

## Foreign Service Employee Compensation Policy

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### § 1. Foreign Service Employee Defined

A foreign service employee is defined as any full-time employee subject to the State Human Resources Act who the employer transfers from North Carolina to a required foreign assignment to live and work for a period of time greater than three months. Foreign nationals employed in and assigned to work in their country of origin are not included in this policy. In addition, remote work in a foreign country under the Teleworking Program Policy is not included in this policy.

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### § 2. Policy

A foreign service employee shall be paid:

- a base salary according to job classification,
- an expatriation premium, and
- a foreign service living allowance.

The employee shall receive all employee benefits for which eligible.

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### § 3. Salary

The employee's salary will be composed of base salary, determined under the salary-setting procedures in the Pay Administration Policy, plus an expatriation premium determined by the employer. The individual will receive salary increases in the same manner as provided for all employees subject to the State Human Resources Act.

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### § 4. Expatriation Premium

An American employee transferred to foreign service shall be paid an expatriation premium for the purpose of attracting and retaining qualified persons for such assignments.

## Foreign Service Employee Compensation Policy(cont.)

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This premium is intended to offset the problems inherent in breaking home ties and adjusting to different cultures, and the costs connected with any travel for personal purposes between the foreign base and the United States.

The expatriation premium shall be 15 percent of the employee's base salary. The premium pay shall be effective on the date of departure from the United States and shall cease on the date that the employee returns to the United States at the end of the foreign assignment; this pay will not be interrupted by periods of leave or working trips to the United States. Such pay shall be adjusted each time there is a change in the employee's base salary.

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### § 5. Foreign Service Living Allowance

The cost of living is higher in many foreign countries than in the United States based on cost comparisons of similar items of food, clothing, shelter and education in an English-speaking school. In order to offset any monetary loss as a result of these added costs, a foreign service allowance will be paid the employee in an amount equivalent to the increased living costs in the specific location assigned, taking into account the number of dependents.

The foreign service living allowance shall also reflect any fluctuation in the foreign exchange rate in the country of residence, which affects the purchasing power of base salary and premiums.

The foreign service living allowance includes amounts for increased costs for the following:

- goods and services, including housing costs, and
- educational expenses necessitated by the cost of books and tuition in private English-speaking schools providing instruction comparable to elementary and secondary education in the United States.

Using data found in government publications on cost of living and educational costs, the foreign service living allowance will be computed from the employee's base salary and family size, and the allowance will be rounded off to the nearest dollar per month. When any of the computation factors change, the amount of the living allowance will be adjusted quarterly to reflect the fluctuation in the foreign exchange rate.

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Availability of cost-of-living data may be delayed due to compilation and publication time required. When published survey data is made available, the amount of the allowance shall be recomputed and any adjustments made as necessary.

A specific written agreement as to the formula to be followed in each case shall be developed in advance between the employing agency and the employee, with the direction and approval of the Office of State Human Resources.

If the cost of living in the foreign country in which the employee is assigned is lower than the United States, the employee will still receive his/her full salary; a negative living allowance will not be applied.

The foreign service living allowance is effective on the date of departure from the United States. Allowances will not be interrupted by periods of leave or working trips to the United States.

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### § 6. **Benefits**

All permanent employees on foreign service assignment will continue to receive the benefits for which they are eligible in North Carolina. If the amount of benefit is determined by salary, foreign service living allowances are not to be considered when computing the benefit, as the living allowance is not a form of salary. (This is in reference only to benefits established by the State Human Resources Commission and does not cover others such as Retirement System contributions and Social Security taxes.) The expatriation premium is considered a part of salary. There are special provisions for the following benefits:

- **Sick Leave.** State policy provides that an employee may use sick leave when there is a death in the immediate family. In addition, an employee on foreign service assignment will be allowed time off, not chargeable to any leave, equivalent to the length of time required to fly to the United States from the foreign assignment and to return to the foreign base from the United States.
- **Vacation Leave.** The employee on foreign service assignment will receive, in addition to regular vacation leave, an amount of time off equal to the length of time required to travel by air from the foreign assignment to the United States and from the United States back to the foreign base once a year. This travel time is available only if used for such purpose and is not cumulative; if the employee does not use it during the year, it cannot be carried forward to the next year.

## Foreign Service Employee Compensation Policy(cont.)

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- Holidays. In lieu of the holidays observed by the agencies of North Carolina State government, the foreign service employee may choose the holidays observed in the foreign country where working or a combination of foreign and domestic holidays; however, the total number of holidays observed shall not exceed the total number established by the State Human Resources Commission in the calendar year in question.
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### § 7. Tax Reimbursement

The amount of the foreign service living allowance is based on the assumption that it is nontaxable to the employee for income tax purposes. However, since State employees do not have the same tax exclusion rights as those granted Federal employees receiving foreign service compensation, the State employee will be taxed on the living allowance and expatriation premium. Therefore, the State shall assume the tax liability on the living allowance and premium pay.

The employing agency shall reimburse the employee for added Federal and State income tax liability resulting from receipt of the living allowance and premium. The employee shall present statements showing the tax liability had the employee been performing the duties in North Carolina, and the actual tax liability with the foreign service additional compensation. The employing agency shall reimburse the employee for the difference. This is a reimbursement for expenses incurred and is not a part of salary.

The agency shall provide an income tax consultant, if needed, to assist the employee in providing the necessary documentation. The employee must submit verification that all income taxes have been paid.

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### § 8. Sources of Authority

This policy is issued under any and all of the following sources of law:

- [N.C.G.S. § 126-4\(2\)](#)
  - [25 NCAC 01D .1600](#)
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## Foreign Service Employee Compensation Policy(cont.)

### § 9. History of This Policy

Date	Version
August 2, 1974	Foreign Service Compensation Policy adopted.
April 10, 1975	Revision in policy – computation of the living allowance and taxation of the allowance and reimbursement of taxes.
February 1, 1978	Tax Reimbursement.
February 1, 1983	Correction in printing only.
April 1, 2022 (effective June 1, 2022)	Clarification that policy does not apply to remote work in a foreign country under the Teleworking Program Policy. Clarification that base salary should be set under the normal procedures in the Pay Administration Policy.