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# Are Remote Working Arrangements Causing You Pain?

*Remote Work: Navigating the Talent and Compliance Challenges of the Global Workplace Reboot*

Jeanette Addington, Ludowici Roof Tile, Inc.  
Daniele Carey, Plante Moran  
Adam Garn, Plante Moran



# Agenda



Remote work - context



U.S. multistate tax implications



International income tax considerations



Where next?



# Prior to the onset of COVID-19, remote work was gaining momentum across the US

The number of non-self-employed workers who regularly work from home has grown rapidly in the past 15 years.

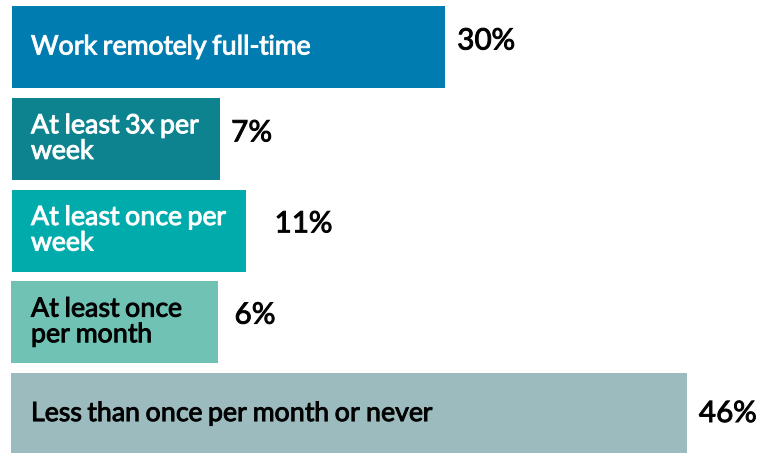
## +173%

Regular work from home grew by 173% between 2005 and 2018, 10x faster than the rest of the workforce

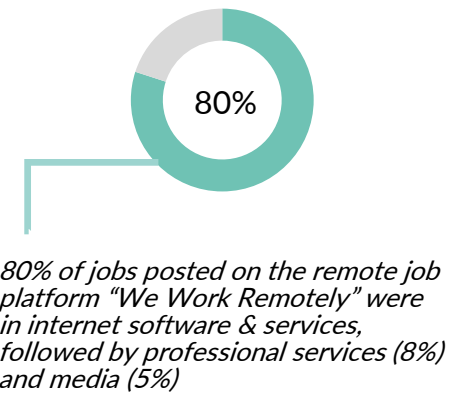
## 5M

5 million employees, or 3.6% of the U.S. workforce, worked-at-home half-time or more as of 2018

A 2019 remote work report found that 54% of U.S. respondents worked remotely at least once a month



As expected, the technology sector has historically been the biggest proponent of remote work



Sources: Owl Labs "State of Remote Work 2019", Global Workplace Analytics "Latest Work-at-Home/Telecommuting/Mobile Work/Remote Work Statistics", We Work Remotely "Remote Work Trends"



# Remote working can create a productive platform for success across multiple variables

## Benefits to the company

### Real estate cost savings

Remote working can substantially reduce real estate spend through divestiture and diversification of real estate investments

### Labor cost savings

Early research indicates that employees would be willing to trade as much as 10% of their compensation for the ability to move to a lower-cost area and work remotely

### Amplified talent access

As top tech companies set the stage for robust remote work offerings, others will be pressured to adopt similar programs to remain competitive. remote work programs create access to net-new talent pools

### Increased engagement

Flexible schedules can increase engagement by as much as 30%, and reduce employee turnover as much as 12%

### Reduced emissions

Reduced real-estate holdings, commuting and business travel ultimately decreases company carbon footprint

## Benefits to the workforce

### Enhanced flexibility

Workers have greater flexibility with regard to where they work, with a 2019 study finding that 44% of remote workers travel and work outside of their home city one week – one month a year

### Cost savings

Employees can save up to \$7,000 a year on the commute, clothing, meal, and child care expenses associated with working from offices

### Improved inclusion

For example, a June 2020 survey found that more 7 in 10 U.S. employees feel that remote work resulting from COVID-19 will accelerate gender equity in the workplace

### Greater productivity

Upwards of 50% of employees feel that they are equally or more productive when working from home, saving time from commuting and other in-office distractions

### Increased wellbeing

A recent study found that 86% of people believe that working remotely alleviates stress and improves general well-being and health

Sources: Buffer "State of Remote Work 2019", Remote Bliss "Remote Working Statistics & Trends", SHRM "Majority of Employees Embrace Remote Work", Culture IQ "10 Stats You Need to Know about Culture, Covid, and Work", FlexJobs "Annual Survey: Workers Believe a Flexible..."



# Remote work has a number of implications



## Talent & HR Operations

- Safety and security
- Rewards
- Workforce strategy and policy
- Operating model and org design



## Physical & Virtual Workplace

- Workspace strategy and analytics
- Workspace technology
- Virtual workplace provisioning



## Technology & Operations

- Cyber and data security
- Operations
- Technology
- Third party



## Finance & Regulatory Compliance

- Employment law/HR Compliance
- Finance
- Immigration
- Payroll and Employee Corporate Tax

What is your post-COVID ambition for the future of **work, workforce, and workplace?**  
What **tax risks** might be associated with that ambition?



## Polling Question: Where is your organization today?

- A. *We want our employees back to work as soon as possible*
- B. *We will allow employees to work remotely until at least to end of 2021*
- C. *We are considering a permanent transition to remote working*
- D. *We are already fully remote*
- E. *We are evaluating our options*



**Polling Question:**  
**How many of your employees are currently working away from their usual work location?**  
(not in the same work state or country?)

- A. 0-10%
- B. 10% - 25%
- C. 25% - 50%
- D. 51% - 75%
- E. *Unsure*



# The tax implications of remote work

Many organizations are considering making remote work permanent for all, or parts of their workforce. What are the tax considerations of such a transition? And how can organizations address them?

Generally, any COVID-19 tax compliance relief for remote workers has been temporary in nature.

Companies will need to evaluate longer term remote working arrangements against existing regulatory rulesets, and assess and manage the impact of:

1

New filing requirements

New locations for corporate and employment tax filings

2

New withholding requirements

New employment tax requirements

3

Shifting tax costs

Potential change in effective tax rates

4

Tax risk management

New compliance requirements and potentially expanded regulation tracking

Tax and other departments will have a critical role to play in shaping remote work policy, but may also have a whole new stream of unforeseen work (retroactive corrections and ongoing compliance), requiring significant time and resources.





# Understanding the U.S. multistate tax implications

## Corporate Income/Net Worth Tax

- Nexus
- Increased filings
- Apportionment changes

## Local Taxes

- Increased filings

## Credits and Incentives

- Impact

## Sales & Use Tax

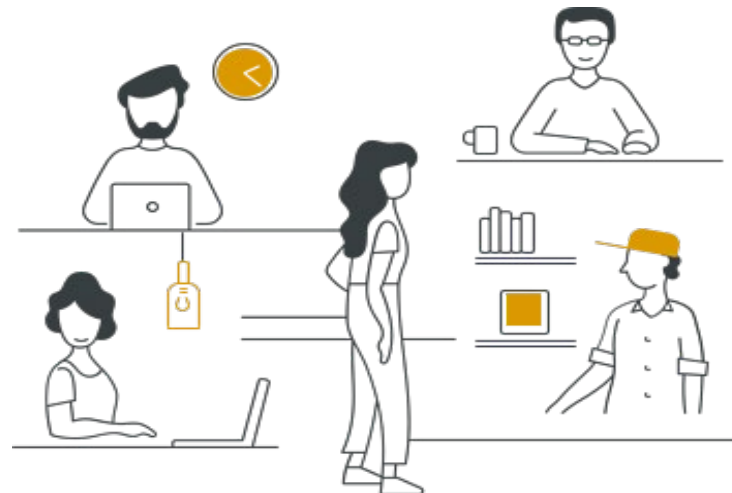
- Nexus
- Increased filings
- Other Impacts

## Property Tax

- Increased filings

## Employment Tax

- Payroll reporting and withholding
- State registrations
- Sourcing of employment compensation
- Tracking business travel and expenses
- State unemployment insurance





# Understanding the U.S. multistate tax implications

## Unemployment tax

*Employers must pay unemployment taxes to states with jurisdiction over the wages paid to remote employees. States use a multi-step test for attributing unemployment taxable wages.*

### Step 1: Primary Jurisdiction

- If an employee works primarily in 1 jurisdiction, attribute there.
- Remote work wages may be reportable to where work is performed.

### Step 2: Base of Operations

- If there is no primary jurisdiction and the employee performs work at their operations base, attribute to the base's jurisdiction.

### Step 3: Directed or Controlled

- If there is no base of operations, attribute to the jurisdiction from which the employee's work is directed and controlled.

### Step 4: Place of Residence

- If no jurisdiction contains a place of direction and control, attribute to the employee's residence if the employee works there.

### Step 5: Employer Choice

- If no jurisdiction applies under the 4 steps, jurisdictions typically let employers choose to attribute work to 1 jurisdiction.



# Understanding the U.S. multistate tax implications

Governor DeWine announced that most health orders related to COVID-19 would be lifted on June 2, 2021.

- The provisions of Section 29 (of House Bill 197) sunset 30 days after the end of the emergency period. The Governor did not indicate whether he is lifting EO 2020-01D.

The provisions of Section 29 were intended to provide relief to employers from the administrative burden of withholding and remitting tax to each employee's municipality of residence.

- But it did not expressly address which jurisdiction (place of residence vs. principal place of work) could tax a teleworking employee's wages.
- This has given rise to employee challenges to those provisions.

## Action Items:

- Employers and employees should continue to monitor Ohio legislative, administrative and judicial activities surrounding the withholding and sourcing of municipal income taxes during COVID-19.
- Ohio employees will want to monitor this legislation and consider filing for refund claims if they had taxes withheld by the employer based on principal place of work while working from home due to COVID-19.
- Employers should expect that their employees will look to them for assistance in complying with both the refund provisions and the application of new work location sourcing rules.
- To the extent employees continue to work from home after the COVID-19 restrictions end, their employers will at a minimum need to set up systems to track employee work locations to comply with municipal tax withholding requirements once Section 29 no longer applies.



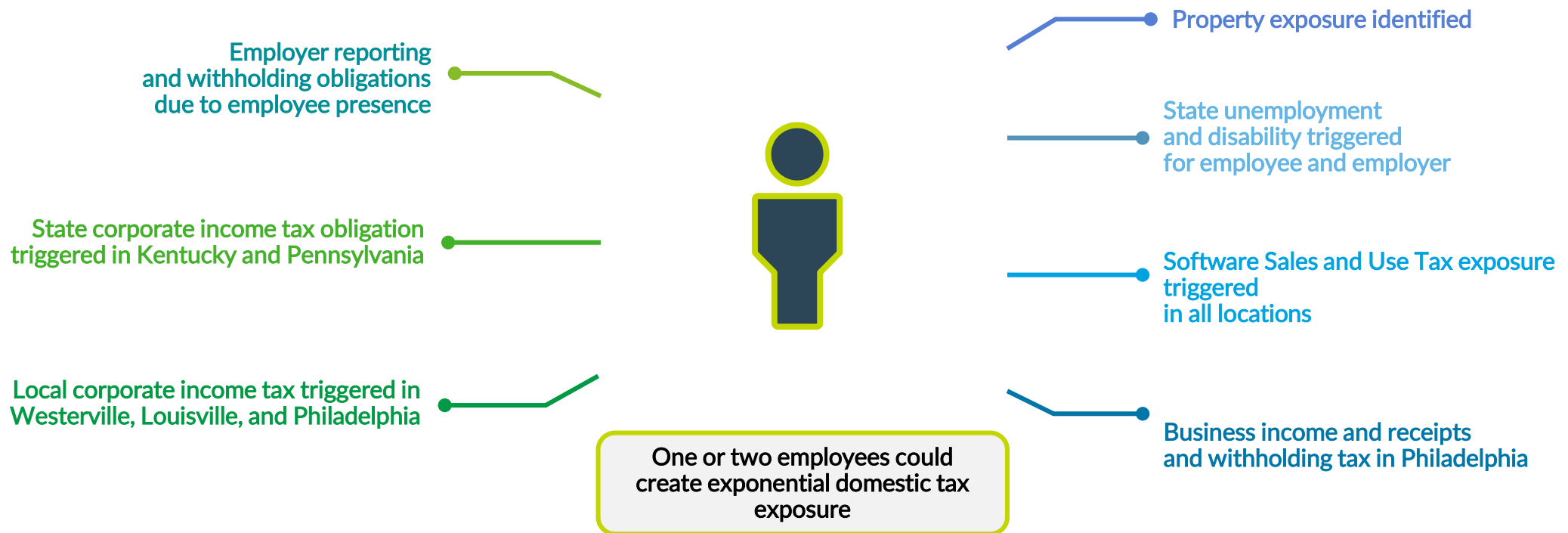
# U.S. implications - example

A company has three professionals whose primary work location was previously the headquarter location in Columbus, Ohio, who are now working remotely in Westerville, OH, Philadelphia, PA and Louisville, KY.

The company's sales are concentrated in Ohio, Pennsylvania and Kentucky.

The company did not have nexus in Pennsylvania or Kentucky prior to the remote work arrangement, due to P.L. 86-272.

How could a few employees disrupt the business?





# International income tax considerations

## Corporate Income Tax

Permanent establishment (PE)

Tax residence

Transfer pricing

US income character

Financial statement reporting

## Employment Tax

Licenses and permits

Immigration

Employment tax withholding

Social security – compliance and costs

Sourcing of employment compensation

Expenses and benefits

Tax treaties and cooperative compliance

## Credits and Incentives

Loss/adjustment of incentives

## Employee's Position

New filing requirements and double taxation



**Polling Question:**  
What tax actions have you already taken in considering your remote work strategy?

- A. *We have done a full analysis*
- B. *Evaluated the impact from an employee withholding standpoint*
- C. *Considered PE/nexus issues and employee withholding*
- D. *We just started thinking about it*
- E. *No action taken...yet*



**Polling Question:**  
Which tax area do you consider will be the most impactful in influencing your remote work strategy?

- A. *Corporate tax/PE/Nexus*
- B. *Sales and use tax*
- C. *Employment taxes*
- D. *Credits and incentives*
- E. *Other tax areas*
- F. *All of the above*



# The workforce of the future

## What are we hearing the market?

*Employee priorities are shifting on location, benefits and skills:*

### Remote work is a top priority for young workers

- Nearly half of Gen Z (45%) and millennial (47%) employees surveyed said they are willing to give up 10% or more of their future earnings in exchange for the option to work virtually from almost anywhere
- 80% of U.S. workers say they would turn down a job that did not offer flexible working

### 22% of U.S. workers are considering or planning to move more than 50 miles away from a core office location, either permanently or temporarily

- Spike in suburban and rural home sales
- States with lower tax rates or states with lower cost of living

### Workers equate personal time with pay

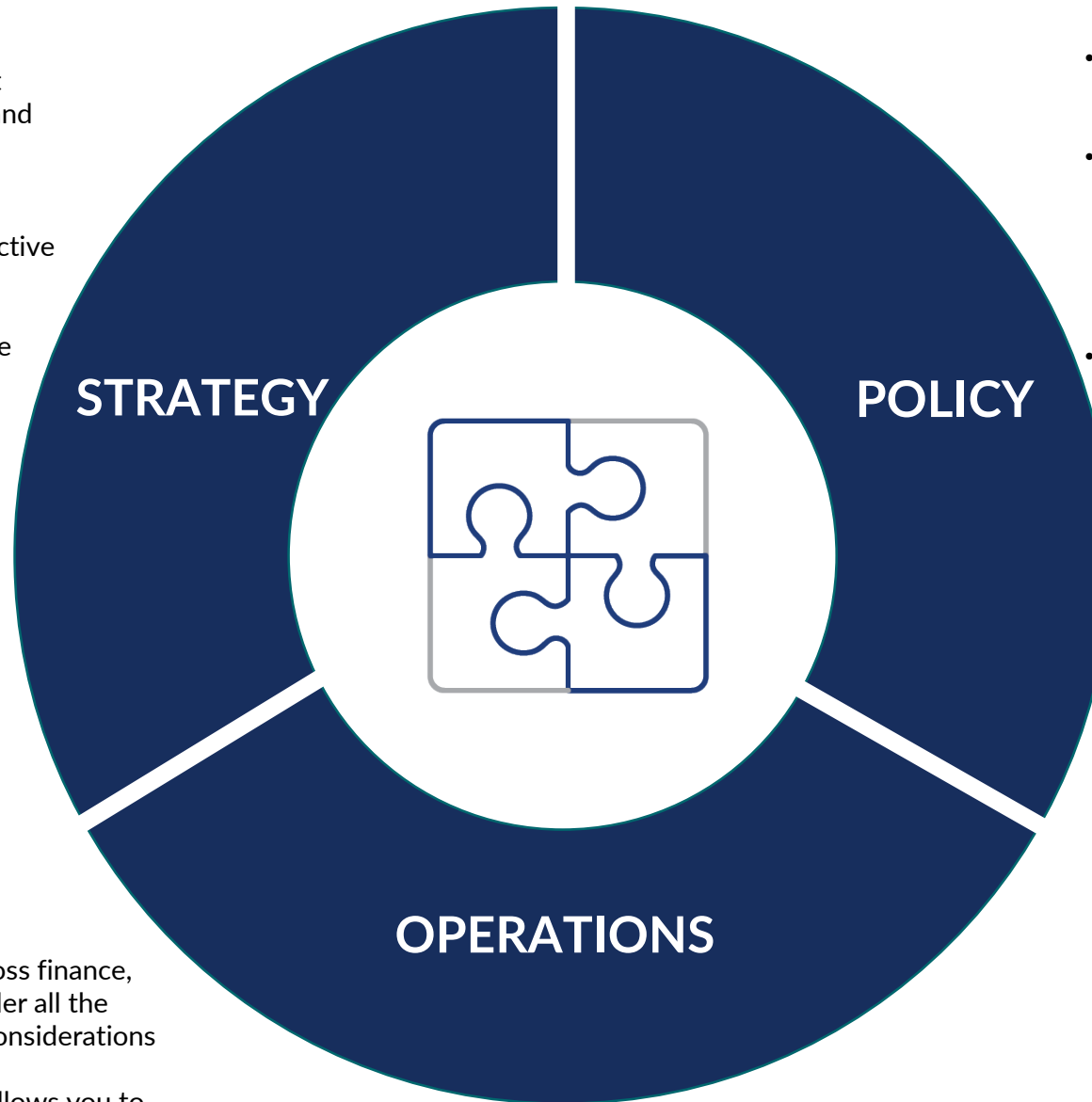
- One-third of employees value non-traditional benefits like paid time off to volunteer

*Source: PwC Workforce Pulse Survey, March 9-11, 2021: base of 1,515*





# What should organizations be doing next?



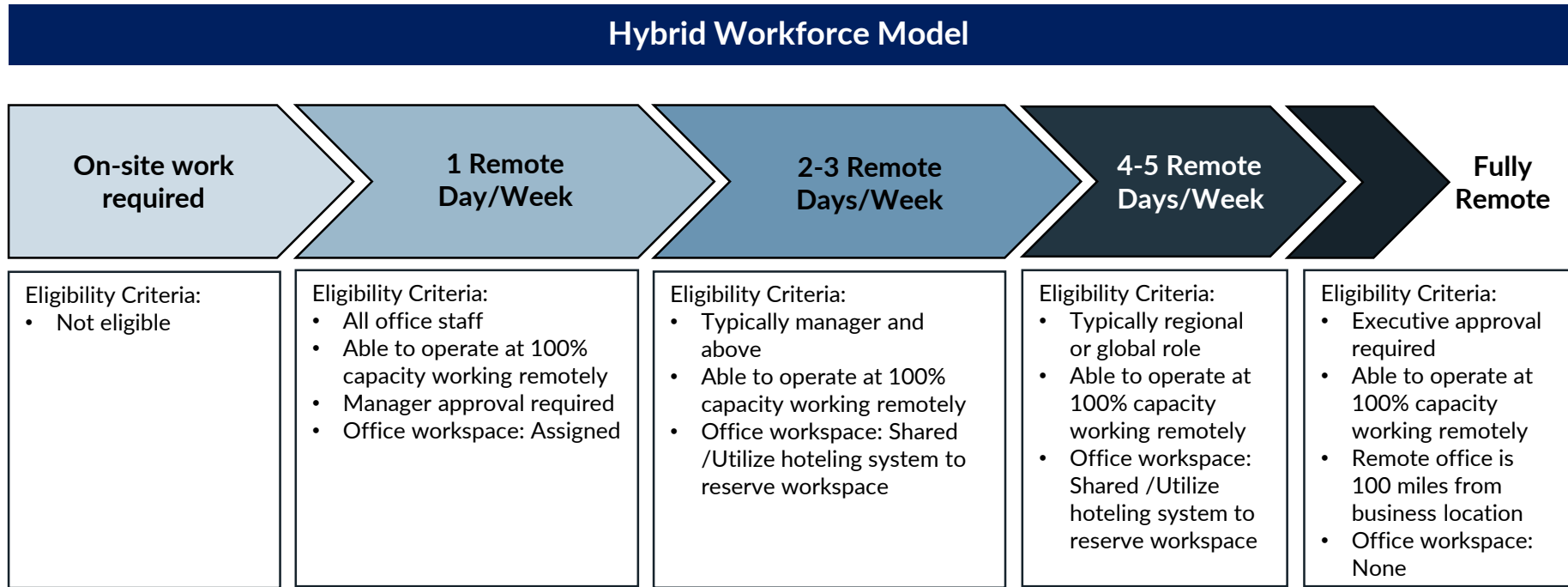
- What the remote program should look like
- Sound policy lays out the roles, experience and performance requirements for workers to be eligible for long-term remote work
- Policies must include compliance analyses to quantify risks, continuous data tracking and reporting, and an understanding of employment tax compliance risks, income tax withholding and filing requirements, and entity and payroll registration requirements

- A clear, documented strategy that aligns with your overall business and talent strategy while minimizing organizational risk
- Articulate key organizational objective and implications
- Why you are establishing a remote work program

- Need a cross-functional team across finance, legal, HR to ensure policies consider all the different facets of remote work considerations
- An organizational structure that allows you to operate in a tax compliant manner, anticipating global and local compliance requirements



# What should organizations be doing next?

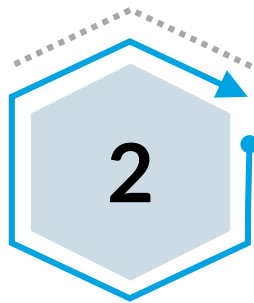
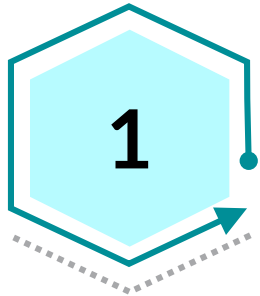




# What should organizations be doing next?

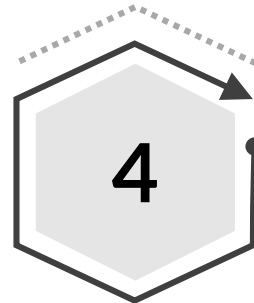
Tax can play a critical role in shaping the future of remote work at an organization. For those organizations starting out on the journey, we recommend:

Connect with your stakeholders – tax should not be an island in this process, plug into the wider strategy



Gather the data – understand where your employees are, or could be, if you implement remote working

Analyze the likely compliance, operational and cost change that will be brought about by remote working

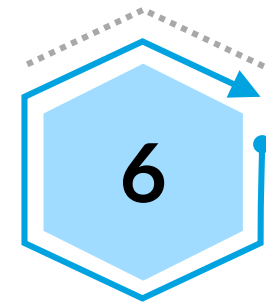


Identify your red lines

Develop your tax policy and implement it into the broader remote work strategy



Develop your compliance response – will you have more work to do, how will you do it?  
Do you have the resources necessary for the activities required?





# Contact Information



Daniele Carey

E-Mail: [Daniele.Carey@plantemoran.com](mailto:Daniele.Carey@plantemoran.com)

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Adam Garn

E-Mail: [Adam.Garn@plantemoran.com](mailto:Adam.Garn@plantemoran.com)

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Jeanette Addington

E-Mail: [Jeanette.Addington@ludowici.com](mailto:Jeanette.Addington@ludowici.com)

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