Sometimes, the best talent doesn't live in the same country where your company is based. Or, it might be that your business is looking to expand internationally and wants to hire people who live abroad. Once you've found the right employees for your company, the next step is to figure out how to pay them. Paying employees based in different countries can be challenging. After. all, your company can't simply send them a check or directly deposit the money into their bank accounts. As with your domestic team members, you need to make sure you're following the rules when it comes to classification, tax withholding and other details.

Fortunately, figuring out how to pay international employees isn't something your business needs to do on its own. You can work with an Employer of Record (EOR) to hire and onboard team members abroad. An EOR eases the burden on your accounting departments and helps you avoid any potential international payroll issues.

How International Payroll Works

International payroll has many things in common with the payroll in your company's home country. You need to be sure that your method of paying your team members complies with the laws of the country and that you're withholding and paying the appropriate amounts of tax. Tax considerations when paying international employees include:

- Income tax: Your business will need to withhold the appropriate amount of federal income tax from employees' paychecks, based on where they work, and any applicable regional, local or state income tax.
- Social Security: Many countries, not just the U.S., collect some form of social security tax from employees and employers. The amount of your company's contribution can vary from country to country, as can the amount of the employee contribution.
- Payroll tax: In many countries, an employer needs to contribute to a payroll tax, such as unemployment tax and workers' compensation, for each employee. The amount of the tax can vary considerably. It's also worth pointing out that in some places, payroll tax might be regional or local tax as well as a federal tax.

When paying international employees, a business needs to make sure it's withholding and paying the appropriate types of tax and the right amount of taxes. It also needs to make sure it is paying taxes by the right deadline. For example, in the U.S., tax returns are due April 15 and estimated tax payments are due by the 15th day of April, June, September, and January. In the UK, tax returns are due one year after the end of the accounting period. In France, tax returns are due in April for fiscal years that end in December. In Germany, returns are due on July 31.

In addition to tax compliance, international payroll needs to follow any rules for benefits and wages in a country. Your company might need to contribute to the pension plan of employees in some parts of the world. It also needs to follow minimum wage rules in each country where it hires people. In some countries, it's also customary to pay employees a 13th- or 14th-month salary, which is often tax-exempt and distributed at the end of the year.

Certain areas also have rules about how many hours an employee can work in a week. For example, in the European Union, employees can't work more than 48 hours during a seven-day period. Employees must also have 11 hours of rest during every 24 hour period, meaning they can't work more than 13 hours in a single day. Employees in the EU also get four weeks of paid annual leave each year.

Tax and wage compliance aside, international payroll has many things in common with domestic payroll. Your company will decide how frequently employees get paid, such as once monthly, bi-weekly, on the 15th and 30th of the month, and so on. You'll also decide how to distribute money to your remote employees, such as through direct deposit or via paper checks.

Challenges of Paying Remote International Employees

Before you expand internationally or begin hiring workers in other countries, it’s important to understand the challenges associated with paying your remote team. If your company breaks the rules of a particular country, it can find itself having to pay fees and fines.

Keeping the rules and expectations of certain countries straight can require a fair amount of effort on the part of your company’s accounting and human resources departments. It can be helpful to look at the most common issues that come up when paying a remote team to understand what to pay attention to and what can be at stake.


Challenges of Paying Remote International Employees
Tax Issues
Local Customs
Legal Concerns
Accurate Timekeeping
Currency Differences
GLOBALIZATION PARTNERS

- Tax Issues
- Local Customs
- Legal Concerns
- Accurate Timekeeping
- Currency Differences

Tax Issues

An employer must withhold the appropriate taxes from a foreign employee's paycheck, and the company must pay taxes to the appropriate government by the due date. A company also needs to keep records of taxes paid, as the tax authority in a foreign country may audit the company. That can mean that your business needs to hold on to any tax documents and receipts for years or run the risk of having to pay hefty fines if an audit reveals that you weren't withholding or paying the right amounts of tax.

Local Customs

You can expect to encounter many cultural differences as your business expands internationally. Some cultural differences might be reflected in payroll and might affect how you pay your international employees. For example, a 13th-month paycheck is a common custom in many South American, European and Asian countries. Your international team might start working for your company assuming that they will get that extra payment at the end of the year. But if you're not aware of the custom, you run the risk of disappointing your team.

Legal Concerns

There are also legal differences to keep track of when paying a remote, international team. For example, in the UK, employers need to pay employees £94.25 per week as Statutory Sick Pay if an employee is sick and off of work for at least four days. An employer needs to pay sick pay for up to 28 weeks. In the U.S., an employer can offer paid time off for sickness but isn't legally required to pay employees who are out ill. The Family and Medical Leave Act (FMLA) in the U.S. protects people who need to take time off from work due to sickness or other health concerns, but only for 12 weeks. FMLA leave can be unpaid.

Other legal concerns to keep track of when hiring and paying international employees include the documentation required by each country. In the U.S., for example, employees need to provide proof of citizenship or the right to work in the country, such as a passport, when they are hired. In other countries, an employee might need to present a national insurance number before they are hired.

Accurate Timekeeping

Timekeeping can be a bigger concern when paying international employees compared to paying those who live and work in the U.S. In the U.S., non-exempt employees receive overtime pay once they've worked more than 40 hours in a week, but there's no upper limit on how many hours per week a person over age 16 can work. That's not the case in other countries. In many countries in the EU, for instance, the working week is capped at 48 hours. In China, labor law caps the working week at 44 hours. To avoid going over the limit, it's essential that an international payroll system includes a method to accurately record and report time.

Currency Differences

Employees who live and work in the EU want to be paid in euro, while people living and working in the UK want to be paid in pounds. Paying your international team in the currency of their respective countries is beneficial for them but can be complicated for you. For example, if a foreign currency increases in relation to the dollar, your business can end up paying your international employees considerably more than you initially agreed.

One way to manage the difficulties created by fluctuating currencies is to leave payroll logistics to an EOR. Your company can pay your employees in your local currency, and the EOR can issue paychecks in the currency of the employees' country.

How to Pay International Employees

If your business hires people who live and work in a country other than your home country, the employees will need to be paid based on the laws of the country where they live, with few exceptions. For example, if an employee temporarily moves abroad and continues to work for your company while living in another country, you might be able to continue to pay them from your home country payroll.

Another option is to have your international employees be paid by international clients of your company. For example, if you hire someone in France to provide support to a French client of your business, the person can technically be hired as an employee of the French client. You'll pay their salary by making payments to your client, but the client itself will handle the employee's payroll.

Otherwise, your business will need to have a separate payroll for each country where it operates. You have a few options when setting up payroll. You can set up a subsidiary in the country to manage all the business in that area and to handle payroll. If your company is thinking of permanently expanding internationally, establishing a business in-country can make sense. But if you're only hiring a handful of people in another country or if you're hiring people in several different countries, establishing a subsidiary or branch in those countries can involve more time and effort than you'd like to spend.

A more cost-effective option might be to work with an Employer of Record. For example, an Employer of Record like Globalization Partners handles all of the details of making sure your international team gets paid on time and in compliance with the laws of the country where they live and work. We pay your employees on time and in their local currency, making sure that benefits and required taxes get paid, too.

Should International Employees Be Independent Contractors?

Hiring an independent contractors rather than employees is an option for your company. When you work with independent contractors, your business is not responsible for withholding taxes or for paying social security or unemployment taxes. You also do not need to pay employee benefits for independent contractors, and contractors aren't subject to the same hour restrictions as employees. Additionally, your company doesn't have to be registered in the country the contractor lives in to pay that person for the work they do.

However, independent contractors aren't simply discounted versions of employees. They have a relationship with a business that is distinct from the employee-employer relationship. When you work with independent contractors, you cannot expect that you will be their only source of income or employment. Most countries have pretty strict definitions and rules that need to be met before an individual can be considered an independent contractor rather than an employee.

For example, in the UK, people are considered self-employed contractors if they submit bids or quotes to land a project or find work, and if they don't work under direct supervision. Independent contractors in the UK also submit invoices for the work they perform and the projects they complete. Independent contractors in the UK pay their own tax and National Insurance. If people working for your company do those things, then you can most likely consider them independent contractors. But if you hire people in the UK and dictate the scope of work they do or have them work under a manager or supervisor, they are more accurately described as employees and should be compensated as such.

If your company misclassifies international employees as independent contractors, you are taking on some risks. If the court determines that your business misclassified an employee, you can be responsible for paying that person's taxes, as well as back pay for holiday leave, which is currently 5.6 weeks of paid time per year for most employees in the UK.

Although hiring international workers as independent contractors may make the most sense for your company, if you don't have the necessary guidance to ensure those workers aren't misclassified, your company can end up with a hefty bill and a considerable legal headache. A better option is to classify your team correctly from the start and to work with an EOR to ensure you're remaining complaint to local labor laws while streamlining your international payroll process.

Let Globalization Partners Manage Your International Payroll Needs

If you're looking to expand internationally and are ready to start hiring employees in other countries, Globalization Partners can help. We act as the Employer of Record for your international team, ensuring that country-specific payroll requirements are met and that your employees get paid on time and in the currency of their home country. To learn more about how our solution can help your company as it grows, contact us today.

For more information, download our Complete Guide to Building a Remote Global Team here:

Download eBook

