

# MAXIMISING HUMAN CAPITAL IN A GROWING ECONOMY

**eca**  
*international.*



## International Human Resource Management

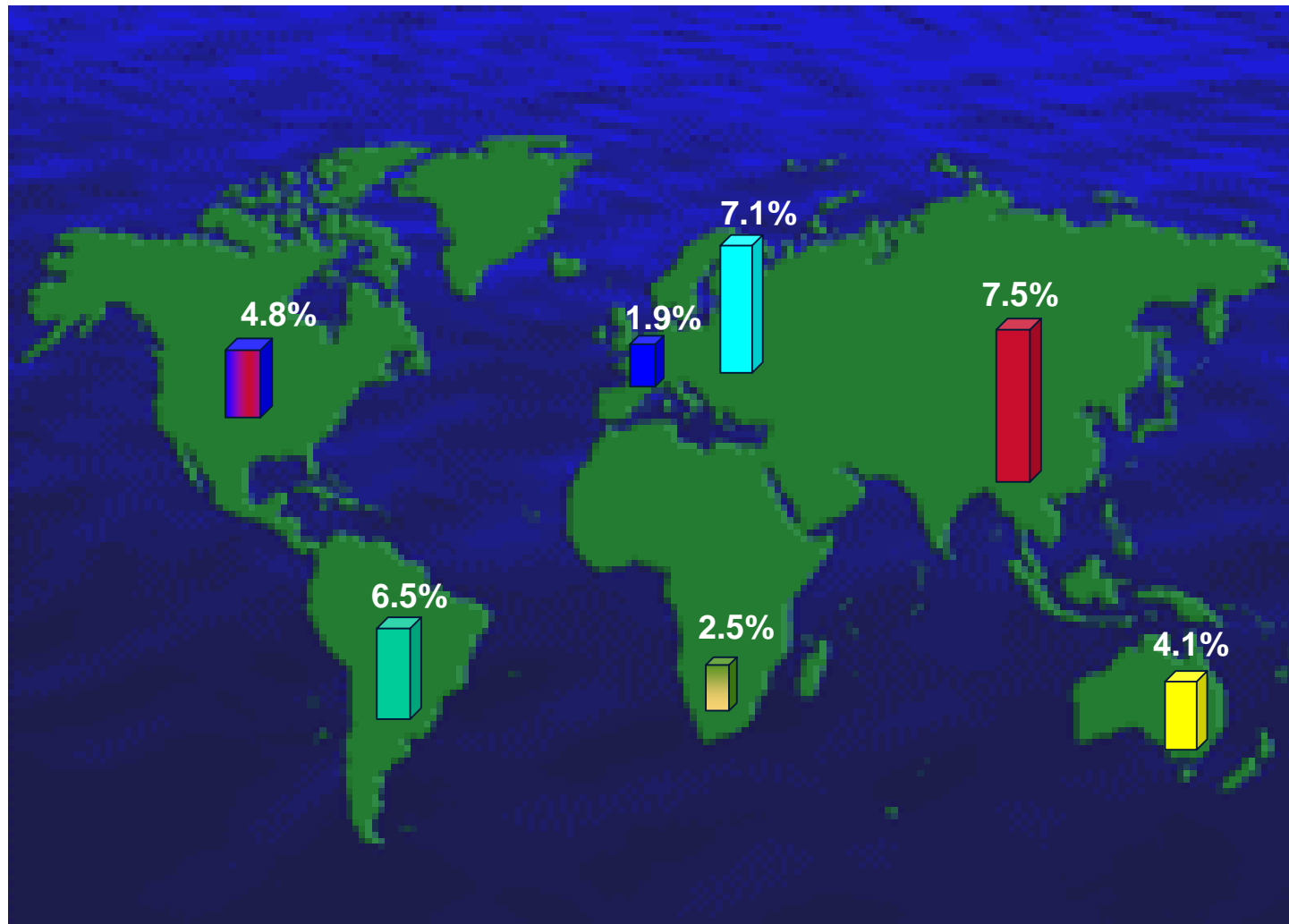
Monday, 25 April 2005

## Changes in assignment workforce over next 3 to 4 years



	Increase in numbers	Decrease in numbers	No change/ don't know	No operation
Western Europe	39.8%	10.9%	32.6%	16.7%
Eastern Europe	25.0%	8.3%	28.2%	38.5%
Middle East	15.5%	6.4%	32.6%	45.5%
<b>Asia Pacific</b>	<b>49.4 %</b>	9.6%	25.6%	15.4%
Africa	16.8%	5.1%	25.5%	52.6%
North America	31.3%	10.9%	32.1%	25.7%
Latin America	20.5%	7.1%	25.6%	46.8%
Indian Subcontinent	13.5%	0.6%	32.7%	53.2%

# Comparison of growth in GDP



## Business reasons for assignments



- Management of local operation
- Corporate/financial control
- Following a merger, a need for integration and to cover transition period
- Management of local operation
- Technical ability
- Local expertise/skills not available
- Career development / International experience for senior HQ positions.
- Cultural development of employees – global employee with global perspectives
- Also growing international mobility due to global recruitment.

# Types of assignment



	<b>Business visits</b>	<b>Short-term</b>	<b>Commuter</b>	<b>Long-term</b>
Minimum duration	1 to 30 days	1 - 3 months	Returns home weekly or regular intervals	6 - 12 months
Maximum duration	183 days	6 -12 months	2 - 4 years	3 - 5 years
Status	Unaccompanied	Usually unaccompanied	Unaccompanied	Usually accompanied
Used by % co's surveyed	100%	78%	31%	100%
Increase in 3 / 4 years		67%	55%	58%

# Short term assignments



## Personal/Company

### Advantages

- ✓ Employee is less restricted by family concerns
- ✓ Partner's career unaffected
- ✓ Generally less expensive
- ✓ Depending on location & duration can be easier to manage/administer

### Disadvantages

- × Family unit split
- × Can generate a strain on relationships

## Tax

### Advantages

- ✓ Emoluments may only be taxable in home location.

### Disadvantages

- × Could be tax liability in both home & host
- × Identical benefits taxed differently in home & host.
- × Tax compliance more complicated

## Social security

### Advantages

- ✓ Employee remains on home payroll and in home country scheme

### Disadvantages

- × May be a host liability

## Short term assignments – reasons for use



Lack of local talent and/or managerial experience working in a multinational environment

New business development

To understand/develop relationships with clients, customers & within the company group

Special projects

International experience required as part of career development plans

*Business in China requires a long term commitment and Short Term assignments may not be appropriate*

## Short term assignments – allowances/financial assistance



- All expenses reimbursed (32%)
- Daily allowance (generally excludes accommodation) (33%)
- Cost of living (subsistence) full costs either as per diem or host currency spendable element (66%)
- Hardship allowance (where applicable) (46%)
- Mobility/Incentive allowance (36%)
- Family accompanying (dependant on assignment length/seniority) (46%)

# Commuter assignments



## Personal/Company

### Advantages

- ✓ Partner's career can continue
- ✓ Children's education undisturbed
- ✓ Apparently a simple option

### Disadvantages

- × Family unit separated
- × Big strain on family relationships if more than 1 year

## Tax

### Advantages

None!

### Disadvantages

- × Complicated & expensive to administer
- × Benefits can be taxed differently in each location
- × Double tax liability
- × Additional data collection responsibility for employee & employer

## Social security

### Advantages

- ✓ Employee remains on home payroll and in home country scheme

### Disadvantages

- × May be host liability

## Commuter assignments – reasons for use



Assignment to a neighbouring country reduces the necessity to relocate

Helps international mobility (dual career issues)

Locations inappropriate for dependants

Cost control

Special projects)

Lack of local talent and/or management experience in a multinational company environment

To understand/develop relationships with clients, customers & within the company group

International experience required as part of career development

*Business in China requires a long term commitment and Commuter assignments may not be appropriate*

## Commuter assignments – allowances/financial assistance



- Budgeted allowable expenses (44%)
- Allowance to cover in full local expenses (not housing) (36%)
- Cost of living - full costs either as per diem or host currency 'spendable' element (66%)
- Hardship allowance (where applicable) (25%)
- Mobility allowance (25%)
- Allowance to cover any extra expenses abroad (11%)

# Long term assignments



## Personal

### Advantages

- ✓ Family unit remains together
- ✓ Less strain on relationships
- ✓ New environment experienced together

### Disadvantages

- × Move to new country stressful
- × Children's education disturbed
- × Partner may have to give up career
- × Family may feel isolated
- × Loss of support from relations & friends

## Tax

### Advantages

- ✓ Tax liability normally only in one jurisdiction
- ✓ All emoluments subject to a single tax legislation

### Disadvantages

- × Different tax rates
- × Different reporting rules and tax return forms
- × May be different tax years
- × Tax treatment of pension may change

## Social security

### Advantages

- ✓ Can remain in home country social security
- ✓ Sometimes possible to choose home or host scheme

### Disadvantages

- × Home scheme may be more expensive than host
- × Employee may have a scheme preference
- × May not be able to remain in home or join host scheme
- × May be host liability

## Long term assignments – reasons for use



New business development

Training & development of local employees

Development of corporate culture

Mergers & acquisitions

Lack of local talent and/or management experience working in a multinational environment \*

To understand/develop relationships with clients, customers & within the company group \*

International experience required as part of career development plans \*

*\* As for Short & Commuting assignments*

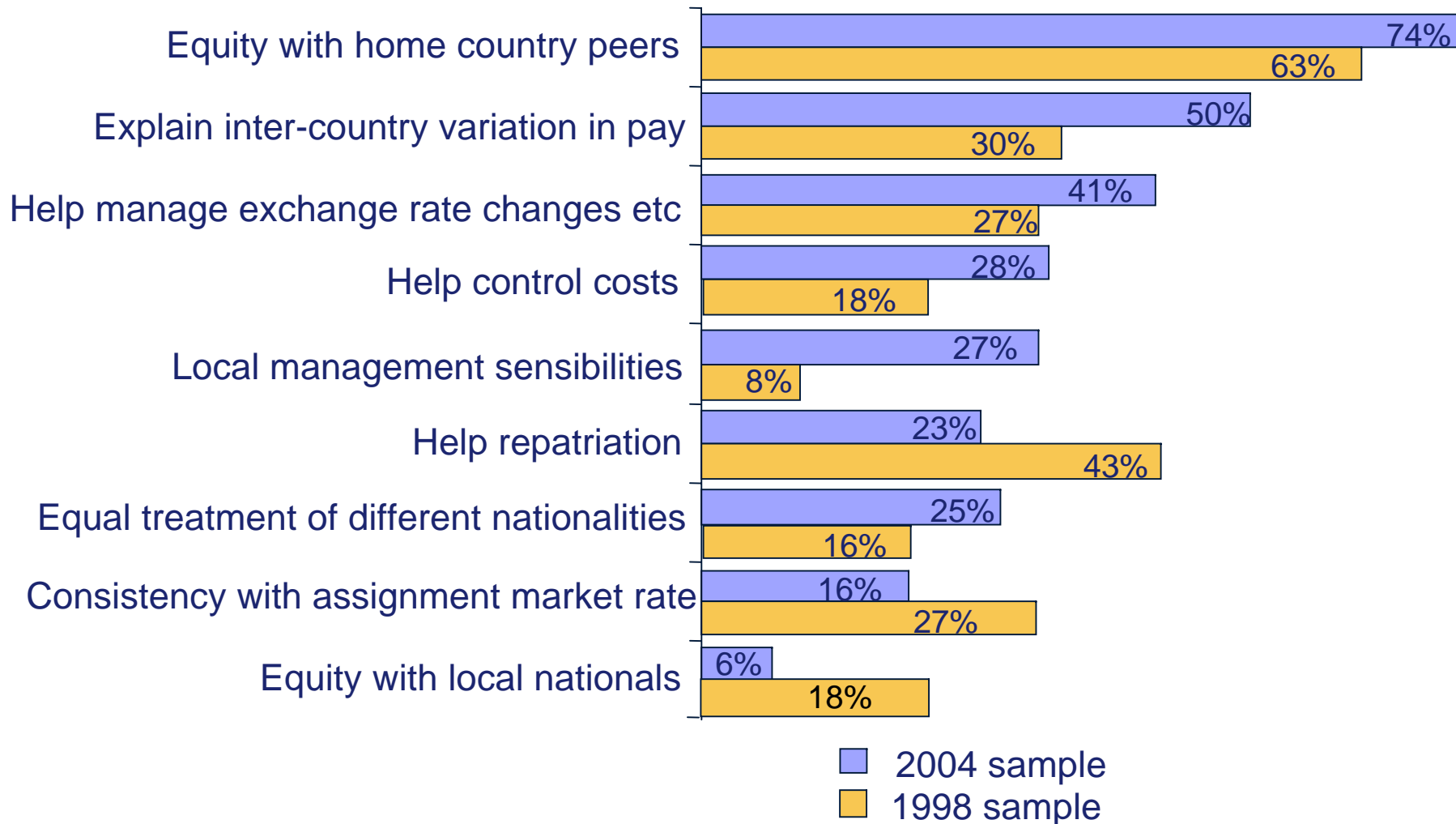
## Long term assignments – allowances/financial assistance



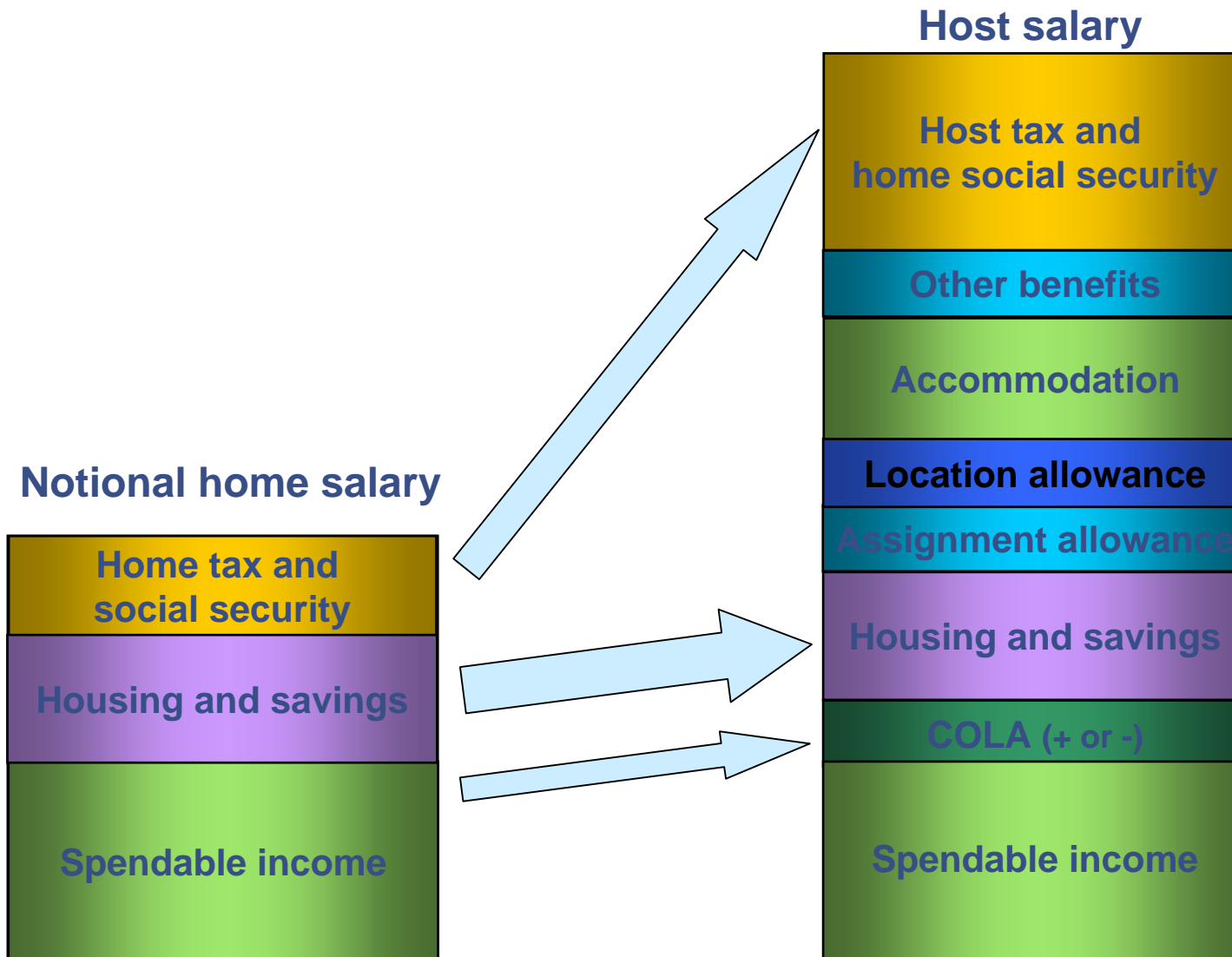
- Relocation expenses ('reasonable' amount 45%, by weight 45%)
- Cost of living Allowance
- Hardship allowance (where applicable)
- Mobility/Incentive allowance
- Allowances to cover accommodation, schooling, medical care
- Company car/car allowance, leave travel to home country
- Partner/Spouse allowance

# **Setting an assignment salary - thoughts & considerations**

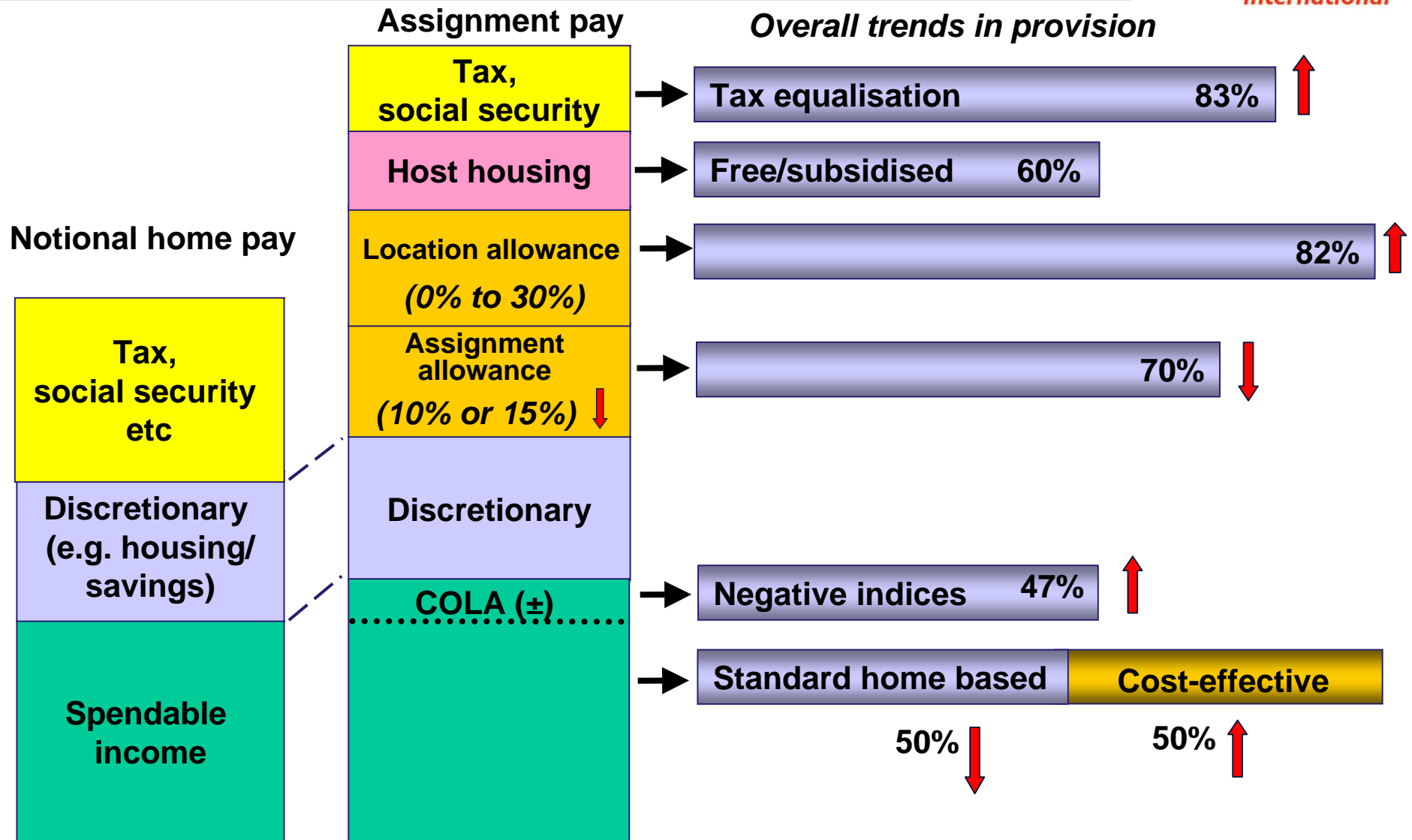
# Pay objectives



# Home country approach



# Elements of pay - current and future practice



# Quote assignment pay gross or net?



## GROSS QUOTED

- Encourages integration
- Identifies additional cost
- Tax reporting employees responsibility
- Suitable for long assignments

## BUT.....

- Precise tax position cannot be established pre-assignment
- Treatment of benefits
- Pay reviews (local practice, exchange rates?)

## NET QUOTED

- Greater tax efficiency by avoiding:  
*Any haphazard employee windfalls at the start or end of assignment.*

*Employee pressure to influence timing of beginning/end of assignment.*

- Greater flexibility in managing annual/interim changes:

*Notional home salaries*

*Host salary*

*Home tax/social security*

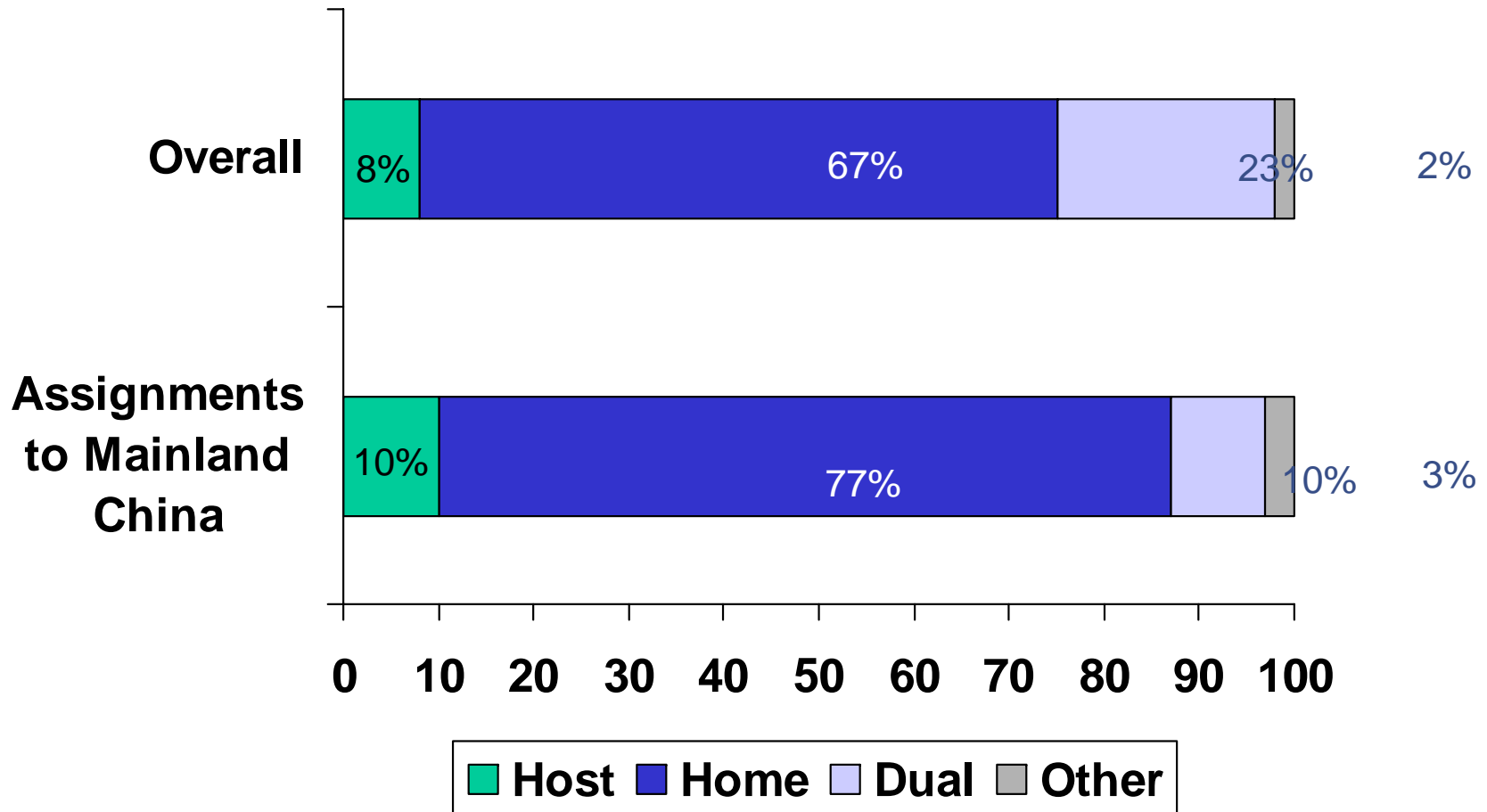
*Exchange rates*

- Employer directly takes advantage of tax concessions

- Manage more effectively different benefits provision

*(e.g. accommodation by family size)*

# What are companies in Asia doing?



## Setting an assignment salary



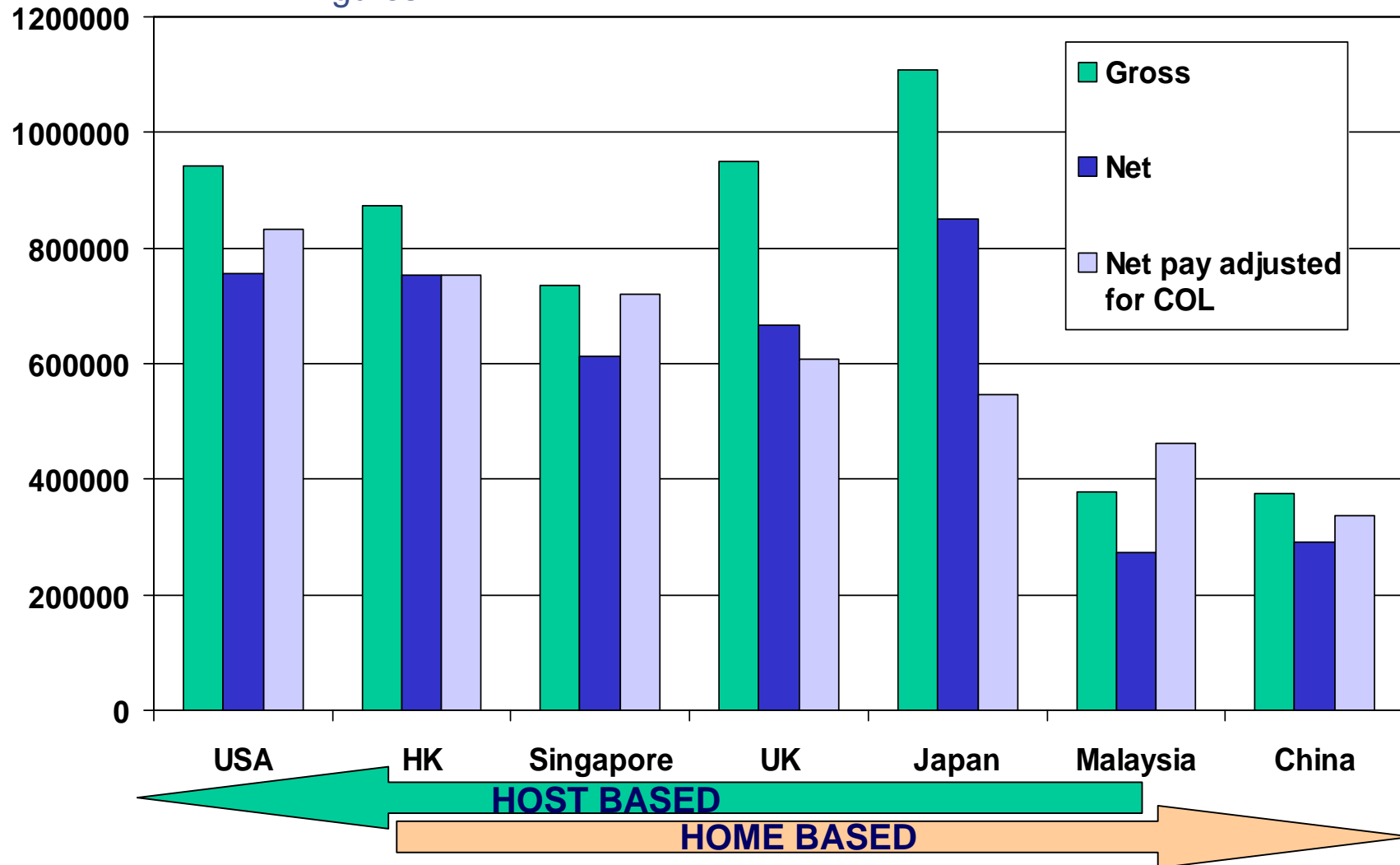
**High salary base to low salary base**

# Extract from ECA National Comparison Survey for 2005

Job level : 110 ECA / 800 Hav points



All figures in HKD



## Home based approach – 110 ECA / 800 Hay points



### HK to Beijing – Married 2 children

Gross HK salary pa	=	HKD 873 500	
Net salary pa	=	HKD 756 000	
<b>Salary for Beijing</b>		<b>HKD per annum</b>	
Net salary	=	756 000	
COLA	=	68 127	(117 @ HKD 1 = CNY 1.061)
Assignment Allowance	=	0	
Location allowance (15%)	=	131 025	
<b>Assignment net salary</b>	=	<b>955 152</b>	<b>(RMB 1013417)</b>
<b>Assignment gross salary</b>	=	<b>1 383 458</b>	<b>(RMB 1467849)</b>

Assignment market rate - 110 ECA / 800 Hay points



Assignment net salary = CNY 955 152 per annum net

Net Take home pay	CNY per annum
<i>All companies</i>	918 103
<i>European companies</i>	930 241
<i>UK companies</i>	1 033 020

# Mainland China local market rate - 110 ECA / 800 Hay points



Mainland National salary pa net = HKD 292 272 (RMB 310 101)  
pa gross = HKD 376 472 (RMB 399 437)

Assignment salary pa net = HKD 955 152 (RMB 1 013 417) + 69%  
pa gross = HKD 1 383 458 (RMB 1 467 849) + 72%

HK salary pa net = HKD 756 000  
pa gross = HKD 873 500

## Retain HK salary – no allowances?



Gross HK salary pa	=	HKD 873500	(CNY 926784)
Net salary pa	=	HKD 756000	(CNY 802116)

### **Applying China tax**

Net income pa	=	HKD 636491	(CNY 675432)
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# Setting an assignment salary



Low salary base to high salary base

## Beijing to HK - 110 ECA / 800 Hay points



### Married 2 children

Gross Mainland salary pa	=	<b>CNY 399 437</b>	
Net salary pa	=	<b>CNY 310 101</b>	
<b>Salary for HK</b>	=	<b>CNY per annum</b>	
Net salary	=	310 101	
COLA	=	65 912	(132.7 @ CNY 1 = HKD 0.942)
Assignment Allowance	=	0	
Location allowance (10%)	=	39 944	
<b>Assignment net salary</b>	=	<b>415 957</b>	<b>(HKD 391832)</b>
<b>Assignment gross salary</b>	=	<b>431 305</b>	<b>(HKD 406289)</b>

## HK Local national market rate - 110 ECA / 800 Hay points



*Assignment gross salary pa = CYN 431 305 (HKD 406289)*

HK local national equivalent gross salary is HK\$873 500 pa

How can the assignment salary be managed?

Apply local market rate and ignore home base salary?

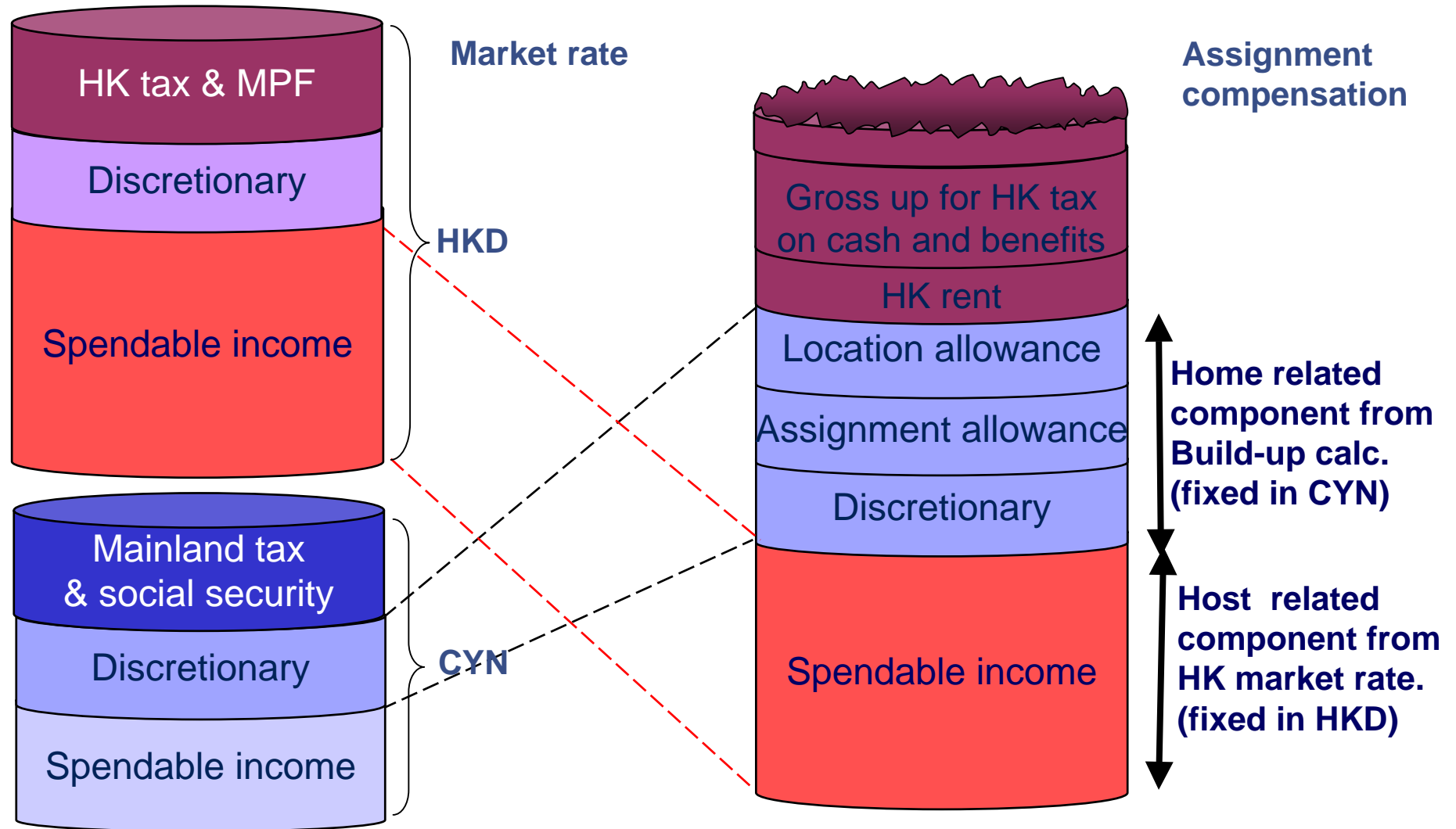
**OR**

Apply build-up calculation with an additional HK market allowance?

**OR**

Provide an amount in HKD that is equal to the net amount of a local national's spendable income. Use build-up to supply home discretionary income? For example - .

# Hybrid - home/host approach



## Summary – key points



STA's & Commuter assignments becoming more popular but beware of cost and tax implications

International assignments are not decreasing and remain highly important to company strategy.

There is more variation on the length and type of assignment, although the number of long term assignments continues to increase.

Assignment cost containment/budgeting is becoming more apparent

With more moves out of low base countries to high base locations, traditional methods of calculating assignment salary may no longer be appropriate.

**When dealing with International assignments:-**

**‘There is no such thing as perfect truth.**

**Only different perceptions of reality’**

**ANY QUESTIONS?**

**THANK YOU**

