer Day
22 March	Nevruz Day
1 April*	Catholic Easter
8 April*	Orthodox Easter
1 May	International Worker’s Day
15 June**	Eid al-Fitr (End of Ramadan)
21 August**	Eid al-Adha (Feast of Sacrifice)
19 October	Mother Teresa Beatification Day
28 November	Flag and Independence Day
29 November	Liberation Day
8 December*	National Youth Day
25 December	Christmas Day

\*Holidays falling on Saturday or Sunday are observed on Monday.

\*\*The Eid al-Fitr and Eid al-Adha holidays may be subject to change according to the lunar calendar.

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