



EMPLOYER OF RECORD & PEO — 20 MIN

What is an EOR? Meaning, purpose, and benefits

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Hiring workers internationally provides a host of advantages. However, not many companies have the know-how to hire, pay, and manage workers in a foreign country. For companies trying to onboard people in multiple places, things get even trickier.

If you don't have legal entities in the countries where you want to hire, working with an employer of record (EOR) is the easiest way to build a global team. It's a cost-effective approach that minimizes many of the risks of global expansion, whether you're a startup, a small business, or a large enterprise.

So, how does it all work? In this article, we'll explain what exactly an EOR is and how to partner with one. We'll also explore the benefits of using an EOR,

the services you can expect, and how to pick the partner that's best for your business.

What is an EOR?

An EOR — meaning [employer of record](#) — allows you to hire people in other countries by acting as the legal local employer on your behalf. The EOR takes on all the legal and compliance obligations, while you retain the day-to-day relationship with the team member as usual. Think of an EOR as a bonus HR department for your company on the ground in another country.

While most businesses use EORs to hire abroad, EORs can also [function domestically](#). In some countries (such as the [United States](#), [Canada](#), and [Australia](#)), different states or provinces have different taxation and employment requirements. In situations like this, a local employer might choose to partner with an EOR to simplify their HR processes.

EORs typically take on HR [administrative duties](#), [run payroll](#), provide [compliant benefits](#), and manage taxation obligations. They serve as the employing entity, so when you partner with an EOR, you don't need to [establish a legal entity](#) in your new hire's country.

You also don't need to spend time, money, and resources on building the required knowledge in-house. The [best EOR providers](#) guide you through every step, with in-built local expertise and strict guardrails to keep you compliant.

With a reliable EOR partner, you can quickly and safely [hire and pay workers globally](#).

What is a global EOR?

If you decide to expand your operations in a foreign country, you have two options: set up a legal entity or use a global EOR.



The [cost to open a business entity](#) in another country is significant — you can expect to pay anywhere from \$25,000 to \$100,000. And don't expect to start hiring right away; incorporating an entity can take five months to a year (or longer) as there's a lot of paperwork involved. Using a global EOR is far more cost-effective.

A global EOR, also known as a [global employment organization](#) (GEO), allows your company to hire employees anywhere in the world — without having to set up a [local entity](#) in that country. They take on the administrative aspects of hiring employees in different countries while ensuring compliance with local employment laws.

These organizations provide support for:

- Payroll and tax administration
- Employee benefits administration
- Immigration or work visas
- Local taxation
- International contractors

In essence, a global EOR acts as your local HR department. They handle the administrative burden of hiring and managing employees abroad, allowing you and your team to focus on core operations.

What are the responsibilities of an EOR?

EORs handle HR activities, payroll, taxation, legal issues, compliance, and benefits for your global team members. However, these responsibilities can vary from company to company — as can the ways your EOR provider handles these duties on your behalf.

The most common responsibilities of an EOR include:

Onboarding employees

An EOR facilitates the local onboarding process in your hire's location. It manages all the administrative tasks, like employment contracts, background checks, and [setting up payroll](#).

This is an important part of the process.

A [smooth onboarding process](#) helps create a positive first impression of your company, which can boost engagement and productivity right from the start.

Paying your employees in local currencies

An EOR simplifies the process of paying team members in their local currency. This means fewer exchange rate risks and administrative hassles.

This service is particularly helpful for global businesses with a workforce scattered across different countries. It streamlines the [payroll process](#) and ensures people are paid on time and in their preferred currency.

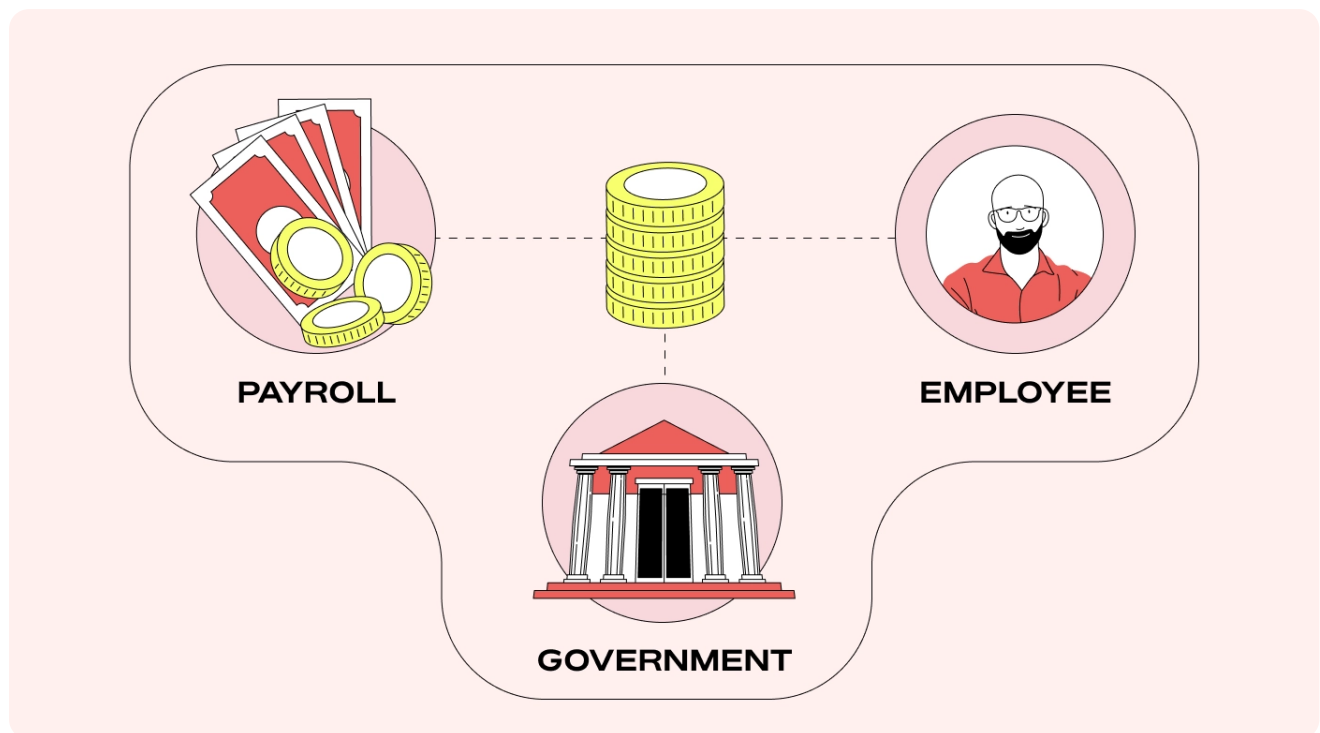
Administering employee benefits packages

EORs manage employee benefits administration. They can offer benefits packages that comply with local regulations and meet employee expectations, including healthcare plans, retirement plans, and a whole range of other perks. Some providers, like Remote, can even offer [global stock option plans](#).

Using an [EOR to manage benefits](#) can help reduce compliance and administrative burdens internally. The best EOR partners also possess localized market expertise, allowing you to develop competitive benefits packages that attract and retain talent in the countries you plan to hire in.

Withholding taxes

EORs handle tax withholding for your team members, in line with the tax laws of each person's country. This ensures compliance and reduces the risk of potential liabilities for your company.



What's more, an EOR remits the necessary amount from an employee's paycheck to the appropriate authorities.

Filing tax forms

EORs also file the necessary tax forms related to employment, such as income tax, social security, and unemployment taxes on your behalf. This helps ensure you avoid penalties and strengthens regulatory compliance.

Making contributions to government programs (like social security)

EORs manage contributions to government programs such as social security, unemployment insurance, and workers' compensation. They maintain accurate records of contributions made on behalf of both the employer and employee.

This again ensures compliance with local laws and regulations and protects both parties' interests in the event of a claim.

Maintaining compliance with evolving local labor laws

Local labor laws can change frequently and vary from one location to another, so keeping up with each country's requirements can be daunting.

For instance, your internal HR department would have to juggle minimum wage laws, overtime rules, leave policies, and other labor-related regulations in every region where you have staff.

EORs help companies stay up to date and compliant with these evolving regulations, minimizing any potential legal problems.

To learn more about what exactly an EOR does, [read our detailed guide](#).

What are the benefits of using an EOR?

Given an EOR's broad scope of services, it's easy to see the benefits of choosing this option to fast-track and simplify international employment.

Here's a detailed look at the benefits of using an EOR:

No need to set up multiple legal entities to employ global workers

If you're planning to hire in multiple countries or you don't want to set up your own entity in a specific country, an EOR allows you to hire quickly and easily. This makes it much easier to tap into global talent and explore new business opportunities.

Access to local experts on tax law and regulations

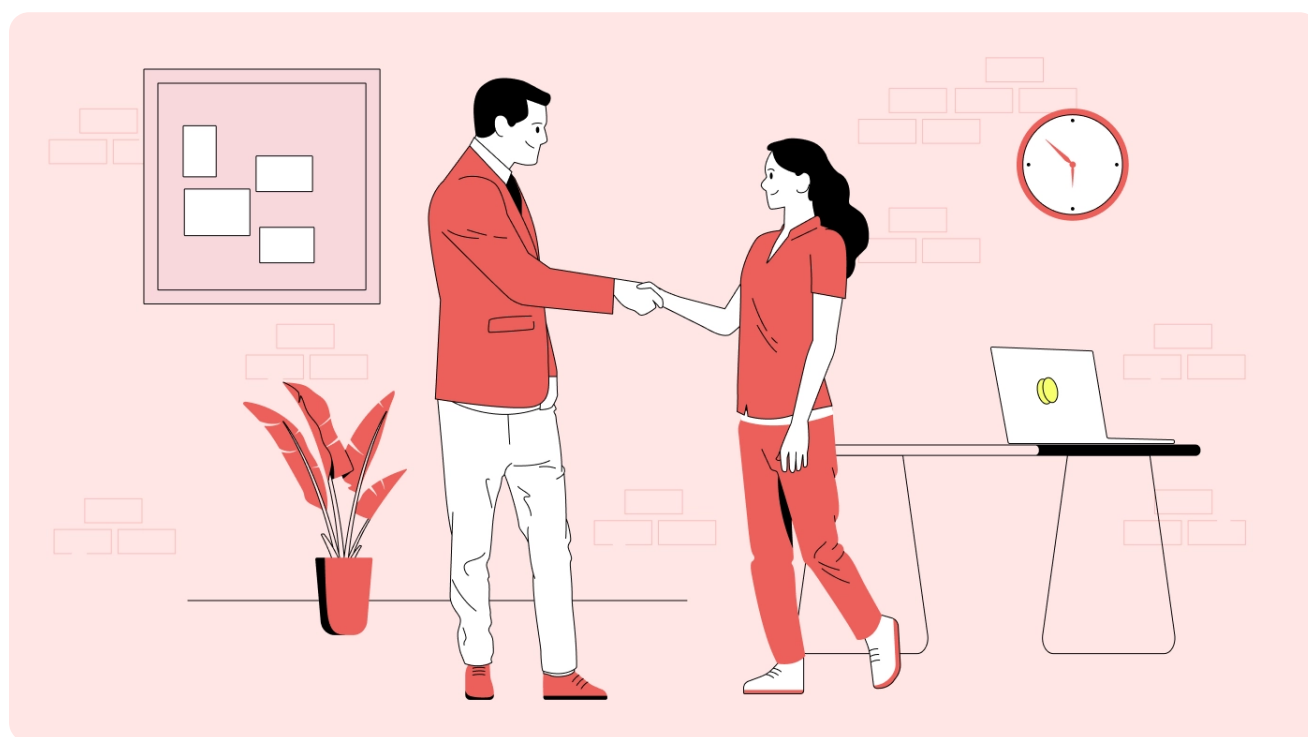
With the local expertise of an EOR, your company is free to focus on your core business functions without worrying about compliance and administration. It's the EOR's job to navigate all the complex and unfamiliar tax and labor landscapes — not yours.

Comprehensive understanding of local statutory benefits

With an EOR, your business doesn't have to worry about meeting its benefit obligations, such as paid leave, healthcare, and retirement contributions. The EOR handles everything.

Fast onboarding of new workers

EORs facilitate the swift onboarding of new employees by handling administrative tasks such as employment contracts and payroll setup. This means your company can hire new talent quickly and efficiently, even in unfamiliar markets.



An EOR enables you to start hiring right away, allowing you to expand your team globally without having to go through the lengthy process of setting up a local entity.

Intellectual property protections

EORs help protect your company's intellectual property (IP) from theft or misuse by ensuring contracts are watertight. This is essential in global operations where IP laws may vary.

Fewer classification risks

Using an EOR can help mitigate risks related to worker misclassification — the erroneous categorization of employees as independent contractors or

vice versa. Such misclassifications can lead to significant legal complications and penalties.

EORs have the knowledge to classify workers correctly according to local laws, which greatly reduces the risk of unintentional misclassification.

Less paperwork

With an EOR handling the administrative responsibilities, your paperwork is significantly reduced.

From payroll processing and tax filing to benefits administration and employment contracts, EORs streamline these processes so your company can concentrate on strategic tasks instead.

Acceleration of your global expansion plans

EORs can significantly speed up a company's [global expansion](#) efforts. They offer a quick way to employ staff in new markets without the need for a legal entity, accelerating go-to-market timelines and facilitating swift growth.

In short, for any startup or established business that's expanding internationally, using [an EOR service](#) can result in a significant reduction in time, spend, and headaches.

What are the different types of EOR service providers?

There are two main types of EOR service providers: partner-dependent and owned-entity.

Partner-dependent EOR service providers

As the name suggests, partner-dependent EOR service providers don't provide their services directly to you. Instead, they resell the services of local third parties in countries where they operate — either in all countries, or in certain ones.

This structure allows the EOR to make more margin, but it comes at the cost of less control. Partner-dependent EORs don't have the final say over their own fees, which means your monthly bills can be unpredictable. These

providers also lack control over the experience provided to your employees, which means problems can take several days to resolve.

In addition, there are security risks, as data is passed between the EOR and the third-party provider.

In short, using partner-dependent EORs can potentially create a negative experience for your employees, increase fees, and compromise your employment data.

Owned-entity EOR service providers

Owned-entity EOR service providers like Remote don't rely on third parties. Instead, they build their own local legal entities, giving them full control over billing and employee experience.

Note that Remote only operates in countries where we fully own and operate our own local legal entities. This saves you money, ensures a better experience for your employees, and guarantees maximum protection for your data and IPs.

Whichever EOR you choose, it's highly advisable to make sure it has its own entity in the countries where your employees will be working.

What's the difference between an EOR and a PEO?

You may be familiar with [professional employer organizations \(PEOs\)](#) and wonder if these companies provide the same services as EORs.

Let's briefly explain the EOR meaning and how it differs from a PEO.

What's the difference between an EOR and a PEO?



EOR

An EOR serves as a legal employer who hires and manages employees on your behalf.



PEO

A PEO serves as a co-employer who manages employees in countries you have legal entities in.

A PEO acts as a "co-employer" to whom you can outsource common HR tasks, which allows your company to focus on managing its day-to-day operations. They can assist with payroll management, benefits administration, and more.

PEO services are fundamentally different from EOR services, although some people use these terms interchangeably to refer to [global payroll services](#). From the outside, they can look very similar. After all, both handle HR tasks, including global payroll, benefits, withholding, and reporting.

However, there are a few key differences:

- You must own your own local legal entity in a country to use a PEO. For example, if you are a UK-based company with owned legal entities in Spain and France, you can use a PEO in those countries. However, if you want to hire someone in Germany, you would need to either set up a legal entity there, or use an EOR.
- Working with a PEO means entering into a co-employment arrangement; working with an EOR does not.
- With a PEO, the final responsibility of compliance with local labor laws falls to you.

In terms of cost, it ultimately depends on your circumstances and goals. If you already have a local legal entity in your hire's country, a PEO will likely be cheaper. If you don't, it's usually more affordable to work with an EOR.

Consider the following factors to help you decide which is right for your company:

- **HR support:** Which model provides the level of HR support you need? In some cases, a PEO may be sufficient. They can manage HR-related tasks while you oversee the day-to-day management of your employees. However, an EOR may be a better fit if you want a company that assumes full responsibility for compliance with local regulations.
- **Countries you plan to hire in:** As mentioned, you'll need to have local entities in the countries you want to hire in if you want to use a PEO. However, this can hamper your expansion plans. In this case, an EOR would be ideal.
- **Your budget:** Setting up legal entities in each country you want to expand in can be rather costly (\$25,000 to \$100,000). Using an EOR is far more cost-effective, as they already have the legal and tax infrastructure in place to allow you to employ individuals in different countries.

For more information on the differences between an EOR and a PEO — and which may be best for your business — check out [our in-depth guide](#).

What's the difference between an EOR and a staffing agency?

Another option that companies have to expand their operations globally is to use a staffing agency, but how does it differ from an EOR?

What's the difference between an EOR and a staffing agency?



EOR

An EOR serves as a legal employer who hires and manages employees on your behalf.



Staffing agency

A staffing agency helps your company find and hire candidates on a temporary or permanent basis.

A staffing agency acts as an intermediary by connecting your company with qualified workers on a temporary or permanent basis. They handle the recruitment and hiring process. However, you're responsible for all HR-related tasks for that employee (e.g., withholding taxes, administering benefits, etc.).

An EOR provides a more comprehensive service. Not only can they assist with the hiring process, they also act as a legal employer for your workforce meaning they handle *all* employment responsibilities on your behalf (e.g., payroll, employee management, etc.). This helps reduce legal risks and provides flexibility in scaling your workforce.

Take the following factors into account to determine the best fit:

- **Nature of employment:** A staffing agency may be a better option if you're looking to hire short-term or contract-based employees. They also manage the recruitment process, from advertising the position and screening applicants to conducting interviews and shortlisting candidates.
- **Specialized talent:** Staffing agencies have access to diverse talent pools, meaning they can help you find specialized talent for your team. They also consider your company's culture to find the right match.
- **Employment location:** A potential downside of staffing agencies is they may not have legal entities in the countries you want to hire in. This can limit your ability to operate in other countries. If you want to hire in foreign countries, an EOR is a better choice.

Learn more about the differences between an EOR and a staffing agency — and why you'd choose one over the other — in [our in-depth guide](#).

When should you use an EOR?

There are several situations when it may make sense to work with an EOR:

1. If you don't want to set up a new legal local entity

Establishing a local legal entity can be both expensive and time-consuming. In some countries, it can take months (or longer) and cost upwards of \$100,000. Unless that makes financial sense for your business, an EOR is a simple, cost-effective solution to [hiring international workers](#) quickly and easily. You can have employees ready to work within days for a simple flat fee per worker.

2. You need to employ international workers for non-contract work

Although it's possible to use international contractors, not all jobs can be classified as contract work. [Misclassifying employees as contractors](#) opens you up to serious consequences such as fines and penalties. In these cases, an EOR is a great choice.

3. When an existing employee relocates

As remote work becomes more commonplace, employees are less tied to one physical location. Workers today can move freely around the world without giving up their jobs. An EOR is a quick and easy way to retain employees who choose to relocate. With an EOR, you can even hire digital nomads moving from country to country.

4. You have concerns about worker classification

More and more countries are actively cracking down on employee misclassification, and employers must be careful and ethical about properly classifying employees. That said, definitions and enforcement vary from country to country. A reliable EOR partner will have local expertise to help you classify employees and contractors properly, thereby reducing your misclassification risk.

5. You need to protect your IP globally

Working with international employees and contractors can expose your intellectual property to novel risks if you aren't careful. Owned-entity EORs offer superior IP protection, which can give you peace of mind as you expand your global team.

6. You lack expertise in international tax and employment law

Hiring an employee in a new country means needing to learn how taxes work in that country, as well as complying with a whole new set of employment laws.



What is included in an EOR agreement?

An EOR agreement typically includes several components:

- Assignment of the worker's legal employment to the EOR
- Transfer of IP created by the worker from the EOR to your business
- The employee's salary
- The employee's benefits
- Any required social contributions, like social security
- Terms of payment

- Length of agreement

It's important to note that some EORs may ask you to sign an exclusivity clause, locking you into a contract with that provider for multiple years. These exclusivity clauses could significantly harm your business if your chosen provider doesn't meet expectations, as they would prevent you from switching to a new provider.

Remote never includes exclusivity clauses or long-term commitments in its EOR agreements, giving you the freedom to make the right choice for your business.

Does an EOR manage payroll?

Yes, an EOR manages payroll for your international employees. Your EOR handles everything related to payroll for your employees, including deducting taxes and mandatory social contributions, as well as contributions for benefits like private health insurance. In addition to payroll, EORs also manage benefits, local tax filing, and compliance.

Five key steps to using an EOR to hire international employees

By leveraging an EOR, your company can focus on its core competencies and leave the complexities of international employment to an experienced provider.

Here are five steps to effectively use an EOR to hire global talent.

1. Research EOR providers

There are a lot of EOR providers out there, so choose the one that aligns best with your needs and budget. Practice due diligence and investigate a variety of EOR providers, their offerings, and their price points.

See also: [How to compare EOR providers](#)

2. Analyze customer reviews

No one tells the truth quite like a customer. Seek reviews and feedback from existing customers of the EOR you want to use. In particular, value feedback from reviewers with needs similar to those of your own business, as your experience with the EOR will likely be similar.

See also: [How Swell saves time with stress-free international hiring](#)

3. Consider the experience of your people

Since the EOR will handle your team members' payroll, benefits, and other HR tasks, it's important to work with a partner that will treat your team with respect. These interactions include onboarding, getting paid, and dealing with tax season.

See also: [What is it like for your employees when you choose Remote?](#)

4. Pay your workers appropriately

To attract and retain the best talent, it's crucial to offer a salary that is competitive and aligned with local market rates. A good EOR can guide you in determining the right salary for your employees in regions where you may not have much experience.

See also: [How to calculate compensation for remote employees](#)

5. Safeguard your IP

Your IP is the lifeblood of your business. Without protections in place, you could end up fighting costly legal battles in foreign courts under laws you may not know.



Avoid the hassle by working with an EOR that provides the maximum protection for your IP and invention rights.

See also: [IP and invention rights for companies with remote workers](#)

How much does an EOR cost?

Most EORs use either a flat fee or a variable pricing model. Here are the pros and cons of each model:

Flat fee EOR pricing

A flat fee model involves a single fee per employee, usually on a monthly or annual basis. Paying annually is typically more cost-effective, although paying monthly offers greater flexibility.

Flat fee pricing has several advantages. For example, you can employ as many people as you want at any salary, and your bill will never change based on how much you pay your employees or what benefits you choose to offer. This is the preferred option for most companies.

Remote offers low flat fee pricing in every country where we operate. We are committed to transparency, which means we never charge you hidden fees or percentages. To learn more, see the [Remote Fair Price Guarantee](#).

Variable EOR pricing

A variable pricing model charges a percentage of your employee's salary. Under this model, the amount you pay depends on how much your worker earns. If you have low-paid employees, this solution might be cheaper than a flat pricing model. However, as your employees earn more, your EOR expense increases.

This model discourages wage increases, which can make your company less competitive for top talent in the area.

Remember, variable pricing means your fees are subject to change based on the whims of your EOR provider. In general, this model is less predictable and less desirable than a flat pricing model.

See also: [How to compare EOR providers](#)

What are the alternatives to using an EOR?

If you don't want to use an EOR to hire international workers, you have two choices. You can either work with contractors, or you can decide to establish your own local legal entity.

Hiring global contractors

If you don't have a local legal entity and don't wish to use an EOR, you can still hire [global contractors](#). This can be a great way to grow your business or handle time-sensitive tasks without onboarding new employees.

However, if you treat your contractors like employees, this can create significant misclassification risk. It's important to be aware of these risks and understand how to avoid them.

See also: [How to hire independent contractors](#)

Establishing a local legal entity

If you wish to hire employees in another country without an EOR, your only other option is to establish your own local legal entity. To do this, you must file the proper paperwork with local authorities and prove your case as a registered business. Note that each country has different requirements,

which may include having a certain number of employees or even establishing a physical presence in the country.

In some countries, establishing an entity can be relatively painless. However, in others, it can take several months and cost tens of thousands of dollars. Ultimately, it depends on the location itself and your company's future hiring goals.

Establishing a local legal entity may not make sense for a handful of employees. But if you want to open an office and hire, say, hundreds of workers, opening a local legal entity may be the best option. **See also:** [The real cost of opening a business entity](#).

Using an EOR as an interim solution

If you do choose to establish an international entity, an EOR can help you accelerate your plans by allowing you to start employing local workers without waiting. You can employ your team members through the EOR until your local entity is ready, then transfer the employee agreements to your newly established company.

Once you've transitioned, you can also then use Remote's payroll, HRIS, and benefits services to keep everything streamlined and familiar for your team members.

Remote EOR services

No matter where you want to hire, Remote can help.

We can help you with onboarding workers, managing payroll, handling tax withholding and reporting, and creating and administering locally compliant benefits packages. Our software provides easy access and reporting for all your global employees and contractors.

Ready to start employing team members in other countries using Remote? [Sign up now](#) to begin onboarding employees and contractors in minutes!