



Building a better
working world

The tax implications of telework

Employment Tax Advisory Services

According to the [Pew Research Center](#), in March 2020, 40% of adults ages 18 to 64 reported they had worked from home due to the COVID-19 outbreak. During this crisis, working from home has provided an essential job safety net to workers while containment efforts are underway.

Now, as businesses begin to reopen, they are considering other benefits of teleworking – reduced real estate costs and employee satisfaction, to name a few.

It is likely that COVID-19 has sparked a new upward trend in telework arrangements that will survive beyond the immediate crisis.

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Our best estimate is that 25 to 30% of the workforce will be working from home multiple days a week by the end of 2021.

– Kate Lister
President of Global
Workplace Analytics

The projections of cost savings through telework arrangements can be a significant motivation to shift workers away from the traditional office setting; however, the importance of carefully considering the tax implications cannot be overemphasized. Depending on the facts and circumstances of each teleworker, complex interactions can occur such as the unexpected triggering of state and local nexus that creates new business tax obligations and expenses (e.g., sales and use tax, local licensing fees) that would not otherwise apply.

Employees, too, may face unexpected tax consequences as a result of working from home if the arrangement creates new and higher state and local income and payroll taxes or the taxation of their travel expenses and employer-reimbursed home office expenses.

The administrative burden and associated costs of complying with state and local payroll tax rules should also be considered. Each state and local taxing jurisdiction has unique laws and regulations for when resident and nonresident wage taxes apply. Telework can increase the number of taxing jurisdictions for withholding and reporting and continuous monitoring of employee movement and diligent recordkeeping are required to reduce audit risk.

Undertaking a comprehensive tax analysis is imperative before finalizing telework policies.

Tax considerations for teleworkers

Federal taxability of business expenses

- ▶ For travel expenses, does the home office meet the IRS definition of a primary work location?
- ▶ For home office expenses, is work from home for the necessity of the employer?

State and local payroll taxes

- ▶ Is the home office the primary work location for employee withholding taxes?
- ▶ Is work from home for the necessity of the employer?
- ▶ Is the home office the primary work location for unemployment insurance and similar taxes?
- ▶ For all of the above, does a specific exception apply for work from home due to COVID-19?

Nexus for business taxes

- ▶ Does an employee's home office create nexus for the requirement to withhold state and local income tax and similar taxes for other employees who reside in the same jurisdiction but don't work there?
- ▶ Does the home office create nexus for business taxes (e.g., sales and use and corporate income tax)?
- ▶ For both of the above, does a specific exception apply for work from home due to COVID-19?

How we can help



1. Analyze target population of teleworkers

Based on the results of our information request provided to you, we can:

- ▶ Advise on identifying employees who may/may not meet the federal parameters for excluding travel expenses and/or home office expenses from taxable wages
- ▶ List the states and localities where income tax withholding and similar taxes may apply (may require our geocoding services depending on the geographic locations of potential telework)
- ▶ List the states where unemployment insurance and similar taxes may apply and advise regarding potential increase/decrease in taxes as result of shifting to work from home
- ▶ Assist with identifying where new state and local nexus applies and new business taxes triggered
- ▶ Assist in preparing a cost-benefit analysis for telework
- ▶ Assist in identifying the final list of employees who will be offered telework arrangements



2. Documentation of taxing requirements

- ▶ Compile the list of requirements for state and local withholding and employment taxes for your final population of teleworkers
- ▶ Provide documentation of the parameters for determining when travel expenses and home office expenses are excluded from federal taxable wages
- ▶ Create road maps, decision trees and matrices for the taxing requirements when employees split time between the home office and other work locations for all anticipated locations



3. Policy design and implementation support

- ▶ Assist with developing an approval process for telework arrangements and workplan steps once a telework agreement is approved
- ▶ Assist with developing telework policies or review existing policies, taking into account the variables for the targeted telework population
- ▶ Assist with developing employee telework agreement templates and identify any required employee attestations
- ▶ Assist with developing employee communications, frequently asked questions and training
- ▶ Assist in the preparation of outside vendor guidance and assist with documenting system limitations

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