Ask the Consultant: How Best to Compensate Married Assignees?

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Many international assignments involve a married couple (with or without accompanying children), whose decision to accept the transfer might rest on whether or not the spouse is working. Unmarried assignees do not face the challenges of a dual-career household. The question of whether or not the expatriate is married takes on a whole different perspective when both husband and wife work for the same company and are eligible for an international assignment. What do employers generally do?

For those situations in which both employees are needed to achieve corporate objectives at the same host location, the company's decisions are simpler. When the spouse's job responsibilities are not necessary in the assignment location — but the employer is willing to find a spot in the local office – the company might customize its approach to compensation and make suitable arrangements.

That said, when both employees are recruited to go to the assignment location, one option is to treat both employees as unmarried or one as single and the other as accompanied (with children). A more cost-effective option is the following common approach: Provide separate one-time allowances (e.g., relocation, mobility premium) to each individual employee, but combine on-going allowances (e.g., goods and services, housing, transportation). Employers that wish to follow this general practice might consider the below options in implementing such a pay policy.

HANDLING SPECIFIC PAY ELEMENTS

Potential approaches to assignment-related allowances, premiums and housing norms include calculations based on:

- Only the originally selected expatriate's salary
- The higher of the two salaries
- Combining salaries, then apportioning back to each assignee's pay based on salary contribution (e.g., 50-50, 70-30).

How would the policy change if certain expatriate pay elements have a cap in place – particularly if the resulting dual allowance is lower than what the couple would have received if they were unmarried and going abroad separately? In this situation, the important point to keep in mind is that the capped amount may be appropriate when one considers that it is an allowance for one family unit, not two. This fact is useful for explaining the policy decision to assignees.

DEALING WITH TAX ISSUES

Hypothetical taxation and host-country tax liability complicate the matter. A favored tax approach depends on both home- and host-country income tax rates and filing options. Once determined, the employer can implement the correct approach when calculating each assignee's share of host-country tax liability. Employers generally implement the following two methods:

- Hypothetically tax assignees separately on their individual base salaries if both are paid from the home-country location; or
- Combine their income and use the allocation approach to determine each assignee's share of the hypothetical tax withholding.

If only one assignee is needed overseas, and the accompanying assignee is employed and paid locally, the company may ask the accompanying employee to pay his or her portion of actual host-location taxes that are due and then apply hypothetical tax to the primary assignee only. In following this approach, it is important that the accompanying assignee receive the benefit of foreign tax credits since he or she is not covered under tax equalization. In addition, the employer should make a tax service provider available to the couple when they are filing their returns since this is a complex issue to manage on their own.

DUAL TRANSFERS CAN WORK

While a "one size fits all" approach to dual assignees does not exist, such moves can be beneficial to both the couple and the company if structured appropriately. The organization can enjoy economies of scale for a number of assignment allowances, and neither employee will suffer a break in career while on an international assignment – thus contributing to an overall positive expatriate experience.

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