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Building a Strategic Approach to Employee Global Mobility

BY GRAHAM MCKECHNIE

Despite uncertain times in the U.K. and Europe as a consequence of Brexit, international business and trade continues to grow. Employee mobilisations, even to previously “unreachable” corners of the globe, are, in some cases, commonplace.
International growth and the expansion of an organization’s global footprint, while undoubtedly an opportunity as well as an attractive and alluring proposition, also bring tangible and intangible challenges, although the rewards can be significant.

One of these very tangible challenges is all of the constituent parts that sit under the umbrella entitled “employment taxes.”

Achieving global employment tax compliance for any organization with international interests is a common challenge, whether it is a fledgling company taking its first baby steps into an overseas territory or a well-established organization.

A review, analysis, and subsequent documentation must occur under the employment taxes banner when any business is mobilising employees from their home location to a foreign jurisdiction. These include:

- **Immigration**—Work permits, residence permits, visas, etc.
- **Employment Law**—Contracts, assignment letters, local legislation
- **Income Tax and Social Security Liabilities and Obligations**—Home and host locations
- **Relocation and International Logistics**—What to provide and how to provide it? Identifying housing and schooling in the host location, etc.
- **Pensions**—Home and host location requirements or opportunities and interaction between each
- **Benefits**—As with pensions
- **Payroll**—Location of payroll, currency of payment, split or shadow payroll requirements, withholding, reporting, and remittance obligations in home and host locations

All of the above are common and real-life challenges that face any organization with an international footprint and a “mobile workforce,” and each is intrinsically linked with all others.

Many organizations may not realize that their employee population includes a mobile workforce; however, the reality is that all of the following scenarios constitute a mobile employee and therefore some or all of the above topics require consideration. These include:

- Permanent transfers to an overseas location
- Long-term assignments or secondments (usually defined as greater than one year duration)
- Short-term assignments or secondments (less than one year duration)
- Business travellers
- Commuters (employees who live in one country but work in another)

Establish a Global Mobility Strategy to Ensure Compliance

The key to ensuring global employment tax compliance is achieved and maintained, irrespective of the nature of an organization’s mobile workforce, the number of mobile employees, or the length and breadth of the global footprint, is developing a global mobility strategy.

Organizations large and small are now beginning to understand and appreciate the importance of creating a robust global mobility strategy, which is specific to an organization and is intrinsically linked to the company’s corporate blueprint, vision, and values.

A proper strategy can and should provide structure, efficiency, consistency, and ultimately compliance in respect of any cross-border employee mobilisations.

The depth, creativity, and complexity of a global mobility strategy is driven by the specific requirements of the organization; however, most successful strategies are underpinned by policies, procedures, or methodologies. These can be global in their application or designed to be region, country, or even location specific. Ultimately, one size does not fit all. Invest the time to map out a strategy and structure that fits the requirements of your organization and your cross-border population. It will prove to be a shrewd business decision over time.

The size of the global footprint, the specifics of the industry sector and overseas locations, and the number of the mobile employee population are all important factors to consider.

Seven Fundamental Topics to Address

Fundamentally, the following topics (among many others) and the success in developing a strategy in relation to these topics, will go a long way to determining whether an organization’s international expansion vision and dreams become a fruitful reality or end up as a recurring nightmare:

1. **The Legal Structure of Your Overseas Operation**—Understanding what kind of overseas presence your business will require (if any) in the new location and therefore what legislative requirements will exist is critical.

   The work being undertaken by your employees overseas, the nature of your business, and the overseas location will all be determining factors as to whether a physical entity is required in the overseas territory (and if so, what options exist in terms of the nature of the legal entity required).

Graham McKechnie heads up activpayroll’s Global Mobility Division and has more than 25 years of global mobility experience. He worked for Her Majesty’s Revenue and Customs (HMRC) for nearly 10 years, learning about the intricacies of taxation, specializing in expatriate taxation.
2. **Immigration**—Depending on the home and host location combination, the nationality or citizenship of the mobilising employee, and the duration of the mobilisation, work and/or residence permits may be required before an employee is legally permitted to work in the overseas location.

When immigration obligations do exist, an in-country employing sponsor is usually required. This can bring challenges if an organization has no legal entity or physical presence in the host location.

3. **Overseas Employment Tax Legislation**—It is important to consider the personal income tax and social security liabilities and obligations that may or may not exist in the overseas location, including the interaction between those liabilities and obligations and the position in the employee’s “home” country.

An overseas mobilisation can either be an attractive or unattractive proposition (and accordingly an easy or difficult sell by the employer) depending on the host location. Various factors can contribute to the attractiveness (or otherwise) of the host location, including climate and culture; however, in most cases the level of income tax and/or social security rates in the host location is a hugely significant factor.

4. **Payroll Compliance**—Of equal importance is the payroll calculation, withholding, reporting, and remittance obligations for the employer in the home, host, or both jurisdictions. The failure to understand these obligations is the number one reason for employment tax noncompliance with respect to an organization’s internationally mobile workforce.

With the potential for split, shadow, and dual payroll mechanisms, ensuring that an organization’s payroll landscape is globally compliant from an employment tax perspective is crucial.

5. **Compensation Structure**—Developing a clear compensation structure within a global mobility strategy is extremely important as the structure must be both an attractive proposition for the mobilising employee and ultimately affordable for the employer. Determining the existence and amount of mobilisation-related compensation items such as housing, schooling, cost-of-living and location allowances, and relocation packages and the eligibility for such items are key components in the success of an international mobilisation.

6. **Taxation Policy**—Having identified and designed an appropriate compensation structure, a robust global mobility strategy must also determine to what extent the mobilising employee is personally responsible for any home- and/or host-country employment tax liabilities that arise on the compensation structure.

Many tax policy structures exist such as tax equalisation, tax protection, and local plus. A successful global mobility strategy may have different tax structures depending on the category of the mobilising employee. For example, a different tax policy structure may be appropriate for a business traveller from that of a long-term assignee.

7. **Employee Satisfaction**—Ultimately maintaining employee satisfaction while on an international mobilisation can be the difference between a successful international expansion and a failure to capitalise on an opportunity overseas.

Mobilised employees will have a range of business and personal needs. To maintain employee satisfaction and therefore deliver success with your international expansion, the global mobility strategy should work to address those needs.

Integrating factors that will help employees settle in their new location, such as language lessons, proximity to local amenities and sports facilities, provision (and speed) of internet connection, are example of items that can significantly affect quality of life.

If an employee’s family members are also mobilising, provisions for children’s education might be another priority.

All of these, and many more aspects, will ultimately define how successful an organization’s international expansion and internationally mobile employee footprint becomes. However, implementing and continually managing and updating your global mobility strategy and structure will be a critical component to delivering success.
A global company needs to guard against payroll-related crime no matter where it is located. Payroll fraud is one of those difficult but necessary subjects to discuss and confront on a regular basis. On the one hand, the vast majority of us simply cannot contemplate such a breach of ethics. Envy and greed play no part in the role of a payroll professional—and if these emotions trouble you, then a career change is the only answer. On the other hand, we all know it does occur—and we have to be prepared to identify it and prevent it from happening in our employer’s business. The following are short summaries of recent payroll stories that the media has covered:

- **United States**—An employee of the U.S. Postal Service in Washington, D.C., claimed $40,000 in wages for jury service that the employee claimed lasted 144 days. In reality, the employee had been discharged from jury duty on the first day of service, but had forged court papers to persuade his employer to pay him for what turned out to be a very long vacation.

- **United Kingdom**—A payroll supervisor working for a recruitment agency created more than 20 “ghost” employees on the payroll and fraudulently paid himself £2.9 million over a six-year period before being caught in an audit. Most of the money was gone before detection, having been spent on fast cars, holidays, and a Thai fiancée.
• **Italy**—The Southern Italian town of Boscotrecase was forced to shut down most of its municipal operations after an audit revealed that more than 200 employees were not performing their jobs. The individuals had bonafide roles with the municipality but did very little work—clocking in, drawing their salaries, but not actually performing any services. A hidden camera captured one employee placing a cardboard box over their head to avoid detection while clocking in many colleagues.

• **Tanzania**—In 2016, a national audit revealed that the Tanzanian government’s payroll had at least 10,000 employees drawing a combined salary of $2 million per month but who did not exist.

**Lessons Learned**

**Segregate Payroll Duties**

These global cases suggest that the best way to guard against payroll fraud is to have a good segregation of duties. No one person should be able to perform all the functions of creating a new employee, and preferably there should be three people to complete the process from start to finish. Two people might collude with each other, but it’s unlikely that three employees would do so. The segregation of duties argument is one of the most compelling reasons for locating the payroll function within the finance sphere rather than HR (collusion is easier if you know your colleagues), so companies that do locate payroll within HR should give special consideration as to how a good segregation of duties is achieved and routinely test that this works in practice.

**Use Headcount Reports**

As can also be seen from the news stories above, the creation of ghost employees is one of the most common methods used to commit payroll fraud. Such fraud might utilise the valid payroll records for deceased or ex-employees. Within the European Economic Area (EEA), pay particular attention to the records of ex-employees who were migrant labour under the freedom of movement principle and who have returned to their home countries. Such individuals, having left the country where the business functions, make perfect ghost employees as they are less likely to be sent communications which would make them suspect a fraud was being perpetrated in their name, and therefore prompt an enquiry to the ex-employer.

Another area to check, particularly in companies with high staff turnover, involves “no-show” employees. These are employees who passed through the recruitment process, but never actually started work and are made live on the payroll by a fraudster. And, of course there’s always the chance that a fraudster simply creates a fictitious employee. This will often require collusion with an HR colleague to create the necessary personnel record to feed the payroll system. With the shift toward more payroll automation, a single point of control (i.e., creating a record in HR that automatically feeds payroll) can quickly become a single point of risk if not properly controlled.

So, how does an organization guard against the creation of ghost employees? Auditors often suggest headcount reports sent to line managers for verification. But how many line managers actually have the time or inclination to search through a line-by-line report and verify all of the members of a large department in the narrow timeframe usually available between running the trial payroll and executing the final net pay run?

Instead, why not ask line managers to verify the details of a handful of employees each month chosen at random?
The check could include, for example, taking a photograph of the employee at the workplace to prove they are working (well at least for that moment anyway!). Another idea is to perform a check-off exercise comparing payroll with another company document that refers to the individuals working in a department, and which a fraudster would find difficult to manipulate. For example, checking off the payroll run against an internal telephone directory or list of active email accounts to see who is really there.

Ghost employees are not the only method by which payroll fraud can be committed. Many payroll systems include the functionality to allow an employee to split net pay over more than one bank account. This can be useful for employees, particularly those who might want to hide their true net income from a spouse. The apocryphal tale of workers having basic pay paid to the family joint account whilst overtime and bonuses are paid to a secret “fun” account can happen legitimately. But they can also give the criminally-minded an opportunity.

The fraudster adds an additional payment (often a one-off payment such as a season ticket loan) to a genuine employee’s pay record and sets the record to pay the loan funds to a second bank account controlled by the fraudster. Through their access to the payroll system, the fraudster manipulates the copy payslip that the employee receives to show only the usual salary—which, of course, matches the funds credited to the employee’s bank account. As a loan payment heading was used, there will be no reflection in year-to-date balances on the pay advice, so the genuine employee will have no reason to notice what the fraudster has done.

One check would bring the fraud suggested above quickly to the attention of the employer. Drawing a loan payment should create an accounting entry on a control account that in turn needs a corresponding loan repayment scheme to balance it off. But that assumes all control accounts are reconciled every month to the loan funds to a second bank account controlled by the fraudster. Through their access to the payroll system, the fraudster manipulates the copy payslip that the employee receives to show only the usual salary—which, of course, matches the funds credited to the employee’s bank account. As a loan payment heading was used, there will be no reflection in year-to-date balances on the pay advice, so the genuine employee will have no reason to notice what the fraudster has done.

Look for the Red Flags
Finally, here are some red flags to watch out for and independently check on a regular basis. While none of the following is definite fraud it does warrant further investigation:

• More than one employee using the same bank account number or the same or a very similar address. Any couples who do hold such joint arrangements should be verified and checked each month.
• A member of the payroll team who starts early, finishes late, and doesn’t take more than a week’s vacation at a time. You might feel that this describes lots of people in our profession in terms of the dedication shown to duty, but does such an individual want to ensure that other people don’t pick their work up, for fear of discovery?
• Employees with no deductions on the payroll for taxes or benefits. Many global businesses may have employees on a hard currency payroll (USD, GP, Euro, etc.) who work from home in a jurisdiction where there is no withholding obligation on the employer. The employee is paid gross and is left to declare their income to the local authorities via the usual tax return process. This means that the employee’s record is usually excluded from statutory reporting, making it “invisible” to outside scrutiny and therefore perfect to perpetrate a fraud.
• Look for high levels of manual cross-charging journals involving the same employee’s costs from a payroll run. Is an attempt being made to confuse the accounting trail to hide a theft?
• Employees who earn over 30% more than the average salary for employees performing their particular role—are they really outstanding or is something more sinister happening?

Fraud prevention isn’t easy. If one examines the growth in online fraud in recent years, you might get the sense that the banks and police have given up on chasing all instances of it in many countries. A robust fraud strategy involving plenty of real checks that verify the actual outcome rather than just ticking a list is essential. And, don’t forget to check those lunchboxes from time to time!
Law of Fair Profits for Mothers
Peruvian authorities published Law No. 30792 on June 15, 2018, establishing that the days required for prenatal and postnatal rest should be considered effectively as worked days. The purpose is to protect the right to pay for labor benefits of working mothers who have taken maternity leave.

To this end, said Act also provides for the modification of subparagraph (a) of Article 2 of Legislative Decree No. 892, "a rule that regulates the participation of workers in the profits of companies," in the following terms:

Article 2—The workers of the companies included in this legislative decree participate in the profits of the company through the distribution by it of a percentage of the annual income before taxes. The percentage referred is as follows:

- Fishing companies—10%
- Telecommunications companies—10%
- Industrial companies—10%
- Mining companies—8%
- Wholesale and retail trade companies and restaurants—8%
- Companies that carry out other activities—5%

This percentage is distributed as follows:

- 50% will be distributed according to the actual days worked by each worker. For this purpose, the days of prenatal and postnatal rest of the worker are considered days worked.

Also providing for the modification of the first paragraph of Article 1 of Law No. 26644, “Law of Rest for Maternity,” in the following terms:

Article 1—It is the right of the pregnant worker to enjoy 49 days of prenatal rest and 49 days of postnatal rest. The use of prenatal rest may be deferred, partially or totally, and accumulated with the postnatal, at the decision of the pregnant worker. Such decision must be communicated to the employer at least two months before
the expected date of delivery. The days of prenatal and postnatal rest are considered as days actually worked for the purpose of calculating the profits.

**Modified Procedure for Hiring Foreign Workers**

By means of Supreme Decree No. 008-2018-TR, published on September 13, 2018, the Regulations of the Law on the Hiring of Foreign Workers have been modified, in the following terms:

- **Approval of foreign contracts**—The employment contracts of foreign personnel will be considered approved upon presentation to the Administrative Labor Authority through the virtual system of presentation of contracts of said institution. The loss of qualifying migratory status constitutes a resolute condition that automatically extinguishes the employment contract.

- **Preservation of documents**—The employer must keep, up to a maximum period of five years from the termination of the employment relationship, the documents proving that the foreign worker hired is exempt from the special regime for hiring foreigners. If it is established that the worker is not exempt, the contract must be regularized in accordance with the law.

- **Application for approval of a foreign contract**—This request must be accompanied by the following documents:
  - Work contract in writing, preferably according to the model
  - Sworn statement, preferably according to the model, where it is indicated that the hiring of the foreign worker meets the conditions established by the law and has the training or work experience required by it
  - Proof of payment of the corresponding right to the Administrative Labor Authority

- The exonerations of compliance with the limiting percentages for the hiring of foreigners are automatic approval from their presentation in the virtual system of foreign contracts.

- The extensions are automatic approval from its presentation in the virtual system of foreign contracts.

**Rule Regulating Holiday Rest of Workers Is Modified**

Through Legislative Decree No. 1405, published on September 12, 2018, Legislative Decree No. 713, a regulation that regulates paid rest periods for workers subject to the general labor regime of the private sector, is modified in the following terms:

- **Advancement of Holidays**—The advancement of vacation is allowed on account of the holiday period that is generated in the future, as long as there is a written agreement between the employer and the employee. In the event of the termination of the employment relationship, the days that had been granted in advance may be compensated with the days of vacation that the worker had acquired at the date of cessation. However, vacation days granted in advance that cannot be compensated with the days of vacation generated upon cessation will not generate a compensation obligation at the expense of the worker.

- **Vacation Fractionation**—At the request of the worker, the use of his or her vacation period may be divided as follows:
  - 15 calendar days of vacation rest, which may be enjoyed continuously, or in periods of no less than seven and eight uninterrupted days.
  - The remaining 15 calendar days of vacation rest may be enjoyed fractionally in periods of fewer than seven calendar days and at a minimum of one calendar day. The order of the divided periods in which the vacation break is enjoyed must be established by written agreement between the employer and the employee.

- **Holiday Reduction**—The reduction of the vacation break from 30 to 15 calendar days, with the corresponding compensation of 15 days of remuneration, can only be attributed to the holiday period that can be enjoyed fractionally in periods fewer than seven calendar days. To make this vacation reduction effective, the employer and the worker must agree in writing. Additionally, there are specific regulations on the paid vacation rest of employees of Peru’s public entities.
Since 2000, more than 790,000 mergers and acquisitions have been announced worldwide with a known value of more than $57 trillion USD. Transactions in the United States, Asia Pacific, and Europe led the merger and acquisition deals worldwide in 2017. If your company has not yet gone through a global transaction, don’t expect that to last for long.

An acquisition or merger with a company in another country poses myriad issues for a payroll professional. You will be confronted with a workforce in a country that you may know little or nothing about. You will have cultural differences and differences in work rules and regulations. You will encounter currency issues, language issues, and system compatibility issues. But you will also be faced with an adventure like nothing you have experienced previously. You will be gaining knowledge of a whole new culture and a whole new way of doing business.

There are a multitude of differences between other countries and the United States. Asia-Pacific is a massive region with a mix of developed and developing economies that do not have similar regulations. With a merger or acquisition, you now need to find a way to get your arms around your Asia-Pacific workforce and the local jurisdiction regulations under which they operate. For example, employees in the United States are generally considered “at will” employees who can be discharged without notice or reason. Selling and buying a business in the European Union often involves the automatic transfer of the seller’s employees to the acquirer. Employees in the European Union generally have more substantial employment protection rights, especially when the business in which they work changes hands. These differences may factor in how you will proceed.

So, how do I begin?
Your first order of business is to determine exactly what is occurring. Will the acquired company operate independently or are you merging two organizations into one? Is your company going to be the survivor? Will the company continue operating as it has been with just the ownership changing? The answers to these questions will allow you to have the perspective you need to start diving a little deeper.
If you are now going to oversee payroll in this foreign jurisdiction, you will need to do some research. Start by asking the following questions:

**Where will payroll be paid from and what currency will be used?**
Will payroll be paid from the United States, or will each jurisdiction be responsible for its own payroll in its own currency? Does the jurisdiction have rules around how payment must be made to the employees and in what currency?

**How often must employees be paid? What benefits are mandatory?**
Many European countries allow you to pay your employees monthly. In China, salaries are generally paid monthly. In Sweden, employees enjoy annual paid leave of a minimum of five weeks, which can rise for older or more senior workers. Besides the 25 days of paid holiday for employees, companies in Sweden are also required by law to offer 16 public holidays and an additional six half-days for employees’ personal needs. Knowing your local jurisdiction requirements and customs is mandatory.

**How does the company currently process its payroll: is it in house or outsourced?**
Some countries dictate that a local firm must be utilized by a foreign entity that has employees in the country. For example, if you utilize a third-party payroll provider, they may not be able to process payroll in that jurisdiction unless they utilize a provider that is in-country. Many third-party payroll processors do not operate globally or have limited global reach, although this is changing over time. If they are not currently in a jurisdiction where you have employees, they likely have a local resource that they have used in the past to meet your processing and payment needs.

Global mergers and acquisitions can be fraught with issues but can also be a wonderful experience, allowing you to expand your knowledge, learn a new way of doing business in another country, and learn about a new culture along the way.

Mindy Mayo, CPP, is Principal and Practice Leader, Human Capital Tax, at Ryan. She specializes in leading and advising organizations in the areas of human capital taxation, including financial and operational risk management, process improvement, and strategic management. She is skilled at representing clients before state and federal agencies in the United States during employment tax audits or controversy.
What cultural differences exist in how the workforce is managed?

Religious and cultural differences in the United States abound from state to state. Expanding your company globally multiplies these differences exponentially. What holidays do your new employees observe? Is it proper for men and women to work in the same office? Are employers expected to provide benefits that are not generally provided by the U.S. entity? Researching and acknowledging these differences will be a major undertaking, regardless of the countries involved.

Will terminations occur as the result of the merger or acquisition?

The rules around when and how you pay an employee you are terminating differ in all 50 states in the U.S. You now increase your complexity when you expand globally. For example, employees in Spain who are terminated commonly receive nine weeks of severance pay for each full year of service. Japan’s lifetime employment system restricts employers from firing employees except on the grounds of serious misconduct. In Germany, the Termination Protection Act requires that dismissal be used only after all other options have been exhausted, including transferring an employee to another open position or demoting the individual into another role.

Do you have budget to obtain assistance to work through the details of the transaction?

Vendors that can assist with your transaction exist and are available. To what extent will you be able to utilize these vendors must be researched. Third-party payroll processors, professional employer organizations (PEOs), certified public accounting firms, local accounting firms, and other global consultants are all ready to assist should you desire outside assistance in navigating the complexities of your new workforce.

Are you going to encounter communication issues?

Thirty-one percent of European countries utilize English for professional purposes. The remaining 69% do not. How are you going to communicate if you are doing business in one of the countries that does not utilize English for professional purposes?

How would you handle this situation?

You have just acquired a company with employees in Israel, Japan, and Australia. Your employees in Israel work from 8:00 a.m. to 5:00 p.m., Sunday through Thursday. Religion will play a part which days people work, but there needs to be a rest period of at least 36 hours on Friday and the weekends. Overtime is required at time-and-a-quarter after the first two hours, and then time-and-a-half after that. How do you manage the Israel workweek when it differs from your U.S. workweek? How are the religious holidays going to factor into your payroll department staffing when you find out that all European operations will be processed from Israel?

You currently process payroll twice a month. As in many European countries, Japanese companies typically pay their employees once a month, near the end of the month (typically the 25th). This now needs to be addressed when determining your new filing requirements.

Workers in Australia are subject to a maximum of 38 “ordinary” hours per week, though agreements may be implemented to allow for necessary shifts. In instances where termination of employment is for redundancy and the employee has provided at least 12 months of continuous service, severance pay is required under Australian law—with the pay amount scaled according to the length of the employee’s service. This is true in many European countries. If redundancy terminations occur with your Australia employees, local jurisdiction rules must be researched.

Global mergers and acquisitions can be fraught with issues for you to deal with but can also be a wonderful experience, allowing you to expand your knowledge, learn a new way of doing business in another country, and learn about a new culture along the way. Arming yourself with the information necessary to make this journey as painless as possible is key.
Global Payroll Week aims to increase the global payroll professional’s skill level through education, training, and networking opportunities.

The Global Payroll Management Institute will be sharing free webinars, exclusive content, social media contests, and more during each day of the week-long event.
Mark Graham
Chief Commercial Officer
Immedis

BY MARK GRAHAM,
WITH FRANK J. MENDELSON

Editor’s Note: Mark Graham is Chief Commercial Officer with Immedis and is responsible for driving growth through marketing, sales, and strategic partnerships. As part of the Immedis Board, Mark’s drive and passion come from creating a service and technology offering for the global payroll market that truly makes a difference in how multinational organizations manage their payroll and tax obligations worldwide. Mark is currently based in the Immedis New Jersey office, where he is driving the expansion of the company and advising clients on their global payroll strategy and operations.

What is the changing role of the payroll professional in regard to greater interaction with HR, data analysis, managerial, and strategic planning?
As both technology and reporting improve rapidly, the global payroll professional has much more interaction with HR and finance. The in-depth, real-time reports that payroll can now provide are hugely important to other departments. They don’t just run payroll anymore. They are now global project managers and data scientists.

Senior decision-makers need qualified data to make critical decisions for the business, and payroll has that information at its fingertips.

It’s not just about getting people paid on time, it’s about where is the most cost-effective country to hire resources in, how to manage global compensation and benefits, and how to manage global payments and currencies in a smarter way to reduce administrative and overhead expenses.

What are some emerging trends in global payroll demanding your attention?
Emerging technologies such as data validation and robotic process automation (RPA) are changing global payroll forever. The elimination of manual input and re-keying of information time and time again is freeing up payroll teams to focus on more value-added work like reporting and analytics. Some legacy providers are now finding it difficult to get their technology to deliver what the modern payroll manager needs.

How can a payroll department provide support on a strategic level to corporate finance, human resources, and other departments?
Payroll professionals will soon provide some of the most important information that will essentially shape the future of their organizations. The payroll department will need to understand and be capable of providing reporting—quickly and tailored to their C-level requests. Some of these reports include:
- True headcount reporting
- True cost of employment
- Starter/leaver statistics
- Drill-down reporting tailored by location, job type, job function, age, and gender

Frank J. Mendelson is an Acquisitions Editor for the Global Payroll Management Institute. He has been working with the American Payroll Association since 2009 as an editor for PAYTECH magazine, and has presented workshops at the Annual Congress on effective communication.
What do you feel are the biggest challenges for payroll teams?
- On-time, accurate payrolls
- Fingertip reporting
- Custom, scalable reports
- Payments
- Global oversight
- Compliance
- 24/5 support (being available 24 hours a day during the business week)
- Addressing employee questions
- Entering new markets

What are some of the considerations a company should ask about to determine if there is good fit with a prospective vendor?
Always use a request for proposal (RFP) to get to the heart of what matters to your business and figure out if the fit is right for a potential vendor. It’s going to be a partnership that’s built on trust and requires expertise and ongoing communication to make it work. So, your RFP is the right time to get the facts you need to make a decision. Some examples of what you should ask:
- Similar projects—can you obtain references from other clients they have worked with?
- Data security—how safe is your data in rest and in transit?
- ICP due diligence—what process do they use to ensure the right in-country partner provides a good service?
- Technology—what technology solution will integrate with your existing platforms and processes?
- Process map—how will the payroll process work?
- Level of expertise—are real tax and payroll experts delivering your payroll? What value will they add?
- Vendor’s ability to scale—can they bring on additional countries easily?
- Financial stability of vendor—how solvent are they?
- Technology road map—what is planned in future releases and how will this impact your payroll?

How can companies better leverage their payroll data for strategic decision-making?
Data visualization and analysis are key here. Your payroll data is the most accurate, real-time employee data available in your company. Looking at the output against the true payroll costs will allow businesses to decide where they will increase/decrease their headcount.

But you need data visualization to actually see the data in front of you in an understandable, digestible, and readable format. This saves time and helps you spot trends and variances in seconds instead of looking through reams of spreadsheets for hours on end.

Your payroll data is important and should be presented that way instead of just numbers across pages where it’s impossible to make any sense of it.

Think about it, the human eye is drawn to colors and shapes, and if your data is shown to others in this way, it’s going to be easier to understand and valued much more highly than if it were on Excel sheets.

What are the most important qualities of effective leadership?
There are a number of important qualities you need to encourage and deliver in leadership. It’s not an á la carte list; you don’t pick and choose the ones you like. Realistically they should all work together. A good starter list is that an effective leader:
- Promotes two-way communication with their team
- Provides encouragement
- Gives praise when deserved
- Plans ahead
- Gives their team targets to work towards
- Creates opportunities for employees
- Strives for a fun and dynamic atmosphere
- Builds a foundation of trust

Always use a request for proposal (RFP) to get to the heart of what matters to your business and figure out if the fit is right for a potential vendor.

Read the October 2018 issue of Global Payroll for more information from Mark Graham on RFPs.
Sweden is a Scandinavian country that lies between Finland and Norway in Northern Europe. It borders the Baltic Sea, Gulf of Bothnia, Kattegat, and Skagerrak. It is comprised of thousands of coastal islands, interior lakes, forests, and mountains. The capital of Sweden is Stockholm, which is built on 14 islands. Sweden’s population was 10.12 million in 2018.

Culturally, Swedes are known to be humble and find boasting unacceptable. They speak softly and calmly, rarely showing any anger or any strong emotion in public. They are also very family-oriented.

**Labor Standard Act or Employment Act**
The main laws governing the employment relationship in Sweden are:
- Employment Protection Act (1982/80)
- Employment (Co-determination in the Workplace) Act (1976/580)
- Work Environment Act (1977/1160)
- Discrimination Act (2008/567)
- Annual Leave Act (1977/480)
- Working Hours Act (1982/673)
- Parental Leave Act (1995/584)
- Trade Union Representatives (Status at the Workplace) Act (1974/358)

In addition to the laws listed above, employers must also be aware of collective bargaining agreements, if any, since such provisions may take precedence over those set forth in statutory law.

The Employment Protection Act (*Lag om Anställningsskydd*) is geared for both public and private sector employees. There is an exclusion for employees whose duties may be deemed managerial; employees who are members of the employer’s family; employees who work in the employer’s house; employees with special employment support, in sheltered employment, or with wage subsidies for development in employment; and employees who are employed in upper secondary apprentice employment.

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Kristine Willson, CPP, is a Consultant with kww Consulting. She received the American Payroll Association’s Meritorious Service Award in 2007 and its Special Recognition Award in 2010.

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Working days and hours are regulated by the Working Hours Act, with collective and tie-in agreements.

**Minimum wage**—While there are no government-mandated minimum wage rates in Sweden, annual collective bargaining contracts between unions and employers set a minimum wage rate annually. These agreements set the minimum level depending on an employee’s age and experience. According to Check in Price website, the average 2017 salary in Stockholm was around 22,000 SEK (after taxes). This is equivalent to $2,585 USD per month or $31,020 USD per year, based on the current exchange rate.

**Working hours**—Monday is considered the first day of the week unless another arrangement is in place with the employer. Regular working time may not exceed 40 hours per week, unless where necessary regarding the nature of the business, in which case the working time may amount to an average of 40 hours per week for a period of at most four weeks.

A five-day workweek is normal in Sweden, with 40 hours being the average total hours worked each week.
**Overtime pay**—Where there is a special need to increase the number of hours worked, overtime may be worked up to a maximum of 48 hours per employee over a period of four weeks, or 50 hours of overtime within a calendar month. Overtime is usually paid at a rate of 50% to 100% more than the normal wage and compensatory rest periods or other rest periods that are scheduled during the employee’s regular working time.

**Employment contracts**—An employment contract must be in place within one month after the employee has started work. It needs to include, in writing, the conditions that apply to the position and apply for an indefinite term. Under certain circumstances, the employment contract can be for a fixed term; for example, if the employment is for temporary substitute employment, seasonal employment, or when the employee reaches age 67.

The contract must contain:
1. Name(s) and address(es) of the employer and employee
2. Start date of the employment
3. Whether it is for a fixed or indefinite term or whether it is probationary
4. Starting rate of pay, other employment benefits, and the intervals at which the pay is to be paid
5. Length of the employee’s paid annual leave
6. Length of the employee’s normal working day or working week
7. Collective bargaining agreement, applicable where relevant

The Swedish labor market is characterized by the extensive protection afforded to employees’ rights. Employers cannot terminate employment without objective grounds for doing so. In return for such protection—and without the need to be explicitly stated in the employment contract—employers can expect their employees to act in the interest of the company, such as by observing a far-reaching loyalty duty in the course of their work.

**National Holidays for 2019**
There are approximately 13 national holidays in Sweden (see Table 1).

**Income Tax Filing**
Employers are obliged to report and pay employer taxes and deducted taxes to the Swedish Tax Agency (Skatteverket). This is reported in an employer’s declaration, known as a tax form. Starting in January 2019, new rules apply for the employer’s declaration. The change means that an employer should report the payments and tax deductions made per employee per month. This is called an employer’s declaration at the individual level.

Almost all of Sweden is digital, which includes tax filing. Skatteverket provides e-services for both the employer and employee to report and pay taxes online.

**Table 1—2019 National Holidays**

<table>
<thead>
<tr>
<th>Date</th>
<th>Holiday</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 January</td>
<td>New Year’s Day</td>
</tr>
<tr>
<td>6 January</td>
<td>Epiphany</td>
</tr>
<tr>
<td>19 April</td>
<td>Good Friday</td>
</tr>
<tr>
<td>21 April</td>
<td>Easter Sunday</td>
</tr>
<tr>
<td>22 April</td>
<td>Easter Monday</td>
</tr>
<tr>
<td>1 May</td>
<td>May Day</td>
</tr>
<tr>
<td>30 May</td>
<td>Ascension Day</td>
</tr>
<tr>
<td>6 June</td>
<td>National Day</td>
</tr>
<tr>
<td>9 June</td>
<td>Whit Sunday</td>
</tr>
<tr>
<td>22 June</td>
<td>Midsummer Day</td>
</tr>
<tr>
<td>2 November</td>
<td>All Saints Day</td>
</tr>
<tr>
<td>25 December</td>
<td>Christmas Day</td>
</tr>
<tr>
<td>26 December</td>
<td>Second Day of Christmas</td>
</tr>
</tbody>
</table>

**Income Taxes**
The Swedish word for tax is *skatt*, which means treasure.

Swedish residents are subject to tax on their worldwide income and capital gains. Taxable income includes all remuneration received from employers, whether in cash or in kind, such as free food, free accommodation, company cars, etc. Pensions, unemployment benefits, etc., are also included in the taxable income.

A deduction is allowed for certain costs from the income, e.g., travel costs between work and home up to a maximum amount set annually. A foreign national will be liable for tax if he or she is regarded as a resident in Sweden. A resident is someone who has an essential connection to Sweden, is present in Sweden for a period of more than 183 days, or has a principal home in Sweden during the tax year.

The tax deduction is a preliminary income tax that employers pay to the tax agency for their employees.

Employers usually report and pay employer fees (employer’s contribution) and tax deductions no later than the 12th of the month after payroll.

There is no specific fringe benefits tax.

**Income Tax Rates**
The personal income tax rate in Sweden stands at 61.85%. Personal income tax rate in Sweden averaged 56.78% from 1995 until 2018, reaching an all-time high of 61.85% in 2017 and a record low of 51.50% in 2000. Individuals pay both national income tax and municipal income tax.
In 2019, taxable income of less than SEK 468,700 is subject to municipal income tax only. The municipal income tax is imposed at a flat rate that varies from region to region (32.12% is average, 29.98% in Stockholm). In addition, a church rate of about 1% has to be withheld; for an individual who is not a member of a church the rate is lower. For taxable income exceeding SEK 468,700, there is also a national income tax calculated at a rate of 20% on income up to SEK 675,700.

On taxable income exceeding SEK 675,700, the rate is 25%. Taxable income is reduced by a tax allowance of between SEK 13,400 and SEK 35,100 depending on the income. Individuals over 65 years of age are entitled to a higher tax allowance. See Table 2 for all personal income tax rates.

Non-residents are subject to tax only on income from sources in Sweden. Employment income is taxed at a flat rate of 25%.

### Social Insurance Programs

The Ministry of Health and Social Affairs within the Ministry in the Government Offices is responsible for issues concerning the welfare of society. Social insurance is administered by the Swedish Social Insurance Agency (Forsakringsskassan) and the Swedish Pensions Agency (Pensionsmyndigheten).

The social security rate is 38.42%, with a 31.42% rate for the company portion and 7% for the employee (see Table 3).

### Time Off

#### Paternity leave

Swedish parents are offered 480 days of paid parental leave, and each parent has an exclusive right to 90 of those days.

#### Annual leave (vacation)

Swedish workers have at least 25 days (five weeks) of annual holiday (vacation) to use. Most take time off during the month of July.

#### Maternity leave/child care

Sweden offers 480 days of subsidized leave per child, which parents can share, with 390 of those days paid at about 80% of their salary—paid by the taxpayer. At least three months of that leave is allocated to each parent on a “use it or lose it” basis, and parents have until the child turns 8 years old before the leave hours are “lost.”

### Work Environment

The Swedish Agency for Work Environment Expertise (SAWEE) is mandated by the government to serve as the national work environment knowledge center.

SAWEE will gather and disseminate knowledge about safety and health at work. It also monitors and analyzes developments in occupational safety and health along with central government occupational safety and health initiatives.

SAWEE is involved in the development of occupational health services and workplace safety and health in the EU and internationally.
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Meet Nadia Camarena, CPP, Senior Global Payroll Manager at Netflix

By Frank J. Mendelson

Editor’s Note: Nadia Camarena, CPP, is a Senior Global Payroll Manager for Netflix, Inc., who has 25 years of experience. From a humble start at the age of 15 in bookkeeping, her career encompasses many different industries that include small business, automotive software, and the tech world. Her current responsibilities at Netflix include managing payroll in EMEA, LATAM, APAC, and North America. She continues to build and lead a strong global team to ensure an efficient and effective payroll infrastructure, allowing the opportunity to process payroll in as many countries/regions as possible.

How is the role of the payroll professional changing?
The roles and responsibilities of a global payroll professional are in transformation. We are required to work with internal multiple teams and understand the impact of an international payroll across the organization. I’ve learned that success is directly correlated to effective communication. It’s important to loop in all key stakeholders when making decisions to ensure alignment. For example, I work closely with our talent, employee services, legal, tax, accounting, global mobility, stock, and financial planning and analysis teams.

What are the chronic challenges for companies that have moved or are moving into global expansion?
The answer is complex. There are five major challenges:

1. Maintaining compliance—Every country in which you do business has its own rules and regulations to monitor for compliance.
2. Selecting a global payroll provider—Weighing the pros and cons of selecting a global payroll provider vs. local payroll providers and finding a vendor that understands your company’s culture and vision.
3. Reporting global payroll data—Gathering data together in a timely fashion from multiple payroll vendors worldwide takes time. More often than not, this is a manual process, which means the data is error-prone and requires a lot of formatting and manipulation.
4. Understanding costs and resources—Global expansion is expensive and can be difficult to implement in the beginning. The key is finding the right talent and partner to support your company’s initiatives.
5. Ensuring security—Having less control and outsourcing employee personal information can be unsettling. It’s important to set clear expectations with your global payroll provider early in the relationship.

What resources do you use to stay current on the latest trends and legislation in payroll?
Global resources are important. I rely upon the American Payroll Association (APA) and my local payroll chapter,
the Silicon Valley Chapter of the APA. I also monitor various webpages for information (i.e., the Global Payroll Management Institute (GPMI)) and read publications, such as Global Payroll. Additionally, I read the newsletters from my current local payroll providers and subscribe to blogs/emails from the “Big 4” accounting firms.

What are the biggest challenges for payroll teams, and what is emerging to address these challenges?
The global payroll lifestyle presents a unique management challenge. This includes working across multiple time zones and devoting the time to appreciate the cultures of the countries in which we are involved. We must also deal with different currencies and valuations. As noted above, we must coordinate with multiple payroll providers and stay up to date on compliance and regulatory legislation, and, of course, review and manage numerous local contracts.

What strategic advice would you give to a company moving from a domestic to a global payroll?
Planning is essential. Research and do your homework. Talk to as many payroll professionals as you can who have successfully done this before. I suggest that before selecting a vendor, ask for references and take the time to contact them to find out the “good, bad, and ugly.” Further, ensure all internal key stakeholders are aligned by having periodic check-ins. Also, manage the move with a project plan to clearly identify the roles and responsibilities of all participants.

What are some of the considerations a company should ask to determine if there is good fit with a prospective vendor?
There are a number of ways we approach vendor review. We ask for and leverage references from their current clients. We’ll review the length of the proposed contract and clarify the exit clause. Our team will assess whether the vendor’s vision and culture align with my company’s vision. We’ll assess whether they have the right products and technology to move us into the future, are scalable with global growth of our company, and provide 24/7 support.

Why and how did you become involved in payroll?
I always wanted to work with numbers in some capacity as an accountant. I took my first payroll accounting class in high school. I learned payroll gross-to-net calculations via a “pegboard” that had multiple carbon copies. I was fortunate enough to start my part-time working career as a payroll data entry specialist for a small bookkeeping firm while still in high school.

What are some pieces of learned wisdom from your on-the-job experience in regard to being effective and efficient?
There are three aspects of business management that I think are important:
1. Prioritization and time management are essential to your success.
2. Don’t be afraid to ask questions and get help in areas where you need to strengthen.
3. Learn from your mistakes; take time to debrief to assess what went well and what didn’t.

What kinds of skills, training, and education would be most useful for someone moving into a managerial role in payroll?
All of these are success factors:
• Problem-solving skills
• Team-building skills
• Communication skills
• Curiosity about the business outside of payroll
• Paying attention to detail

Success is directly correlated to effective communication. It’s important to loop in all key stakeholders when making decisions to ensure alignment.
Global Payroll

2019

• Analytical and strategic thinking skills
• Advanced presentation, Word, and Excel knowledge
• Time management skills
• Delegation skills
• Accounting knowledge

**What were some of your early career lessons?**
I learned that when an issue arises, stand back and look at the big picture. Consider the future of the organization and develop a long-term solution/strategy that matches the company’s vision.

**What career and life advice do you give to a new employee in payroll?**
I advise our new hires to ask a lot of questions. They need to take the initiative to stay on top of current payroll tax laws and legislation; understand the “why” behind current processes and procedures before proposing a change; and identify manual tasks and look for ways to streamline and automate.

**What are the most important qualities of effective leadership?**
There are five qualities I’d highlight that are components of effective leadership:

1. **Integrity**—As a leader, it’s important to be true to yourself and do the right thing. The key to building relationships is having trust and living by your values.

2. **Passion**—The energy a leader displays can have a significant impact on others. The leader must believe, inspire, and care about the task at hand.

3. **Courage**—Be bold and speak your mind even if you disagree with the topic being discussed. Give timely feedback to co-workers and be receptive to negative feedback.

4. **Communication**—Leaders must be clear and concise at all times. Set goals and have a vision of what needs to be accomplished.

5. **Innovation**—Creative thinking and constant innovation are essential to the fast-paced world we live in. Think outside the box and don’t be afraid to try new things even if you have failed in the past.

**What is your management and leadership approach today?**
My management style is very much built on trust. I have a hands-on approach for training new members or processes to ensure success. I also am able to step back to oversee the process as a whole vs. the granular level. I have created a space for open dialogue with my direct reports and allow them to manage their professional path. I’m always available to provide guidance and roll up my sleeves to assist in any way possible. I’m passionate about personal development and continuing education.

**How do you hire?**
I’ve had a lot of success and some great hires who were already part of my payroll network or referred to me from a trusted colleague.

**How do you balance work and pleasure?**
Having been with Netflix for 9½ years, its corporate culture allows me to have a flexible schedule. My boys, Nikko (12) and Noah (7), play baseball and basketball. While attending their games and practices, I’ve learned it’s important to live in the moment and turn off work.

**What books are on your recommended reading list?**
Two books I’d recommend right now are: *So You Want to Talk About Race* by Ijeoma Olou, and *Lean In: Women, Work, and the Will to Lead* by Sheryl Sandberg.

**Can you share some stress management techniques you have found useful?**
I include a workout before going in to work. Travel is broadening and enlightening. And most importantly … retail therapy!
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Managing Employee Leave and Working Time

BY SUZIE WOODCOCK

Every country has its own laws outlining the types and amounts of paid time off employers must provide their workers. Leave types include (but aren't limited to) vacation, sick, and family, and all are at least partly intended to ensure employees can balance their professional and personal lives.

One notable trend in recent years that relates to paid leave is the dramatic rise in workplace flexibility, including both when and where workers are allowed to perform their duties. In the U.K., employees who have worked for the same employer for 26 weeks or longer have the legal right to formally apply for flexible working.

The U.K. defines flexible working as “a way of working that suits an employee's needs, e.g., having flexible start and finish times, or working from home.” Significantly, the law applies to all employees, not just parents and other caregivers, and employers must address each request in a defined reasonable manner.

In 2017, Singapore introduced the Tripartite Standard on Flexible Work Arrangements, a voluntary program intended to help local businesses meet the demands of a global workforce that wants more flexibility. Just a month after the program's introduction, more than 250 organizations employing 210,000 people had agreed to use the standard.

Given changing laws, official programs and employer policies, and practices that promote workplace flexibility, it’s easy to forget that it was not a primary factor in employee engagement just a decade ago. Workplace flexibility is now widely considered one of the top four engagement drivers.


Welcome New Global Editorial Advisory Board

BY KIKO MARTINEZ

Following its mission to provide the education, skills, and resources necessary for global payroll professionals to become successful leaders and strategic partners within their organizations, the Global Payroll Management Institute (GPMI) has formed a Global Editorial Advisory Board to help write, edit, identify content, and strategize ideas for its monthly Global Payroll e-magazine.

The Global Editorial Advisory Board is GPMI's first committee and will set the standard for future GPMI committees. The idea is for this board to operate similarly to the American Payroll Association's (APA) Board of Contributing Writers and eventually achieve the same degree of success.

“The new Board will assist GPMI in building a strong team of writers who are all global payroll practitioners,” said Christine Avery, GPMI Editorial Director. “This team will then be a huge asset in providing a consistent stream of quality content for our international readers.”

Global Editorial Advisory Board members will write at least one article a year for the online publication, participate in editorial strategy meetings, and review articles for factual accuracy.

For more information on how to join the Board, email us at editorial@GPMInstitute.com.

Current members of the Global Editorial Advisory Board are:

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Kiko Martinez is Associate Editor of Publications for GPMI.
Meet Jay Conforti, Director of HR Transformation at KPMG

BY JAY CONFORTI, WITH FRANK J. MENDELSON

Editor’s Note: Jay Conforti is a Director in KPMG’s Chicago office who has more than 15 years of experience in HR and payroll. Currently, he is helping organizations transform global HR and payroll operations through target operating model strategy, operations efficiency, organizational design, technology, and outsourcing. Conforti led three of the largest global HR/payroll shared services transformations performed over the past five years. Prior to joining KPMG, he was a Senior Manager supporting global HR and payroll service delivery operational teams both onshore and offshore for a financial services company along with having prior experience in the HR outsourcing business area at a global consulting organization.

1. What is the changing role of the payroll professional in regard to greater interaction with HR, data analysis, managerial, and strategic planning?

The role of a payroll professional continues to evolve over time. It is moving away from an exclusive focus on data entry. Now, a payroll professional has become a strategic partner working with various parts of an organization’s business (i.e., finance, HR, IT). Also, the role of a payroll professional is requiring additional skill sets outside of solely processing payroll (i.e., specific technology experience, global experience, reasonable analytical thinking along with sometimes having worked with external outsourced payroll providers).

2. What emerging trends in global payroll are demanding your attention?

Trends I’m currently seeing in the global payroll market include the pressure building for global—or at least regional—solutions. Global HR and finance deployments are driving global payroll solutions to minimize interfaces. I see that compliance risk continues to grow, thus increasing the need for more specialized expertise. The rise of global shared services organizations is driving standardization, but enterprise resource planning (ERP) vendors have yet to deliver on global HR/payroll systems due to cost. Single-sourced service providers do not have depth and scale across all geographies today. We are filling gaps with hybrid/aggregator models and using cloud technology to facilitate integration.

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

Not specifically, but clients continue to ask, “Is it fact or fiction that a global payroll strategy exists and, if fact, is it really needed in my organization?”

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

I rely upon the American Payroll Association (APA), the Global Payroll Management Institute (GPMI), the Society of Human Resource Management (SHRM), and the World at Work (WAW) for ongoing education and self-study.
for Human Resource Management (SHRM), and my continual interaction with various external payroll providers.

5. **How can a payroll department provide support on a strategic level to corporate finance, HR, and other departments?**

   It provides support by continuing to partner with all of these areas and to communicate how these areas have both “upstream” and “downstream” impacts that can impact how the organization’s payroll is executed, both timely and accurately.

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

   The challenges payroll teams face include having only domestic payroll experience, understanding the “upstream” and “downstream” impacts that can effect payroll processing as a result of interactions with groups like finance, HR, IT, etc., succession planning, and handling additional transactional types of work outside of payroll (i.e., compensation, mobility, HR data management).

7. **What advice would you give for a company moving from a domestic to a global payroll?**

   Prior to moving from a domestic to a global payroll, the organization should look at its overall strategy. A large component of that strategy would be to understand scalability, what type of service delivery model will be used to deliver the work (i.e., shared services, locally, Center of Excellence, outsourced), and if the organization plans to expand its footprint there in the future. Also, as part of the strategy, it’s important to look at what work gets done, who does the work, where the work will be done, and ultimately how.

8. **What are the emerging trends in data management and data security?**

   In data security, we are seeing a focus on the following six areas:
   1. Data sensitivity
   2. Authorized super users
   3. Transmission protocols
   4. User ID and password management

5. **Security role definitions and assignments**
6. **Global data privacy changes in the European Union**

   In data retention, the focus is on strategy and historical data.

9. **What emerging trends do you see in meeting the payroll needs and compliance in payroll management for mobile employees?**

   In this area, employees are being able to tailor their own personal stream of external and internal content, news, updates, and push notifications based on their unique needs and preferences, available across all devices.

   Employees are becoming able to quickly, effectively, and securely communicate with customers, colleagues, teams, and groups. Think of it like a secure WhatsApp—a simple and powerful search experience enables accurate access to policies, procedures, people, and points of view. This means being able to continuously refine the information and delivery through analytics and social feedback and providing up-to-date employee payroll information.

10. **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?**

    Really taking the time to roll up your sleeves and understand how processes work within the organization from an end-to-end perspective. This then enables you to have meaningful dialogue and conversations with other groups outside of payroll to educate individuals on the upstream and downstream impacts that come from other areas that directly impact payroll processing.

11. **What are the most important qualities of effective leadership? What is your management and leadership approach today?**

    I am a very hands-on type of manager but also empower my team to be critical and decision-makers too. I also promote an open-door policy with everyone and really take the time to not only listen to folks, but also get to know them as individuals. I also strive to push folks to do their best while also providing them opportunities to grow within their roles while also planning for the future with an eye toward succession planning.
The Complexity of Global Payroll—Part I
Risks and Keys to Staying Compliant

BY MATTHEW R. BUSANIC, CPP

Multinational organizations are facing critical challenges in managing rapid payroll legislative changes as well as increased expansion into new geographies. This storm of operational disruption and new regulations creates an ever-evolving wave of new requirements and process adjustments. Simultaneously, the pressure to maintain accurate payroll processing, tax withholding, and statutory reporting requirements in countries throughout the world is growing.

Recall when Brazil announced its move to eSocial, or when France transitioned to Déclaration Sociale Nominative; were you ready? Organizations whose payroll functions do not remain compliant could be at risk of incorrect payrolls and dissatisfied employees. In Part I of this article, a typical real-life scenario and some of the most complex global payroll practices are discussed.

A Scenario: How the Story Unfolds
Imagine a scenario that is becoming more common these days, in which payroll professionals are faced with compliance changes more often than in past years. You are a veteran payroll practitioner. The Chief Financial Officer and the VP of HR call a meeting to explain that an expansion is about to take place. Your involvement is needed to support payroll efforts in 10 new countries for the company's sales and operations units. The company has never done business in these 10 countries before, and some of them have very complex labor laws and rapidly changing regulations.

This type of scenario happens all too frequently. Even if you consider your company too small (or too large) globally to focus on payroll tax compliance efficiency, your business should be ready for a tax agency audit or a findings review by the country's social insurance agency. The by-product and perhaps of greater concern are:

1. Getting up to speed with the new country regulations
2. Determining how to get the payroll operations and process up and running

3. Doing it in a compliant nature, both accurately and on time
   How do you prepare for this type of disruption?
   Your company's bottom line and, more importantly, its brand, could be at risk if you do not maintain a compliant multinational payroll operating model. There are five keys to help organizations address challenges that arise in payroll compliance, which will be discussed in Part II of this article in the next issue.

Global Payroll Complexity Varies by Country
Merger and acquisition activities tend to highlight weaknesses in global payroll practices. For instance, what if the group your organization just acquired in Brazil still uses manual time sheets? What type of transitional preparation and training are required? How complex can Brazil's payroll process be?

The answer to the last question is very complex. The 2017 Global Payroll Complexity Index by NGA Human Resources lists the most and least complex countries in terms of payroll (see Table 1). The complexity is based on five categories: payroll data, parameters, calculation, government reporting, and geography.

Some of the most complex countries and associated payroll landscapes include:

- **France's complex system and implementation of Déclaration Sociale Nominative (DSN)**—Effective early 2017, France implemented DSN, in which all employers and payroll providers are required to go through an automated system for social contributions. DSN replaced a manual process that had been used for many years. The intention was to make it easier and safer to comply with social welfare reporting since employers had to report payroll data to dozens of agencies using separate forms. DSN should make compliance more streamlined, which is critical as France tends to have some of the steepest fees for noncompliance related to employment law.
• **Italy’s complex system**—Italy is renowned for its insistence on communication for every aspect of payroll to multiple agencies that do not share the data or formats to report. The payroll administrator has to be in contact with the tax department, *Instituto Nazionale Previdenza Sociale*, and statutory pension/health funds even if an employee just changes his or her address. Any type of contract must be reported to the government, and payroll has to deal with multiple divisions of social security. In other words, the reason Italy is so complex lies in the fact that the regulatory changes and interpretation come from multiple agencies that do not share data or a common communication platform to convey that information to companies.

• **Japan’s complex system and implementation of My Number**—Japan’s complex pay slip contains more than 70 categories. This ranks Japan as one of the world’s most complex payroll regions. Japan implemented a mandate that unified and streamlined government agency processes in social security, taxation, and disaster relief. The underlying goal was to prevent criminal activity through tax crimes. All HR information systems (HRIS) had to be updated for calculation and policy changes. In addition, the Japanese language is one that is not shared across other Pacific region countries, making it that much more complex when it comes to payroll service delivery in general.

• **Brazil’s complex system and implementation of eSocial**—Brazil’s is the world’s seventh-largest economy. Its complex payroll is due in part to ever changing laws and regulations as well as an increase in labor unions. About 922 legal changes happen every year in Brazil, with about 60% of them affecting payroll. Newly deployed system eSocial was intended to streamline payroll processing. ADP’s explanation of eSocial states that it “digitalizes the process of submitting labor and payroll events and sends all information to a single government database.”

**Noncompliant Global Payroll’s Consequences**

There are potentially significant financial, security, and morale consequences to being noncompliant with local labor and payroll regulations. A company could be severely affected by fines and penalties resulting from a noncompliant payroll. Country-specific examples of mistakes that trigger fines and penalties include:

• **Australia**—Misclassifying workers as independent contractors when they qualify as employees; penalty: fine up to AUD250,000

• **Brazil**—Being found guilty of worker discrimination; penalty: fine of 10 times the employee’s salary

• **Germany**—Failure to provide an accurate hand-signed reference, or *Abeitszeugnis*; penalty: legal action by employee

• **Hong Kong**—Failure to enroll employees in Mandatory Provident Fund (MPF) scheme; penalty: HKD350,000 fine and three years’ imprisonment

• **Mexico**—Failure to provide skills and competency training plan for staff; penalty: fine of 5,000 times minimum salary

• **Nigeria**—Failure to remit employees’ pension contribution within two weeks of payroll; penalty: fine of 3% of pension contribution

Examples of noncompliance fines and penalties that have transpired for companies in the United States include:

• **Family and Medical Leave Act (FMLA) notification**—Not notifying employees of their leave rights could result in lawsuits with the average cost to defend totaling $78,000. This amount is just the average cost to defend, not the cost of fines and penalties that may be assessed.

• **Affordable Care Act (ACA) filings**—A single filing error can trigger fees up to $500 for each employee

• **COBRA compliance**—If noncompliant, penalties of $110 per day per beneficiary can be incurred by the company. COBRA provides continuation of group health coverage that otherwise might be terminated.

• **Americans with Disabilities Act (ADA) accommodations**—First-time violators’ maximum penalty is $75,000.

**Table 1—Top 10 Most-Complex Countries**

<table>
<thead>
<tr>
<th>1. France</th>
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<tr>
<td>2. Italy</td>
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<td>3. Belgium</td>
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<td>4. Bosnia and Herzegovina</td>
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<td>5. Singapore</td>
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<td>6. Japan</td>
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<td>7. Denmark</td>
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<td>8. Netherlands</td>
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<tr>
<td>9. Spain</td>
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<td>10. Brazil</td>
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Source—NGA HR Annual Report

Read Part II of this article in the June 2018 *Global Payroll* issue.
What to Know About Payroll in Spain

BY DEE BYRD, CPP, PHR, SHRM-CP

Spain is located on the Iberian Peninsula and includes two archipelagoes: the Canary Islands and the Balearic Islands. With more than 195,000 square miles of land, Spain is the largest country in Southern Europe and the second largest in the European Union (EU).

The country is home to more than 49 million people and has multiple co-official languages along with Castilian Spanish in recognition of its diverse communities, including Catalan, Galician, Basque, and Occitan.

The culture of Spain is based on a variety of European-based cultures of historical influence, primarily based on pre-Roman Celtic and Iberian culture.

Spain is a member of multiple global organizations including the United Nations, the EU, the Council of Europe, and NATO and is a de factor member of the G20 summits.

The Euro is the official currency of Spain. The Euro was launched in two stages. First, in January 1999, to become the new official currency of 11 EU Member States, replacing the old national currencies—such as the Italian Lira. It was introduced in the virtual form for bank transactions.

The tax year in Spain follows the calendar year. The tax collection method depends on the tax; some of them are collected by self-assessment, but others (i.e., income tax) follow a system of pay-as-you-earn tax with monthly withholdings that follow a self-assessment at the end of the term.

### Labor Standard Act or Employment Act

The organization of working time (maximum weekly or daily working hours, rest time during the working day, annual holidays, public holidays, paid leave, and overtime) is regulated by law (Statute of Workers’ Rights); the working day is regulated by agreement between workers’ and employers’ organizations or in contracts. The Ministry of Employment and Social Security manages labor issues.

Employment is highly regulated in Spain, and labor inspections do occur. It can be very expensive for you to fire an employee in Spain if you haven’t followed the proper procedures.

### Working Hours

The normal working hours must average 40 hours per week maximum of actual work, calculated on an annual basis.

The actual number of normal working hours may never exceed nine per day unless a collective agreement or an agreement between the company and workers’ representatives establishes a different distribution of...
daily working time, which must, in any event, respect the rest time between working days.

Employees under 18 years of age may not do more than eight hours of actual work per day, including hours allotted to training, where applicable, and the hours worked for different employers if they work for more than one employer.

Working hours may be distributed irregularly throughout the year under the terms of a collective agreement or an agreement between the company and the workers' representatives provided the minimum periods of daily and weekly rest are respected.

National Holidays

National holidays are set on an annual basis. There are 10 per year, two of which will be local holidays. New Year’s Day, 1 May (Labour Day), and 12 October (Spanish National Day) will be observed as national holidays (see Table 1). Any national holidays falling on a Sunday will be transferred to the Monday immediately following.

Each municipality has a total of 13 public holidays per year—up to nine are chosen by the government, and at least two are chosen locally.

Holidays may be agreed upon individually or collectively and may not be fewer than 30 calendar days. Holidays cannot be replaced by financial compensation. When workers with casual or temporary contracts cannot take the legal minimum holidays because they do not work for the company during holiday periods, they will receive a pro-rata payment for the holidays with their wages.

The holiday schedule is fixed in each company. Workers will be aware of the relevant holiday dates at least two months prior to their commencement, and if there is disagreement they may present a claim to the employment tribunal.

Table 1—2019 Spanish National Public Holidays

<table>
<thead>
<tr>
<th>Date</th>
<th>Holiday</th>
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<tbody>
<tr>
<td>1 January</td>
<td>New Year’s Day</td>
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<tr>
<td>6 January</td>
<td>Epiphany</td>
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<tr>
<td>19 April</td>
<td>Good Friday</td>
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<tr>
<td>1 May</td>
<td>Labour Day</td>
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<tr>
<td>15 August</td>
<td>Assumption Day</td>
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<tr>
<td>12 October</td>
<td>Hispanic Day</td>
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<tr>
<td>1 November</td>
<td>All Saint’s Day</td>
</tr>
<tr>
<td>6 December</td>
<td>Constitution Day</td>
</tr>
<tr>
<td>8 December</td>
<td>Immaculate Conception Day</td>
</tr>
<tr>
<td>25 December</td>
<td>Christmas Day</td>
</tr>
</tbody>
</table>

Annual Leave (Vacation)

Paid leave is subject to notice and subsequent justification to the company. Workers may take paid time off for some of the reasons listed below with the number of days allowed:

- Birth of child or death, accident, or serious illness or hospitalization of relations, two calendar days or four if required to travel.
- Moving to a new house, one day.
- Women are entitled to one hour off work each day for breastfeeding a child under 9 months of age, or half an hour if taken at the start or the end of the day. This time off may be taken by either the mother or the father if they both work.
- Meeting public and private obligations (jury service, appearance in court, etc.), if necessary.
- Performing trade union or workers’ representative activities: as established by law or collective agreement.

In every case, the worker must inform the employer in advance and justify his or her absence to be able to enjoy the right to take time off work.

For the purposes of labor law, the performance of jury duties is treated as an unavoidable public and personal duty.

Minimum Wage

Spanish Prime Minister Pedro Sánchez, with the backing of Podemos leader Pablo Iglesias, has agreed to increase the current minimum wage by around 22% in the 2019 budget.

The increase will be the biggest in 40 years and will mean that the net monthly minimum wage will rise from the current amount of €733 per month to around €900 per month.
Overtime Pay

Overtime is hours of work carried out over and above the maximum number of normal working hours. Workers may work a maximum of 80 hours of overtime per year, which does not include overtime compensated with rest time, or work carried out to prevent or repair extraordinary and urgent damage. The latter is obligatory for the worker and must be paid as overtime.

Overtime at night is prohibited, except in duly-specified and expressly authorized special activities. It is also prohibited for people under 18 years of age.

Overtime may be remunerated or compensated for with equivalent paid rest time.

If the worker works for fewer hours per year than the general company working hours, the restriction on hours is reduced proportionally.

Employee Work Contracts

There are different types of work contracts for employees working in Spain:

1. **Indefinite contracts.** This includes the normal indefinite contract as well as several types of indefinite contracts with government incentives.

   The main characteristics of the normal indefinite contract are:
   - In the absence of any other formalized contract type, the contract is presumed to be normal indefinite.
   - Severance pay for improper dismissal is a maximum of 45 days of salary for every year worked, up to a maximum of 42 months of equivalent salary.
   - There are no social security subsidies or any other financial incentives.

   The main characteristics of an **indefinite contract with incentives** are:
   - Severance pay for improper dismissal is 33 days of salary for each year worked with a maximum of 24 months of equivalent salary.
   - Subsidies of up to 75% from the employer’s social security contribution.
   - Tax benefits.

   An indefinite contract with incentives may be used when hiring:
   - Workers over age 45 who have been unemployed for at least one year.
   - Women unemployed for more than a year who have been hired for work in sectors where women have been traditionally under-represented.
   - Workers between ages 30 and 44 who have been unemployed for more than a year.
   - Unemployed workers under 30 years of age.
   - Workers with disabilities.

2. **Temporary work contracts.** These types of contracts include:
   - Contract for a specific project or service, arranged for performing work or providing a service which is temporary but of uncertain duration.
   - Casual contract due to production overload or backlog. The maximum duration of this type of contract is six months in any twelve-month period.
   - Contract to sit in for employees entitled to return to their job. The duration of this contract is the period during which the absent employee retains the right to return to his or her job.
• Work experience contract. This contract can be arranged with university or junior college graduates or persons with vocational qualifications or recognized equivalent qualifications, provided that not more than four years have elapsed since they completed the related training. The duration is from six months to two years.

• Trainee contract. This type of contract can be arranged with workers aged 16 to 21 who do not have the necessary qualifications to obtain a “work experience contract.” The duration of this contract ranges from six months to two years, although it may be extended to three years by a collective labor agreement. Transitory employment needs may be met through workers provided by temporary work agencies.

Income Tax Filing
Residents
There has been no change to income tax withholding in Spain for two years (see Table 2). With the election of a new government for 2019 led by the Socialist Party, we should expect to see some change in this area.

Spanish resident employers and permanent establishments in Spain of nonresidents are obliged to make withholdings of taxable income paid to their employees. The withholdings are made in accordance with a previous estimation of the final tax due. If the employees work for a Spanish-related company or permanent establishment in Spain of the nonresident company, the withholdings must be made by the Spanish entity or permanent establishment for which the employee works.

The withholdings on employment income are calculated according to a progressive scale based on the amount of taxable income that is expected to be paid during the tax year (both cash and in-kind remuneration must be considered) and the family status of the employee. If said circumstances were modified during the tax year, a new calculation must be made.

These withholdings are paid to the Spanish tax authorities on a monthly or quarterly basis and will be deducted from the employee’s final tax due. If the total amount of withholdings exceed the tax due, the tax authorities will have to refund the difference. After deducting withholdings, the tax due is paid on the filing of the tax return. However, the resident taxpayer can choose to pay 60% of the tax due when the return is filed and the remaining balance in November. Withholding obligations in the case of nonresident entities must be checked on a case-by-case basis. Those individuals engaged in independent or business activities must make certain prepayments of the final tax throughout the year.

Nonresidents
In general, nonresident taxpayers are taxed at a flat rate on income obtained in a Spanish territory or which arises from Spanish sources.

In addition to income tax, there is a social security tax that must also be paid by employees and employers (see Table 3).

Payment Due Dates
Depending on the tax and the liable taxpayer, periodic self-assessments must be filed:
• Quarterly—For individual business people taxed under the objective evaluation or direct evaluation method, professionals, and for companies and entities that are not legal persons.
• Monthly—For sole traders, professionals, companies, and non-legal entities with a turnover greater than €6,010,121.04 in 2017 (large businesses) and for VAT taxpayers required to keep record books on the Tax Agency E-Office and Public Administrations, including the Social Security.

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<thead>
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<tr>
<td>€ 12,450.00</td>
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<td>€ 20,200.00</td>
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<td>€ 35,200.00</td>
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<td>€ 60,000.00</td>
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<tr>
<th>Table 3—2018 Social Security Contributions</th>
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<tr>
<td>Reason for contribution</td>
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<tr>
<td>---</td>
</tr>
<tr>
<td>Standard</td>
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<tr>
<td>Unemployment</td>
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<tr>
<td>Other</td>
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<tr>
<td>Total</td>
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