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UNDERSTANDING PAYROLL IN EMEA

A guide to statutory requirements

CONTENTS

This guide covers setting up a company, employment law, payments, employee benefits, social insurance and tax collection in 5 countries in EMEA.

Global payroll is the same process, repeated for each country, but with varying levels of complexity. Tax and labor laws are different from country to country. Keeping track of different data in different languages and units of measure can be overwhelming. International payroll is a challenging process of calculating each employee's earnings, with the correct taxes, managing time and expenses, bonuses and benefits, and delivering the correct payment to every employee in every country with a payslip. It also involves compliance: keeping records on behalf of employees, making payments to every stakeholder, such as tax authorities, and keeping track of the hours people worked and the time they took off.

GLOBAL ANALYTICS

When it comes to global payroll, words like centralized and standardized are often used but don't mean the same thing for every provider.

Truly centralized data means information that is maintained as a single data set, also referred to as a Single Source of Truth (SSoT). This relies on cloud technology and the use of one processing platform across all locations. Data standardization is a knock-on effect, in that because the data is collected, processed, and stored within the same system, it exists natively in the same format.

What this means for payroll teams, as well as the related functions and service providers they work with, is that the historical need to maintain a master file and manage versions of that file is eliminated, along with the time and resources previously spent on those tasks. Another instant benefit is increased visibility of payroll data, which itself has significant knock-on effects, not the least of which is greater compliance capabilities and improved audibility. And another side effect of that data visibility: is advanced, real-time analytics that reveals important truths and opportunities within a company's payroll process.

COMPLIANCE & TECHNOLOGY

Centralized global payroll enables improved accuracy and timeliness of payroll processing. By eliminating outdated file versions and manual data transfer, unified solutions reduce the opportunity for errors to be made in the first place while freeing up time for teams to address issues and keep improving.

Global payroll represents an organization's largest, most comprehensive, and most up-to-date source of data about its resourcing needs and human capital. And to date, most companies don't use that data.

Business leaders are now presented with the opportunity to seize upon the latest technology to equip their teams with payroll solutions that not only pay employees, but prioritize the things that matter to multinational organizations including data protection and compliance, competitive insight, and resource management.

UNDERSTANDING PAYROLL IN GERMANY

If your multinational organization is expanding into the German market, you're in luck: Germany is widely regarded as one of the world's most welcoming environments for overseas businesses. For proof, just ask the approximately 27,000 foreign enterprises that have established businesses in Germany (and that employ around 3.8 million people).

As Europe's largest and strongest economy, Germany is a far more stable location for new business than many other EU nations (especially amid political volatility across the continent). In addition to offering employers access to its large and well-educated population, Germany makes it relatively easy for organizations to set up a location inside its borders. Structural reform and changes to the corporate tax rate have delivered excellent economic conditions for international businesses.

Germany's economy is built on research, innovation, exports and its ability to attract foreign direct investment (FDI) from around the world. However, that reliance on exports has led to a significant slowdown of late.

Brexit, trade conflicts and what Berlin's economy ministry described as "very weak" industrial production contributed to Germany's annual GDP growth rate falling to just 0.6% in 2019, its worst performance since 2013. As yet, Germany is yet to fully bounce back from the economic damage of the pandemic, although compared to most companies, it's in a relatively strong position to do so.

Germany poses many advantages to expanding global businesses. But there are a number of complex rules and nuances involved in launching and executing German payroll as part of a broader global payroll compliance strategy. To ensure your organization sees success with payroll in Germany (both now, and in the future), here are a few important things you need to know.

What Global Companies Need to Know

GETTING STARTED

To launch a business located in Germany, a company must complete all applicable registrations to the country's tax and social security authorities.

That includes applying for an employer number – an eight-digit identifier for the name, address, and economy class of the company – that is necessary in order to hire employees and register them for social and health insurance. The company must also apply for a dedicated tax number and for statutory accident insurance (also known as 'Berufsgenossenschaft'). It can take up to six weeks for all such registration information to be fully processed.

During that time, organizations should set up bank accounts. While it is not mandatory to pay employees from an in-country account, it is advisable for employers to have at least one German account where government entities can send any reimbursement payments. In agreement with their local work councils and local or global payroll providers, organizations must also determine the timing, place, and form of payments and payslips.

EMPLOYMENT LAW

The key to successful operations in Germany is understanding the nuances of the country's Employment Law, which defines many policies regarding payroll.

For instance, the law dictates that all employees have the option to join a union, work council, or collective labor agreement, which may decide issues relating to working decisions, working times, and wages. As of January 1st 2022, Germany's minimum wage is €9.82 per hour, and is due to rise again to €10.45 per hour on July 1st 2022. Exceptions apply based on employees' age, status, or any pplicable collective agreements. Trainees, those in entry-level qualifications, or those working as part of an apprenticeship or university course may also be exempt on a case-by-case basis.

Contracts are regarded as partly invalid in cases where less than the minimum wage is paid. Employers may be subject to a claim for the difference, as well as a fine of up to €500,000. Subcontractors are also able to claim against both their direct employer and the main contracting company. Germany's Employment Law also covers the legal entitlement to time off, which is at least 24 working days per year, and its maximum of 48 working hours per week. Employees can work a maximum of ten hours per day, but must not average more than eight hours per day across any six-month period.

EMPLOYEE PAYMENTS

Employers must also be aware of the regulations regarding payment of salaries and wages, which are governed by Germany's Civil Code, its Industrial Code, and various collective agreements.

Payments to employees and third parties usually take the form of electronic bank transfers under the country's standard File Transfer and Access Management (FTAM) protocol. Once an employer approves a given payroll, it can authorize its bank to release payments to all employees and make any other required contributions, such as payments to health insurance companies.

Germany has a wide variety of bonus, profit-sharing and incentive schemes that can be awarded to employees. Particular schemes to be aware of include:

The '13th month' or '13th salary' payment: certain collective agreements allow German employees who have worked all 12 months of the year to receive full payment of a month's wages as a year-end bonus (or a pro-rated amount for less than a year's work). Christmas bonuses are paid on top of these.

Supplemental pay: this can be granted in addition for various reasons, such as compensating for difficult job circumstances, work at weekends or at unsociable hours, or even a bonus when an employee goes on vacation.

TAX & WITHHOLDINGS

Proper income tax collection is crucial to executing payroll in Germany.

As a rule, it is the employer's responsibility to calculate the income tax amount for each employee based on his or her specific tax class and supply the withheld amount to authorities.

For example, employees considered high earners (those with a yearly salary of €274,612 for a single person or €549,224 for a married couple) are required to pay the highest tax rate of 45 percent. In addition, a Solidarity Surcharge Tax Rate or "Solidaritaetszuschlag" of 5.5% is levied on the income tax amount. This tax is levied to help support the debts, pension commitments and recovering infrastructure of the former East Germany.

The employer must withhold the appropriate amount from high-earning employees' gross payments each month, then submit payment to the appropriate tax office by the 10th of the following month. The penalty for a late submission is a maximum 10% of the assessed tax, and interest due for a late payment is 6% per annum.

Non-residents who are working in Germany are only subject to income tax there if their income is closely relevant to Germany. Real estate or having a permanent establishment in Germany is a good example of this. Germany has tax treaties with around 90 countries to prevent employees being taxed on the same income by two different countries.

SOCIAL INSURANCE CONTRIBUTIONS

Employers must also contend with Germany's social security system and its mandatory insurance principle.

This dictates that membership in and contributions to Germany's statutory social insurance schemes are obligatory by law. Employers and employees alike must contribute to the different schemes.

Companies in Germany must withhold a percentage of employees' total monthly earnings across four insurance categories. These typically total around 40% of an employee's gross income, but employers normally contribute half. The amounts must be paid to the proper authorities by the third-to-last working day of each month. (Note: a contribution for statutory accident insurance of around 1.3% is paid solely by the employer.)

THE CATEGORIES ARE:

Health Insurance

The basic contribution rate for public health insurance is 14.6% of the employee's gross income, shared equally between employer and employee. Employees earning a gross wage of up to €60,750 per year are compulsorily insured by one of the public health insurance providers; those above that

Pension Insurance

Pension insurance is compulsory for employees. The premium is 18.6% of the gross wage and is divided equally between employee and employer. Pensions are paid from age 65 (although this is gradually being increased to 67) and the maximum payout is 67% of average net income during the

Unemployment Insurance

Mandatory unemployment insurance is 2.4% of the gross wage, split equally between the employer and employee.

Nursing Care Insurance

The contribution for nursing care insurance is 2.55% of the gross wage. Employers and employees each pay half of the contribution rate. Childless

Health Insurance

The contribution for nursing care insurance is 2.55% of the gross wage. Employers and employees each pay half of the contribution rate. Childless employees pay an extra 0.25% on top of their own contribution.

SICK PAY & MATERNITY LEAVE CONSIDERATIONS

In addition, Germany's Employment Law dictates the rules regarding continued remuneration in case of sickness.

According to the regulations, employees who have been working for the employer for at least four weeks are eligible for sick pay.

This is as long as they inform the employer immediately about the sickness, provide a medical attestation if their sickness lasts more than three consecutive days, and their last absence due to the same sickness was at least three months previously.

For example, employees considered high earners (those Sick pay must be paid at 100% of salary or wages for the first six weeks. Thereafter, employees receive statutory or private insurance benefits between 70% and 90% of normal pay for up to

18 months. For an employee to receive another six weeks of full sick pay due to the same issue, at least six months must have passed since the end of the previous break, or at least a year must have passed since the beginning of the previous break.

Similar rules govern maternity leave and associated payment. According to Germany's Maternity Protection Act, employers are required to give employees maternity leave and continued remuneration for six weeks before delivery and eight weeks afterwards (12 weeks following premature births or multiple births).

This leave can be invoked earlier in a pregnancy if a medical certificate states the health of mother or child would be endangered by working.

In addition, employees who educate and take care of their own children can qualify for up to three years of parental leave, during which employers cannot serve notice of termination. This can be taken by fathers or mothers until they turn eight, and reduces their working hours to a maximum of 30 hours a week (giving seven weeks' notice when applying to their employer). Additionally, each parent can defer up to 24 months of the three-year periods and use them at any point until the child turns eight (giving 13 weeks' notice when applying to their employer).

Employers are not obliged to pay salary or wages to employees on parental leave, but employees may be eligible for state parental benefits. This consists of 67% average income for up to 14 months after birth, calculated from earnings in the 12 months prior to birth. This benefit is capped at a maximum of €1200 per month.

No individual parent can receive more than 12 payments, except single parents on limited incomes.

German Public Holidays

- New Year's Day
- Good Friday
- Easter Sunday
- Labour Day (1 May)
- Ascension Day
- Whit Monday
- Day of German Unity (3 October)
- Christmas Day
- Second Day of Christmas (26 December)

IN SUMMARY

Though launching and executing German payroll is highly complex, the many advantages of expanding into Germany make it worthwhile.

It's widely regarded as one of the world's most welcoming environments for overseas businesses and considered a more stable location than many other EU nations for setting up a company.

In addition to offering employers access to its large and well-educated population, Germany makes it relatively easy for organizations to set up a location inside its borders.

That's why it's worth considering a global payroll solution equipped with the expertise and experience to deal with the complexity and make your German expansion as smooth as possible.

UNDERSTANDING PAYROLL IN UNITED KINGDOM

Following three turbulent years of negotiation, the UK finally left the European Union on 31st January 2020.

While the UK can still be very much considered a powerhouse of international business, it remains to be seen what long-term impact Brexit may have on economic progress.

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For many US and Western organizations, the UK has long been a popular 'first stop' on international expansion plans, due largely to the country's efficient regulatory environment, its similar business structures to the US and of course, its links to Europe (even if these are now only geographical).

But for global businesses continuing to put their faith and resources into UK operations, they'll first need to understand the nuances of the country's unique employment guidelines, payroll laws and tax requirements.

What Global Companies Need to Know

GETTING STARTED

Register the business: For an overseas business seeking to register in the UK, an OS IN01form must be filed online with Companies House – a division of Her Majesty's Revenue and Customs (HMRC) – along with an administration fee of just £20. This must be completed within one month of opening for business. Note that carrying out business in the UK doesn't necessarily compel organizations to register with Companies House. Registration is only required when the business establishes some degree of physical presence in the UK, (such as an office, warehouse or branch).

Register for VAT (via 'Making Tax Digital'): You must register for VAT (Value Added Tax) if the organization's taxable turnover is (or is expected to be) more than £85,000 a year. The vast majority of businesses can register for free online, including partnerships and a group of companies registering under one VAT number. Most organizations are now also bound by the new 'Making Tax Digital' (MTD) rules, which require the keeping of digital records and the use of appropriate accounting software to submit quarterly VAT returns.

Set up PAYE and payroll: All companies must register as an employer and set-up their PAYE (Pay As You Earn) scheme, even if they only have one employee. PAYE is HMRC's way of collecting income tax and National Insurance from employees at source. Again, this can be applied for online via www.gov.uk and it can take up to five working days to get your employer PAYE reference number, and you must be registered before the first payday.

Once registered as an employer, you can either set up and run payroll yourself using payroll software, or pay a payroll provider to do it for you. Note that you'll still be responsible for collecting and keeping employee records - and you're legally responsible for compliance with PAYE, even if you are outsourcing payroll. Employer's Liability Insurance is another legal requirement if your business employs one or more people. There's a daily fine if you don't have it in place.

EMPLOYMENT CONSIDERATIONS

Your obligations as a UK employer

While the UK has now exited the EU, existing EU legislation is in many cases being transposed into UK law even after the transition period.

However, for EU citizens wanting to live and work in the UK, a new immigration system now applies, and EU citizens moving to the UK to work will require a visa in advance.

If you are employing staff in the UK, you must therefore ensure that every employee has the right to work for you, even if they are a UK citizen. This will require either a physical check of ID documents or, for applicants with a Biometric Residence Permit, an online check. Knowingly employing illegal workers is a criminal offence that can carry a prison sentence, while even a genuine failure to undertake adequate checks can result in a fine of up to £20,000 per illegal worker.

Depending on your industry, you may also need to carry out a Disclosure and Barring Service (DBS) check to establish an applicant's criminal record.

Notifying HMRC of a new employee: You must tell HM Revenue and Customs (HMRC) when you take on a new employee. To facilitate this process, each new employee should provide you with a P45 from their previous employer. The P45 details the taxes the employee has paid to date in the tax year, and helps determine the correct tax code for them. It may also indicate if the employee is paying back a student loan. If the individual does not have the P45, completing the HMRC's Starter Checklist will determine the correct tax code to use for them.

Other employer obligations: New employees are entitled to a written statement of employment within two months of the initial hiring, including terms and conditions of employment, wages, and a discussion of pensions, sick pay, absence, holiday pay, total hours and other common issues. There is no law determining the length of a probationary period, though it's typical for a probationary period to last no longer than six months (or three months when an employee is moving to a new post internally).

COMPENSATION, BONUSES, PENSIONS & SEVERANCE

What and how to pay your staff

The minimum wage UK workers are entitled to is regulated by the National Minimum Wage and the National Living Wage - the rates of which change every April.

The National Living Wage (£9.50 per hour as of April 2022) applies to all workers aged 23 and over, while the lower National Minimum Wage has several categories dependent on age. There's a separate category for apprentices. Note that while the National Minimum Wage is worked out at an hourly rate, it applies to all eligible workers even if they're not paid by the hour.

Most salaried UK workers are paid monthly, with pay sent directly to their bank account. By law, a payslip must also be issued with each payment. Bonus schemes are quite common in the UK, with performance payments either stipulated in the employment contract, or left to the discretion of the employer. Bonus payments are typically delivered annually.

Pensions: The UK's new auto-enrollment laws oblige employers to enrol eligible staff into a pension scheme (though employees may then choose to opt out). Employers must also contribute towards these pensions. Currently, auto-enrolment applies to employees aged 22 or over, earning a minimum of £10,000 from that particular employment. Details of how much you need to contribute can be found via the Pensions Advisory Service.

Severance: Aside from unpaid benefits (such as accrued minimum leave entitlement in lieu) there are no statutory requirements for severance pay, except in the case of redundancies. Any employee that has been employed continuously for two years or more gains the right to the statutory redundancy payment (SRP). In terminating a contract (unless due to disciplinary process) the employer must however issue a notice period, which will be anywhere between one and 12 weeks depending on the employee's length of service.

TAX & WITHHOLDINGS

UK employment tax rules and rates

The UK's Real Time Information (RTI) system requires that all payroll information - from payments and income taxes to social contributions - is reported to HMRC on a pay-as-you-earn (PAYE) basis, in real time.

This essentially means you must submit payroll information to HMRC on or before the day you pay your staff. By reporting payroll data on this continuous basis, a significant administrative burden at the end of the year is avoided.

To report your information, you'll need to make a Full Payment Submission (FPS). Most payroll software can generate the necessary reports and submit details to HMRC for you. Note, you'll also have to advise HMRC if a new employee joins or leaves, or if an employee's circumstances change (for instance if they become a director).

Payroll taxes: Individual income tax rates in England and Wales range from 0 to 45%, depending on salary. Each employee has a personal tax-free allowance up to £12,570, with earnings between £12,571 and £50,270 taxed at the basic rate of 20%. A higher rate of 40% applies to earnings between £50,271 and £150,000, while anything over this threshold is taxed at 45%.

Individual income tax rates in Scotland range from 0 to 46%, depending on salary. Each employee has a personal tax-free allowance up to £12,570, with earnings between £12,571 and £14,732 taxed at the basic rate of 19%. A basic rate of 20% applies to earnings between £14,733 and £25,688, and an intermediate rate of 21% applies to earnings between £25,689 and £43,662. A higher rate of 41% applies to earnings between £43,663 and £150,000, while anything over this threshold is taxed at 46%.

These employee income tax deductions, along with certain National Insurance payments and student loan repayments, form your monthly PAYE bill. The PAYE bill must be paid by the 22nd of the tax month that follows the payroll date. Tax months run from the 6th, so essentially the bill must be settled between the 6th and 22nd.

Off-payroll working rules (IR35): In addition to regulations around PAYE workers, consideration must also be given to off-payroll working rules, applicable to contractors who tprovide their services through their own limited company or other intermediary (such as a partnership or another individual).

LEAVE CONSIDERATIONS: HOLIDAY, MATERNITY AND SICK PAY

Almost all workers are legally entitled to 5.6 weeks' paid holiday per year (known as statutory leave entitlement or annual leave). Those working a typical five-day week must therefore receive at least 28 days' paid annual leave a year.

Part-time workers are also entitled to at least 5.6 weeks' paid holiday, but this is calculated on a pro-rata basis so will amount to fewer than 28 days. To calculate the right holiday entitlement, the days worked per week can simply be multiplied by 5.6. Notably, bank or public holidays do not have to be given as paid leave, and many employers choose to include bank holidays as part of a worker's statutory annual leave.

UK labor laws also stipulate a Statutory Sick Pay (SSP) of £96.35 per week for up to 28 weeks. However, many employers provide contractual sick pay that is higher than the standardized SSP rate.

Maternity Leave: Women are eligible for up to 26 weeks of 'Ordinary Maternity Leave' and up 26 more weeks of Additional Maternity Leave. Employees must take at least two weeks after any baby is born, with certain factory workers required to take four weeks off. Statutory Maternity Pay (SMP) is paid for up to 39 weeks, and provides the employee with 90% of their average weekly earnings for the first six weeks. Thereafter, they receive £151.97 a week, (unless their average weekly earnings are lower than this, in which case the 90% payments continue). The worker's employment rights, such as the accrual of holiday, are protected throughout the maternity period. Men are generally entitled to two weeks' paternity leave, taken within 56 days of the date of childbirth. Paternity pay is also £151.97 a week, or 90% of the regular weekly earnings if lower.

The UK has eight days of public holiday each year, although dates vary in Scotland, Wales and Northern Ireland. Where a bank holiday falls on a weekend, a 'substitute' weekday becomes the bank holiday - usually the following Monday.

The General Data Protection Regulation (GDPR): Most overseas companies will be familiar with the GDPR: the European data protection legislation that came into force in May 2018. GDPR is focused on strengthening data privacy for all individuals within the European Union (EU), but it also covers the export of personal data outside of the EU. Post-Brexit, the UK has retained the GDPR laws put in place by the EU; although it has the right to vary the UK legislation in the future, the UK Government has not done so at the time of writing.

For companies operating outside of the EU, there are compliance requirements on how employee data is transferred, accessed and stored - with hefty fines for any organization deemed to be in breach.

For more information on GDPR and how it applies in the UK, visit the UK Information Commissioner's Office (ICO) website.

British Public Holidays

- New Year's Day
- New Year Holiday (2 January, or first weekday after if a Saturday or Sunday)
- Good Friday
- Easter Monday (not in Scotland)
- May Day (first Monday in May)
- Late May Bank Holiday (last Monday in May)
- August Bank Holiday (last Monday in August, not in Scotland)
- Christmas Day (holiday given on following weekday if a Saturday or Sunday)
- Boxing Day (holiday given on following weekday if a Saturday or Sunday)

IN SUMMARY

While relatively straightforward compared to many countries, setting up business and running payroll in the UK still gives rise to multiple considerations, with a raft of employee rights and protections to take into account.

A new immigration system means significant changes for EU nationals' right to work, and ongoing modernization of the tax system (via initiatives like Making Tax Digital) gives further cause for payroll professionals to keep a keen eye on developments.

As ever, outsourcing your global payroll administration to a dedicated and experienced team may be the best way to stay compliant through these times of change. The right global payroll solution helps your business maintain its international momentum - offering the flexibility to scale up or down to meet your needs in the UK and beyond.

UNDERSTANDING PAYROLL IN SWEDEN

Sweden is a country with a population of just over ten million people, but represents a strong opportunity for foreign businesses, thanks to its solid economic growth, robust education system, and high standard of living.

This dynamic European Union member state had a $541 billion economy as of 2020, and its rate of growth was in keeping with many other major European economies prior to the COVID-19 pandemic. However, as Sweden was relatively conservative in shutting down its economy during the worst of the pandemic, it hasn't suffered the same economic damage as most other European countries have.

Sweden is well-known for its generous work state, labor force stability, and internationally integrated and strong labor unions.

Sweden has retained its title as EU innovation leader for several years now, and the country is highly regarded as a top nation for international business.

With a current flat rate of 20.6%, Sweden's corporate tax rate is lower than in many other western European countries. A large number of multinational companies have taken advantage of this, opening offices in Sweden and using it as a gateway to business in Scandinavia, the Baltic Sea region, or the EU.

Though consumer debt in Sweden is around 95% of GDP,Sweden remains an attractive location for foreign entities to seek partnerships or to develop new markets. But before doing so, it's essential for any business looking at Sweden to familiarize themselves with the fundamentals of Swedish payroll.

What Global Companies Need to Know

GETTING STARTED

Expanding into Sweden begins with registration of the company, business name and employee headcount with the Swedish government's company registration office Bolagsverket.

This process usually takes 2-4 weeks, but the Bolagsverket constantly updates its processing times online to provide a more exact timeframe.

This process usually takes 2-4 weeks, but the Bolagsverket constantly updates its processing times online to provide a more exact timeframe.

Organizations need to obtain certification from a Swedish bank that a cash amount (for the payment of company shares) has been deposited into an account. In January 2020, the minimum amount required was reduced to SEK 25,000 for private limited companies. However, companies do not have to use a Swedish bank account to make payments to employees or tax authorities.

From there, the entity will need to register with the Swedish tax office Skatteverket. A foreign enterprise is required to submit a tax application (form SKV 4632B) in order to apply for:

- An approval for Swedish F tax
- A Swedish VAT registration
- A Swedish employer's registration
- A registration for income tax purposes as a non-Swedish enterprise with a permanent establishment in Sweden.

Companies operating in Sweden who do not have permanent establishments there are not liable to pay tax on their business income.

EMPLOYMENT & COMPENSATION

Considerations

Laws protecting employees are strong in Sweden, and are administered under the country's Employee Protection Act, Annual Leave Act, and the Working Hours Act.

These laws define a standard working week of 40 hours in Sweden, but also place caps on overtime. No employee can work more than 50 hours of overtime in a calendar month, or more than 200 in a calendar year. The same caps also apply to time spent on-call. Overtime is usually rewarded with an additional 50-100% of pay on top of the employee's standard rate.

Unemployment is relatively low in Sweden (running at 7.9% in February 2022, despite the turbulence of the pandemic) and contracts between employees and employers are not a legal requirement.

There is no legal minimum wage in the country, though salaries are often negotiated by collective bargaining between employers and trade unions or independent worker groups. It should also be noted that Sweden does have some of the highest rates of pay in Europe.

Sweden enjoys a well-educated workforce, generous employee benefits, and easy accessibility to European workers under EU movement of labor laws.

These mean businesses in Sweden have little difficulty in recruiting talented staff from inside or outside the country.

BONUSES, SEVERANCE AND PENSIONS

In keeping with its other relatively liberal working regulations, Sweden does not apply any specific restrictions around the awarding of either contractual or discretionary bonuses for any companies except for banks and other credit institutions.

Bonuses paid in cash are taxed at standard rates (see below). Any employees that are made redundant or laid off remain entitled to their full salary and other contractually defined benefits for the entire length of their notice period.

Sweden has a multi-layered pension system, with up to 18.5% of an employee's 'pensionable income' being paid into the Swedish government's state pension schemes. On top of this, some employers offer additional private pension schemes to their employees.

TAX & SOCIAL SECURITY CONSIDERATIONS

Income tax should be deducted from every employee's paycheck and paid to tax authorities, but the withholding amounts vary depending on the individual's location and wages.

Firstly, all Swedes must pay local taxes at rates which vary between individual communities, ranging from 30% to 35%. Then, on top of this, higher earners are also obliged to pay national income tax of 20% if their annual income exceeds SEK 523,200. Non-residents must pay a

Tax return forms are typically issued the following April and must be completed and sent back to the Skatteverket by early May.

However, taxes should be paid monthly according to a fixed schedule.

This is normally by the 12th of each month, except for January and August when the deadline is the 17th of the month. The Skatteverket requires that the money is received in their bank accounts no later than these days, so it may be necessary to process payments in advance of the due dates.

LEAVE & HOLIDAY

The Swedish workforce enjoys generous leave entitlements, thanks to the strong protections both for Swedish employees and for foreign nationals working in Sweden.

Employees receive a minimum of 25 days' paid leave, although the majority of this is taken up by four weeks' continuous 'main vacation'. This is normally taken between June and August, and employers determine when these vacations can happen and notify the workforce with at least two months' notice.

Some unused vacation days can be carried over by employees for as much as five years. Employees that join a company after August 31st are only entitled to five vacation days that year. But all employers are obliged to allow leave for Sweden's 13 public holidays each year.

Sweden offers some of the most generous parental leave entitlements of any country in the world. Couples can take up to 480 days of leave in total; some of these are parent-specific (90 days for each parent) while the rest is more flexible. Parents generally get 80% of their salary while taking parental leave, although this is capped at SEK 1006 per day.

Swedish Public Holidays

- New Year's Day
- Epiphany (6 Januar)
- Good Friday
- Easter Sunday
- Easter Monday
- May Day (1 May)
- Ascension Day
- Whit Sunday
- National Day (6 June)
- Midsummer Day (last Saturday in June)
- All Saints' Day (first Saturday in November)
- Christmas Day
- 2nd Day of Christmas (Boxing Day)

IN SUMMARY

Sweden's liberal approach to business makes it a prime candidate for expansion for any internationally-minded business.

However, the complexity of some of its legal requirements and employer commitments, especially around the monthly reporting and payment of taxes, can create some difficulty from an administrative perspective.

It's in these areas specifically that partnering with a trusted managed service provider to manage your outsourced global payroll operations can be a real asset to your organization.

UNDERSTANDING PAYROLL IN SPAIN

With links to Europe through its membership of the European Union, and to Latin America through historical and linguistic connections, Spain represents an excellent opportunity for multinational businesses to expand. Home to around 47 million residents, it's the fourth-largest EU state by population, and has modernized rapidly since its transition to democracy in the late 1970s.

The Spanish economy suffered greatly from the global financial crisis of 2008 and 2009, and several years passed before it began to recover. Spain's economy eventually started to recover, until it was set back by the COVID-19 pandemic, which hit its large tourism industry particularly hard.

Nevertheless, Spain benefits from an ideal combination of benefits for international businesses: a strong and highly qualified workforce, and relatively low labor costs for a large European country. Spain's average hourly labor rate is around 25% lower than Italy's and 40% lower than France's.

The Spanish government offers various incentives for developing businesses and foreign investment. However, incoming businesses must navigate a complicated minefield of labor and tax laws, many of which are revised often. Exploring the following important aspects of Spanish payroll and working regulations will help you gain an understanding of how you can succeed doing business in Spain.

What Global Companies Need to Know

GETTING STARTED

The first steps to ensuring payroll success in Spain is to become familiar with the country's labor laws, and how to register a company with the national trade registry, the Registro Mercantil Central (RMC).

The requirement to register applies to all businesses operating in Spain, including branch offices of foreign companies.

There are two types of company that can be set up: a Sociedad Anónima (S.A.), meaning a corporation, or a Sociedad Limitada (S.L.), meaning a limited liability company.

The fees involved in registration vary depending on the value of the company's capital stock, and the process normally takes between six and eight weeks.

EMPLOYMENT CONSIDERATIONS

Many regulations around pay and working conditions in Spain are defined by collective bargaining agreements.

These are not only agreed between worker unions and individual businesses, but are often also applied to specific sectors in certain geographical areas.

For example, a sectoral collective bargaining agreement exists in the Malaga area for the hospitality industry, principally to cover workers in the hotels, bars and restaurants on the Costa del Sol.

Spain's standard working week is 40 hours, with no more than nine hours permitted per day, and no more than 80 hours of overtime permitted per year. However, these levels can be altered if a collective bargaining agreement is in place.

A gap of at least 12 hours must separate the end of one working day and the start of the next, and this is now being rigorously enforced. In May 2019, a new law came into force in Spain obliging businesses to record the daily working hours of all their employees, and to retain these records for four years.

Companies must register each employee's contract with social security authorities and the national employment service. New contracts must be registered with social security any time before the start of employment, and with the Public Employment Service within ten days following the employee's start of employment. Probationary periods last two months, except for businesses with fewer than 25 employees (up to three months) and qualified technical personnel (up to six months).

COMPENSATING EMPLOYEES

Employers in Spain must pay their employees on a monthly basis, or more frequently depending on the employment contract or collective bargaining agreements.

In addition to the minimum of 12 monthly payments, many collective agreements require two additional payments in July and December, which are pro-rated and included in monthly payrolls.

All payments must be made by check or direct bank deposit, and, for payments made by check, the employer must provide a payslip with the amount of payment and withholdings to be signed by the employee.

Administered by the Ministry of Employment and Social Security, Spain's labor laws dictate the minimum wage.

> **Spain's minimum wage has increased significantly in recent years, and stands at €1125 per month as of January 2022.**

If employees are dismissed, they are entitled to 20 days' salary for each year worked, up to a maximum of 12 monthly payments. This entitlement to severance pay also applies if an employee does not consent to having his/her employment contract significantly altered, or if he/she doesn't consent to a long-term change of job location.

TAX & WITHHOLDINGS

Considerations

Employers in Spain must deduct income tax from their employees' paychecks. The tax is divided into two equal halves: state tax and regional tax, but rates can vary slightly between Spain's different states and autonomous regions.

Rates progressively increase as salaries increase, starting at 19% for the first €12,450 and reaching 45% for all earnings above €60,000. Overtime pay is taxable and is also subjected to specific social security tax percentages.

While most employers in the country will have to submit these payments to Spain's Tax Authority, employers in the Basque and Navarra regions will submit income taxes to local authorities. In addition, there are rules establishing when the company must submit its tax payments; those with more than €6,010,121 to pay in tax revenue are required to pay taxes on a monthly basis, while all other employers must do so on a quarterly basis.

Employers are also required to make monthly contributions to Spain's National Social Security Institute and withhold contributions from their employees' paychecks. The amount of these social security contributions, which cover pension plans, labor accidents and illnesses, will vary according to a number of factors, such as length of employment or type of employment contract.

The total typical rate of social security contribution stands at 36.25 percent of an employee's salary: the employer pays 29.9 percent of this and the employee the remaining 6.35 percent.

PAID LEAVE AND SICK LEAVE

Spain leave & holiday Considerations

Employees in Spain are entitled to a minimum of 22 business days (30 calendar days) of vacation per year. As with most employment arrangements, this can be increased in individual contracts or through collective bargaining agreements.

Employees are also entitled to leave on the ten days of national holiday each year, as well as during the additional local holidays that the various regions of Spain individually observe.

Mothers in Spain are entitled to 16 weeks of maternity leave for the birth of a child, increasing to 18 weeks for twins and 20 weeks for triplets, and includes the six weeks immediately post-birth. They are also able to spread this leave out over a longer period by working part-time. Additionally, working mothers caring for children under eight years old are entitled to the 'Reduccion de Jornada', where working hours can be reduced to between one-eighth and one-half of previous full-time levels; salaries are reduced on a pro-rata basis. Fathers are entitled to five weeks of paternity leave.

Spain also allows paid leave for a variety of other major life events. These include 15 days for a marriage, one day for moving house, unlimited time for civic or jury duties, and even one hour per working day to care for breastfeeding babies.

Any sick leave compensation depends on the length of the absence. For example, employees out for three or fewer days are not eligible for sick pay, but the employer must pay 60% of the employee's salary for each day of leave between four and 20 days. For a period of leave longer than that, or if an employee is absent due to injuries that occurred on the job, employers must make a payment of 75% of salary, but this is then reimbursed to the employer by Spain's National Institute of Social Security.

Spanish
Public
Holidays

- New Year's Day
- Epiphany (6 January)
- Good Friday
- Labor Day (1 May)
- Assumption of Mary (a Monday in mid-August)
- National Fiesta (12 October)
- All Saints' Day (1 November)
- Constitution Day (6 December)
- Immaculate Conception (8 December)
- Christmas Day

IN SUMMARY

Expanding a business into any new territory will always bring a unique set of challenges and hurdles to deal with.

But despite the rich opportunities on offer, the sheer complexity of regulations, especially around collective bargaining agreements, can make moving into the Spanish business world a particularly daunting task.

That's why it's worth considering a global payroll solution that can equip you with the expertise and experience to deal with the complication, and make your Spanish expansion as seamless and hassle-free as it can be.

UNDERSTANDING PAYROLL IN FRANCE

A key member of the European Union and one of the world's most modern countries, France sees itself as a leader among European nations. As the seventh-largest economy in the world, it's a truly major player, offering an investment-friendly business environment that's both well-established and diverse.

While France fared better than most of its neighbors during the financial crisis of 2008 and 2009, high levels of unemployment persisted but then dropped sharply in 2019. Like most European countries, France is now recovering from the economic impact of the pandemic, but may also stand to benefit from many UK businesses choosing France as their base in the EU post-Brexit.

The workforce in France is skilled, productive and brimming with a modern business mindset. The country boasts a strong reputation for company success across many industries – and is increasingly seen as the home of tech start-ups outside Silicon Valley. France offers excellent incentives for foreign companies. However, its complex and rigid labor laws are partly responsible for limiting employment growth. Alongside this is a high cost of labor and one of the highest corporate tax rates in the world.

Exploring the following important aspects of French payroll and working regulations will help you gain an understanding of how you can succeed doing business in France.

What Global Companies Need to Know

GETTING STARTED

Regulation is a big deal in France, so when it comes to ensuring payroll success you will need to check if your type of business is regulated, and then decide on your company structure.

The specific rules for payroll and taxation in France depend upon the type of business structure used.

The three most common structures are SARL (a limited liability company), SA (a French joint stock company), and SAS (a simplified stock company). Companies generally must complete incorporation to register the business as a subsidiary company, branch office, or liaison office. The locally incorporated subsidiary company is the most common entity form used by foreign investors looking to operate in France long-term, because there are many business restrictions imposed on branch and liaison offices. Plus, the French tax system permits many tax exemptions for subsidiaries.

There are several steps to take when setting up a subsidiary. First, the organization must provide articles of incorporation, register with the French Patent and Trademark Office, deposit the minimum share capital in a bank account and then publish an incorporation notice in the official journal. Next, the documentation of those steps should be filed with the Centre de Formalites des Enterprise, with everything getting final sign-off with the clerk of the Commercial Court where your company books are stamped.

Following this process, businesses can typically start commercial activity in as little as seven days. It is recommended to make payments to employees or French authorities from an in-country bank account, but this isn't mandatory.

EMPLOYMENT CONSIDERATIONS

At the basic level, the rules and regulations governing employment are set out in the French Labor Code (the Code du Travail).

This outlines the rights of the employee and the responsibilities of the employer and dictates typical employment policies around work hours, time off, and so on.

Then there are collective bargaining agreements (Conventions Collectives), which outline different standards, requirements and expectations across various industries and professions. These agreements are more specific and can cover a variety of areas such as trial periods of employment, minimum salary and severance payments. It is worth knowing that employment contracts must meet local standards and be drafted in French.

A typical working week in France is 35 hours, with no more than ten hours permitted per day and no more than 48 hours per week in total, in line with the EU Working Time Directive. However, with a collective bargaining agreement in place, these hours may differ.

Though there are different rules for certain categories of employee, foreigners working in France are employed under the same working conditions as citizens of France. Part-time employees are entitled to the same rights and benefits as full-time employees (on a pro rata basis).

French law imposes strict regulations around the collection of employee data, which includes payroll. Employees also have the ‘right to disconnect’ from their work-related technology outside working hours.

Probation periods are between one and three months, but can be extended to five through collective bargaining. Termination can only be done through redundancy or proven lack of performance, and range between one and two months depending on length of service.

TAX & WITHHOLDINGS

As of 2019, the PAYE (Pay-As-You-Earn) system was adopted universally throughout France. So instead of paying taxes every year, income is now taxed right at the source from the monthly salary.

Tax does differ for official residents and non-residents. Residents are subject to a progressive tax regime with five bands: the first €10,225 of annual earnings is untaxed, while earnings above €160,336 are taxed at the top rate of 45%. For non-residents, France-sourced income is taxed at 20% for annual earnings up to €27,519 and at 30% for income above this.

To maintain payroll compliance, employers and employees must both contribute to France's mandatory social insurance system. It covers many areas such as health (maternity, disability and death), family allowances, retirement, housing benefits and occupational accidents (including illness). Contributions made by employers come down to the business type, size and location and usually equate to around 45% of the employee's gross pay. Contributions made by employees typically comprise 20-23% of their gross pay and are deducted at source from their salary payments. All contributions are paid by the employer on the 15th of each month.

COMPENSATING EMPLOYEES

Unless collective agreements apply, the minimum gross wage in France is one of the highest in Europe. For 2022, it's €10.57 per hour, which works out at €1603 per month (approx. £1380; $1700).

It has increased regularly in recent years, so expect it to rise again in the near future. Reduced rates apply to apprentices and to new employees under the age of 18. Salaries are typically paid on a monthly basis.

When it comes to termination, severance pay will only be awarded under certain conditions.

The employee needs to have been on an indefinite-term contract or met a minimum length of service required by the Labor Code, or, if applicable, the collective bargaining agreement. In general, employees receive one-quarter of their monthly salary for each year of service (up to ten years) and then one-third for each additional year.

PAID LEAVE AND SICK LEAVE

Holiday entitlement is generally 25 days per year for workers in France

Holiday entitlement is generally 25 days per year for workers in France (based on the typical Monday to Friday working week, or 30 days if you consider the unit as Monday to Saturday). Certain collective agreements may stipulate otherwise.

When it comes to sick leave, employees can receive paid time for up to three years. An employee must also have had at least one year's service with the employer and provide a medical certificate for the absence within 48 hours. Sick pay is paid at 50% of normal rate by the social security system from the fourth day of absence.

Maternity leave depends on the number of children and whether the birth is a 'multiple' birth (e.g. twins and triplets). Based on this, women may receive between 16-26 weeks of leave. Paternity leave follows a similar pattern, with men receiving up to 11 days of leave for a single birth (18 days for multiple births) plus three days of child leave.

Paternity leave must be taken consecutively.

There are 12 public holidays observed in France each year but only May 1 (Labor Day) is classed as a statutory paid holiday in France. Any entitlement to other paid French holidays and the conditions for working on them (such as higher pay) are left to the discretion of the contract between employer and employee and, of course, any applicable collective agreement.

French Public Holidays

- New Year's Day
- Easter Monday
- Labor Day (1 May)
- Victory Day (8 May)
- Ascension Day
- Whit Sunday
- Whit Monday
- Bastille Day (14 July)
- Assumption Day (15 August)
- All Saints' Day (1 November)
- Armistice Day (11 November)
- Christmas Day

IN SUMMARY

The benefits of taking any business into a new country are always accompanied by a variety of challenges, and France is no exception.

France offers a great deal to multinational businesses but brings with it numerous obstacles around employment law, high costs of labor, high tax rates, and complexity around collective bargaining agreements.

That's why it makes sense to consider a global payroll solution that can equip you with the expertise and experience required for these challenges, and make your French expansion as seamless and hassle-free as possible.

ABOUT CLOUDPAY

Employee pay processes have broad business consequences, requiring modern solutions and trusted experts. CloudPay connects all employee pay processes – including payroll, payments, and on-demand pay – through a unified platform, available across 130+ countries. CloudPay's experts help global companies implement best practices, navigate change, optimize operations, and improve employee experiences, guiding them with vision and care toward the comprehensive pay experience employees deserve.

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