A worldwide view*

Volume 2

Localization policies and practices
Overview

Localization policies are designed to ensure that international assignees have a definite end date to their assignment and that the organization does not have employees on international assignment benefits for an extended or even indefinite period of time. Generally, localization is considered for international assignments that are near completion of their current assignment length and in the following scenarios:

- International assignee has completed their long term assignment (generally 4 years on assignment);
- An assignment extension will not be adequate to fill business need;
- Business requirement is for the local position to be filled on a long-term basis;
- No local candidates available to fill the position; and/or
- International assignee would like to localize, even though there may be local talent available to fill the position.

At the point of localization, the assignee transitions from assignment status to a local employee in the host location and is included in the host country compensation and benefit plans. Although the components of the local package will be in-line with the local compensation and benefits programs, the localization policy or guideline is intended to provide consistency in the transition approach as well as standardization of the relocation provisions across geographies.
Assignee population size and related program costs have soared in recent years due to huge economic growth globally. Currently, the challenge for many organizations is how to manage cost reduction mandates while supporting global business growth objectives and retaining and rewarding the best performers. In recent months, many organizations have accelerated their plans to conduct an assignee inventory as well as review program costs. The assignee inventory provides much needed data to enable the organization to determine the success of each assignee, his or her fit for the purpose of the assignment, the return on investment in the individual’s assignment and even the next appropriate position for the individual, if any. The information is critical to the business’s ability to determine reassignment, repatriation, localization or even separation from company. At the same time, organizations are focusing on the total program cost as well as individual assignee cost. As a result of both activities, localization activity appears to be on the upswing globally.

Generally, one of two approaches has been used for localization, a “phased” localization approach which includes a “step-down” of allowances over a period of time to ease the transition to local status, or a “straight” localization approach, which is an immediate change to local status and may include a transition payment.

### Phased localization

In a phased localization, the assignee continues on assignment status (i.e., home country employment relationship, home country compensation and benefits) and will receive a reduction in his or her assignment allowances over a specified period of time. In this context, assignment allowances may be defined as mobility premium, if applicable, cost of living allowance, host country housing allowance and hardship allowance, if applicable. Company practices were varied with the treatment of school fees and in many cases this was handled separately from the phase-out of allowance and reimbursed in full over the transition period. Typically, the phase-out or transition period for the assignment allowances has been 2 to 3 years, leading to the status change to a local employee at the end of the transition period. For example, the assignee may receive 75% of their assignment allowance in year one of the transition period, 50% in year two and 25% in year three. Given the long transition period, this approach was viewed as more “assignee friendly,” however it does create challenges for the organization:

- delay in the change in the employment relationship;
- continuance of home country pay and benefits plan participation (and assignee mindset) during the transition period;
- negotiation with the assignee may continue during the transition period;
- little impact on cost savings goals during the transition period.

### Straight localization

Using a straight localization approach, the assignee is converted to local status as of the effective date of the localization. Rather than a phase-out of the assignment allowances over a period of time, the assignee may receive a transition payment which represents a “buy-out,” or a portion of the assignment allowances. Again, similar to the phased localization, the assignment allowances may be defined as mobility premium, if applicable, cost of living allowance, host country housing allowance and hardship allowance, if applicable. In most cases, school fees are not considered as part of the transition allowance and will be reimbursed for a period of time (from one school year to multiple school years). The transition payment may be a one-time payment or be paid in installments, for example, a payment at the time of the...
Localization, and another payment after 12 months. This may appear to be a more dramatic approach, however it does support change more quickly for the organization:

- immediate change in the employment relationship;
- change to host country pay and benefit plan participation (an assignee mindset) from the date of localization;
- negotiation with the assignee limited to the notice period;
- immediate impact on cost savings goals.

A sample timeline is illustrated below:

**Year four of international assignment:**
- Position evaluated and determination made for localization, repatriation or assignment extension.
- Assignee given notice of intent to localize (notice period must be in line with home country contractual requirements, if applicable).
- Assignee remains on full assignment status (i.e., employment relationship tied to home country company, home country compensation and benefits) during the notice period.

**Localization (after year four of international assignment):**
- International assignee becomes employee of host country company (home country employment relationship is terminated in line with local regulatory requirements, participation in home country compensation and benefits plans ends).
- Local compensation and benefits package is implemented. Host country salary and benefit changes due to merit review or annual benefit enrollment would apply.
- Transition payment, if applicable, made.
- Employee is moved to host country payroll.
The current economic conditions have forced companies to review their mobility programs—from both an assignee inventory and company cost perspective. As approval requirements for new assignees and assignment extensions have become more rigorous, more organizations are taking a harder look at localization as an option for longer-term assignees continuing in their role in the host location. As a result, there is more of a trend towards localization rather than assignment extensions across all developed markets.

The current market practices are summarized below:

- **Localization policy**—more companies have a localization policy or guideline in place to ensure consistency in the approach used across the organization.
- **Shorter timeline**—rather than evaluate the assignment position after 5 years, the position is re-evaluated after 4 years, or even 3 years in some organizations.
- **Straight localization approach**—more common that the phased approach of the past.

Based on the latest results from the 2009 PricewaterhouseCoopers Survey of Expatriate Policies and Practices, more than half of the current respondents (53%) have localization policies or guidelines in place. Of the companies surveyed, 34% use a straight localization approach and 19% of companies continue to use a phased localization approach. This is dramatically different from market practices a decade ago, where 43% of companies had localization policies or guidelines in place, 30% of the companies used a phased transition approach and 13% of companies used a straight localization approach.

For companies that use the phased transition approach, there have also been changes over the past ten years. Based on the 2009 survey results, for companies that use a phased approach they would begin to phase out the allowances after approximately 3.5 years on assignment (as compared to approximately 4 years on assignment in 2000) and would complete the phase out within 2.5 years (as compared to approximately 3 years in 2000). Accordingly, the overall timeline has been reduced by one year. We expect to see this trend continue.
As companies review localization options for long-term assignees, there are further issues for consideration by the organization in order to develop a comprehensive policy or guidelines and communications around the program. These include:

- **Net income differences**—as the transition payment is intended to address assignment allowances only, will the policy address net income differences (i.e., differences in salary levels, incentive pay targets, income tax rates)?

- **Benefits**—What are the statutory benefit programs in the host location, what are the vesting and payout requirements? Will the policy address difference between home and host country plans in terms of contribution levels, vesting requirements as well as ultimate pay-outs?

- **Taxes**—many of the assignees are accustomed to tax-equalized assignment package, will tax consultation and tax preparation services be available?

- **Immigration**—are there any requirements for a change in immigration documents due to the change in employment status and what is the expected timeline? Are there any work permit issues for a potential future termination from the company (i.e., requirements to exit the country)?

- **Home country employment relationship**—what are the regulatory requirements for the change in assignee status, including period of notice for the assignee; statutory payments required related to the end of the home country employment relationship, as well as any documentation requirements?

- **Home sale and home purchase**—will the policy include reimbursements for home sale (home country) and home purchase (host country) and if so, will the reimbursements be in line with local country guidelines?
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PwC offers a full range of international assignment services to assist companies in harnessing the value of global mobility while managing its risks. Our services include assignment tax services/planning and compliance, global mobility program consulting, and technology services.

IAS understands the lifecycle of an assignment. From beginning to end, PwC is there to provide not only core tax services, but to help you take the steps needed to get the most out of your assignment programs. Our extensive knowledge of all aspects of assignment programs—from policy to reward and talent management to succession planning—puts us in the ideal position to assist you in making sure your mobility program is working at optimum efficiency and help you get the best return on your investment, with the least amount of risk.
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