

'Risk avoidance is the Number 1 driver in the minds of procurement professionals, when recruiting temporary IT specialists – ranking above cost and skills availability'

Chartered Institute of Purchasing & Supply – Training Forum

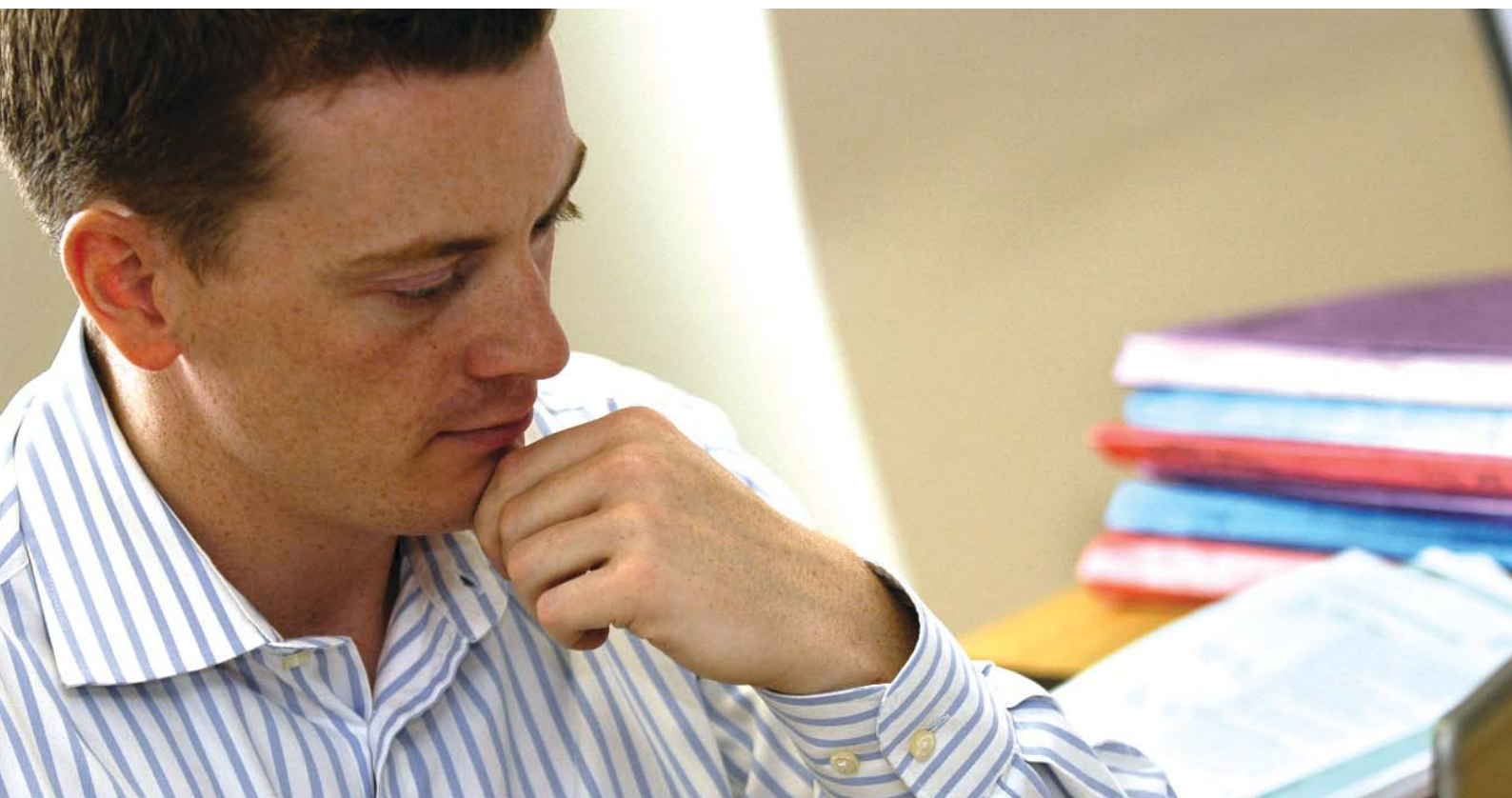
## Compliance and Risk Management Services

The provision of a comprehensive Compliance Service, provided by a professional team is a key 'value-add' in Glotel's service portfolio. Glotel's dedicated Account Managers are able to rely on experts in the field of Immigration, Taxation, Currency Repatriation and Employment Legislation, to get their clients the most current and relevant risk analysis relating to the provision of specialist Networking, Communications & IT resources, anywhere from Albania to Australia.

For BT, with whom Glotel have a relationship dating back over 12 years, the value is evident:

'The Account Team ask their Compliance experts to give up-to-the-minute advice. We rely on their innovative international solutions, as we know we will be given a full analysis of the issues and risks involved. The Compliance service is of tremendous value and we have recommended Glotel's Working WorldWide Newsletter to many of our clients'

Head of Resource Procurement – BT Global Services



## The Business Need

With the increasing complexity of International Tax, Immigration and Currency Repatriation, Glotel recognised the need to provide clients with a full break-down of the potential risks associated with the use of Contractors and Permanent staff. As companies increasingly demand that 'risk mitigation' be applied both within their domestic and overseas markets, Glotel responded to the challenge by setting up a Compliance Services Unit solely with the objective of creating compliant solutions, globally. Since its inception in 2000 the Glotel Compliance Team have created bespoke solutions for customers in 40 countries worldwide, including incorporating specialist subsidiaries and forming local partnerships.



## The Solution

### Employee Rights at the Employers Cost

"Throughout continental Europe, and for some reason Peru and Brazil, agencies are required to hold a licence or permit to act as a temporary recruitment company. Obtaining the licence is one thing but operating under what can be only be considered extremely restrictive and expensive regulations is quite another.

For example, under the terms of the German Labour Leasing Licence (Arbeitnehmerüberlassung "AÜG"), contractors can only be EU citizens, must be full employees of Glotel Germany with full labour law rights, full tax and social security. This causes problems from two angles. Firstly, for the client this is extremely expensive – up to 50% on top of the normal daily rate – as we must pass on all employment costs including 20 days holiday, 10+ public holidays and up to six weeks sick leave, plus a Christmas bonus. Secondly, high level contractors often do not want these benefits as they would rather operate through the legitimate German self-employed (Freiberufler ~ 1099) route. Although expensive the AUG does have the benefit of ensuring that the client will not be subject to any co-employment risk, but it does come at a price.



Comparatively, the Brazilian licence enables the agency to pay reduced social security and employee benefits, but the agency can only use Brazilian nationals."



## The Might of the Social Security Authorities

Many people confuse the concessions available for individuals with regard to their international tax liabilities with that of their social security obligations. For example, the much touted, but often misinterpreted, '183 day rule' only applies to tax and not to social security. The general rule, is that social security is payable in the country where the individual is physically working unless they have been physically granted an exception prior to work commencing.



'We need to know  
we will get the  
Right People at  
the Right Time,  
with the Right Skills  
and the Right to Work  
where we need them –  
Glotel do this for us'

International Resource  
Manager for a Leading  
Telecommunications  
Company

The Netherlands has specific legislation, which targets all members of the temporary recruitment chain for any unpaid Social Security ("GAK"). Therefore, if the individual or their employer has not paid the GAK or obtained a written exemption (E101 for UK nationals), the authorities have the right to target the agency and/or the end client. The most notorious example of this happened to a multinational telecommunications company ("Telco") in the late 1990's. The authorities found that the majority of the contractors working for Telco in The Netherlands were not contributing to the Dutch GAK system. They prepared a calculation starting with the amount Telco paid the agencies, applied an estimated margin and charged full employee and employer social security contributions to the remainder. The resulting bill for Telco was in the millions of Euro. Therefore, it is important to ensure that the agency providing contractors is aware of all legal obligations and enforces these on their contractors regardless of how the contractor wants to structure themselves.

## The Secret is Getting Paid

When placing contractors across borders there are many things to consider; not least being the payment for the services. This may appear to be obvious but several agencies have been caught out over the past few years by the complications of withholding taxes and foreign exchange controls.

The example that often springs to mind is that of India, where historically the transfer of money from India to outside suppliers has been a highly bureaucratic and time-consuming process. Although, these restrictions have been relaxed recently it is still important to note that the time value of money is always affected by the delay in payment. In addition, if the withholding tax issue has not been addressed there is a very real possibility of the margin being eliminated. See below table for some examples of high standard withholding tax rates:

<u>Argentina</u>	<u>31.5% (90% of 35%)</u>
<u>Peru</u>	<u>30%</u>
<u>Kenya</u>	<u>20%</u>
<u>The Philippines</u>	<u>32%</u>
<u>Taiwan</u>	<u>20%</u>



## Tying up Loose Ends Before Departure

It is not only the clients and agencies that need to address the in-country issues. Many countries require the individual contractor to provide tax clearance before they leave finally. The effect of not doing so could affect any future assignments to that country.



An individual contractor was working in Taiwan through Agency 'A' and employed by Management Company 'M'. Unfortunately, no annual tax return was filed for the individual. A subsequent opportunity to work in Taiwan arose almost two years later through Agency 'B' where 'Management Company 'N' would employ the individual. The absence of an annual tax return created a significant hurdle in the work permit process. This process which would normally take approximately 4 weeks was almost tripled, creating an embarrassing situation for all parties involved.



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