



Perspectives

Where are your
employees working?

The tax implications of remote working

Where are your employees working?

The tax implications of remote working

The landscape of remote work has evolved at an unprecedented pace over the past two years of the COVID-19 pandemic. Meantime, news headlines are still riddled with delayed return-to-office announcements and new hybrid work commitments.

Hybrid and remote-working models have become the norm more quickly than anyone envisioned pre-pandemic. But the shift to remote and hybrid work regimes adds layers of complexity for tax teams. Everyone will need to address the tax implications of remote working, both for the employer and the employee. And when remote working is cross-border this can be a complex picture.

Following the peak of the pandemic, employers continue to grapple with the implications of working remotely. Remote working raises a myriad tax-related issues for companies to consider and proactively address.



**UNDERSTAND
THE TAX AND
COMPLIANCE RISKS
OF REMOTE WORK**

What does this mean for the business and the employee?

The pandemic challenged companies to think differently about how and where their employees work. During the crisis, some companies announced (semi) permanent flexible “work from anywhere” policies, and now we see some companies telling employees that they may not need to return to the office.

This is part of an employee-focused approach which demonstrates flexibility and support for employees who prefer to work from an alternative location. It also enables potential corporate benefits such as reducing real estate footprint and enabling access to a wider talent pool.

In this paper, we explore the questions tax leaders should ask if they are considering remote work as part of their future workforce strategy, and what they should think about next to manage this new way of working.

A new reality has emerged, and tax leaders need to take a longer-term view to shape the future and consider four imperatives to address and manage the current and future potential tax compliance risks of working remotely on a longer-term or permanent basis to limit any tax exposures.

Remote work, and the tax considerations involved when supporting employees with this type of flexible work location arrangement, are not new. However it is amplified when individuals work on a longer term basis from a location other than where the company intended them to work. Before COVID-19, remote work may have been a low risk, confined to only a few employees. However the pandemic has resulted in remote working for significant parts of a workforce, for an extended period, amplifying the challenges.

While global mobility teams sought to identify as a priority the whereabouts of international assignees and begin to assess compliance risks, many regular ('non-assignee') employees have been working remotely, out of location – some for many months now. With businesses struggling to keep track of their workforce, and with the looming threat of compliance irregularities, they are starting to ask some tough questions: Do we know where our employees are? Do we know what they are doing and how long they have been doing it? How can we incorporate remote work into our global workforce strategy and remain compliant?

We expect one outcome of the crisis will be the need for tax revenues to increase and governments will be looking for additional revenue sources. It is possible that they will focus on the issue of remote workers to find some of that revenue. In the short term, many jurisdictions have introduced temporary COVID-19 related relaxations and reliefs into their tax laws but some have not – leaving existing legislation to determine the rules. With remote work becoming more long term or permanent, even those countries with temporary relief measures in place will start to alter their focus. As a result, companies need to act now to implement guidelines and guardrails around remote worker policies including eligibility criteria and approval routes, location identification and associated due diligence.

Potential risks include:

- Corporate tax compliance risk implications due to mismanaged remote work decisions and under the radar remote-working
- Increased and unbudgeted costs for the company (e.g. employer social security)
- Poor employee experience and risk when individual income tax implications are not assessed in advance or appropriately conveyed
- A focus on compliance challenges could lead to talent not being seen as a strategic imperative

Companies should not ignore the issue of employees working outside their normal tax jurisdictions. For these employees, employers risk substantial fines for compliance failures unless their tax payroll processes can adapt. With government revenues under significant pressure, the impetus to scrutinize employers for payroll irregularities is greatly enhanced. One outcome may be that tax authorities apply the existing law more strictly. Another is that we will see new laws to address the issues created through remote work.

Clearly, companies need to have a framework to capture and adequately address these compliance risks and a process to track employees' work locations. So as a leader, what should you be thinking about next?



Questions leaders should ask if they are considering remote work as part of their future workforce strategy

The answers to these types of questions will help organizations set the direction of their go-forward workforce strategies to thrive post COVID-19.

PREPARE FOR THE THE FUTURE WORKPLACE



TAX

- How is the employee tracked? And are systems equipped to recognize different living vs. working jurisdictions domestically and internationally?
- What are the broader domestic and international tax implications to the employee (income/corporate tax, social security, etc.)? And how will these be handled?
- Should any roles or locations be excluded from remote working arrangements?
- How does the organization address remote workers that have inadvertently triggered compliance risks (individual, employment, and corporate tax)?
- What happens when an employee is located in one country/state but working for an entity in another? At what point is nexus or permanent establishment triggered?
- How can clear cost projections be obtained to avoid 'surprises' given that income tax and social security costs can vary considerably across jurisdictions?



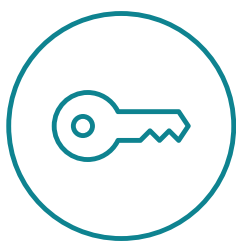
LEGAL/RISK

- Is there already an entity registered in the location the employee wishes to work?
- Or is there a requirement for the entity to register in the remote work location?
- Have employment contracts, where applicable, been reviewed including jurisdiction and employment law requirements according to the remote work location?
- Have the implications of changes to employment terms and remuneration been assessed together with any immigration requirements (depending on where the individual is working from)?
- How will intra-company agreements be adjusted and cross-charging handled when costs are borne by one entity, but the employee is employed by another?
- What is the company's tolerance for legal and compliance risk? For example, Are there "no go" locations because of risk?
- Is the location safe from an intellectual property standpoint?



HR

- How does the approach to remote workers tie to the broader talent strategy?
- Should individuals be permitted to work from any location or just from 'home'?
- What is the remote work approval process? Are any HR information systems (HRIS) changes required?
- How frequently can individuals change their remote work location?
- What changes should be made to global rewards and benefits programs for remote workers? For instance: Benchmarking to local salary and benefits of the remote work location for non-assignments? Consideration of international or regional pay scales?
- What should a remote working or virtual assignments policy include? (i.e., home office set up?)



CONSIDER PEOPLE,
TECHNOLOGY AND
PARTNER WITH
GLOBAL MOBILITY
TO ENABLE A GLOBAL
REMOTE WORKFORCE

The practical steps to roll out a remote work strategy

Deloitte's view is that companies should develop an action plan that addresses current and future potential tax compliance risks. We believe it is essential to adopt a holistic view to enable individual cases to be controlled and assessed (from a corporate tax, employer and employee compliance perspective) and that there is appropriate tracking and identification of the type of entity that employs the individual.

Here are four actionable steps:

1. Assess people exposure and risks

- a. **Data collection:** Start by gathering data on remote workers to understand size and levels, locations, timeline, etc.
- b. **Risk assessment:** Identify and assess the immediate compliance risks and downstream impacts (tax, payroll and reward impact). The end goal is to use the key findings to develop policies and processes to manage long-term risks.

2. Consider digital tracking technologies and monitor potential tax triggers

Travel tracking, analytics and communications tools can be used where permissible to pre-empt tax exposure, locate workers, and enable remote work. For example, travel tracking dashboards and program analytics, including benchmarking and modeling (for data on policy usage, travel patterns, spend, and performance) can support strategic decisions, while communication hubs and agile communication channels (such as mobile apps, text, chat bots, and video) can be used to drive compliant behavior.

Leverage automated technologies to track location data, such as employee-friendly calendar apps with built-in location services. This will help employers to manage employee expectations in terms of tax withholding and income reporting, as well as the employer's fiduciary responsibilities around tax compliance.

- a. Implement digital solutions that analyze data and report risk based on a rules engine.
- b. Be proactive in keeping up with the latest regulatory updates and consider their applicability and impact to your remote workforce .
- c. Reassess risk exposure on a frequent basis.

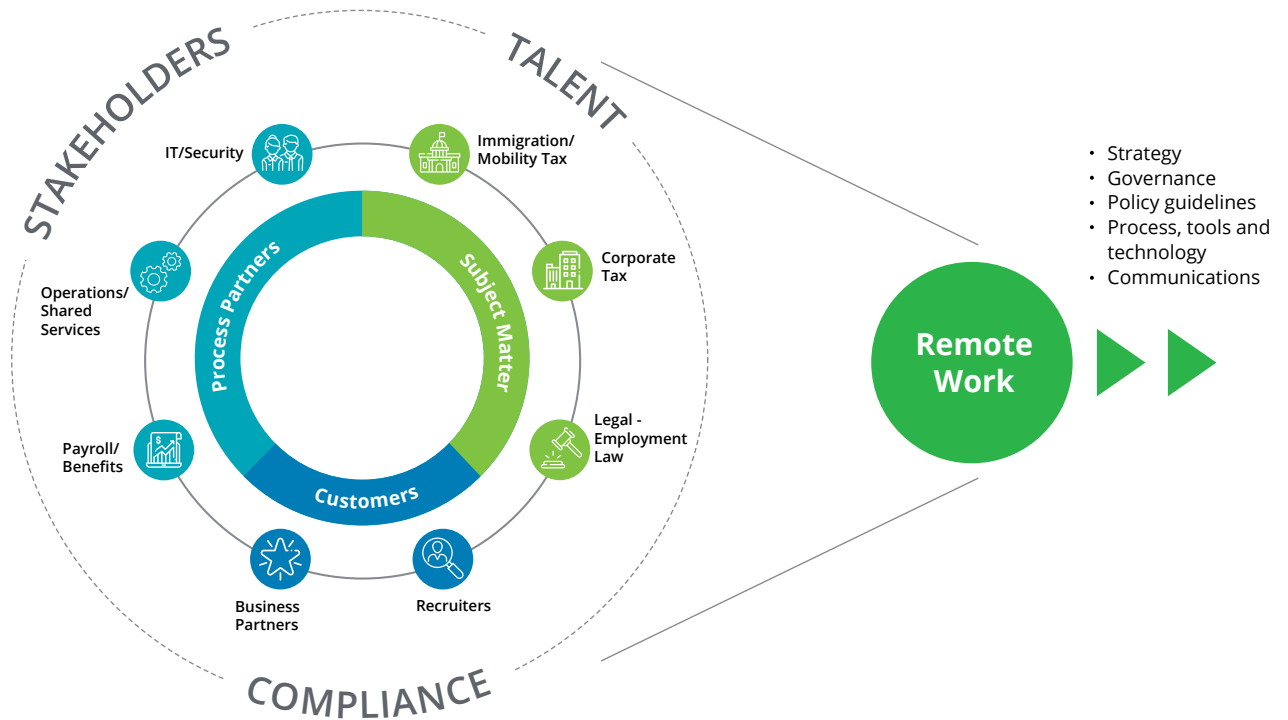
3. Use multiple data sources to help with understanding workers' whereabouts

Data sources can include travel and expense reports, HRIS systems, Virtual Private Network (VPN) data, surveys or calendars where employees are asked to opt in and validate their location. Once the location data are validated by the employee, it can be imported into an analytics solution to identify risk exposures and compliance obligations based on company policies and tax law. Reports and country dashboards identifying risk can then be used to make payroll tax adjustments and other compliance decisions.

4. Consider the role of global mobility as a strategic partner

As traditional long-term expat assignments reduce in volume, global mobility can play a strategic role in shaping the organizational response to remote working given the function's experience collaborating across stakeholders (Talent, Payroll, Tax, etc.) to manage compliance and the global talent experience. A global mobility function can also pivot its expertise to increase focus on remote work, such as advising the business on staffing assignments virtually and designing remote work programs and policies, aligned with other global mobility policies such as short-term assignments, business travelers and commuters.

Once the risk assessment and employee tracking approach are implemented, organizations will need to pivot towards a longer-term view of remote work as part of its future strategy. This includes creating, articulating and communicating the company's philosophy and vision for remote work and a strategy for implementing remote work policies and protocols.



The future workforce

With the shift to remote work and hybrid likely to outlive the pandemic, companies must look to strategies to embed resilience and agility to evolve with shifting work preferences resulting from pandemic-driven changes. This is an opportunity to rethink the future of work – including what work is and how it is delivered, who performs the work, and where it is performed – and course correct.

COVID-19 upended working life and during earlier phases of the crisis, ready or not, many companies took immediate actions including relaxing their attitudes to allow employees to work where they needed to be, potentially accepting some degree of risk in the process.

But it is now time to start thinking about what lies beyond. The shift to mass work-from-home policies is looking more likely because it has its obvious benefits, including cost reductions in some cases and the widening of the talent pool, and by all accounts, for many companies remote working has proved to be both workable and successful. However, such a shift raises important questions concerning the triggering of tax exposures as a result of working remotely on a longer term or permanent basis and how such risks are managed. A triage process is essential to enable informed decision-making within the business and the implementation of solution-oriented protocols and processes to meet the demands of the new ways of working.

As organizations step into a new reality, they must expand their thinking when considering the future workplace and managing this new way of working. It is imperative for leaders to take a longer-term view to shape the “next normal.”

To facilitate this, **Deloitte is urging companies to reflect on and consider these four imperatives:**

- **Balance the interest in work from anywhere policies** and or remote working with potential compliance implications. Every time an employee crosses a domestic or international border to work, their movement can trigger HR, immigration, payroll, and tax ramifications.
- **Pay more attention to the data** to determine the tax exposure (payroll, withholding, etc) when employees are working from locations different from their home offices.
- **Focus on having the right digital solutions in place** to assist with managing tax compliance concerns. These can help identify where employees are working and enable triage and informed decision-making. Technology tools that track and analyze remote worker locations and educate employees on actions to mitigate risk can help organizations sustain a successful remote work strategy.
- **Flex global mobility support** and start thinking about who is best positioned to establish, lead and manage the strategy and implementation of a remote work program and policies. Global mobility may be uniquely positioned to lead from the front, given its experience with global talent strategies and mobility, planning and deployment, and coordinating across similar stakeholders.

Deloitte has developed a range of services to help businesses proactively identify and address potential regulatory compliance risks. For information access Deloitte's [Business Travel Analytics](#).



Get in touch

Craig Muir

Deloitte Global Employer Services
(GES) Leader
Deloitte UK
cmuir@deloitte.co.uk

Jim Pickett

GES US Market Leader
Deloitte Tax LLP
jampickett@deloitte.com

Michelle Fertig

Senior Manager
GES US Digital Transformation
Deloitte Tax LLP
mfertig@deloitte.com

Deloitte.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited ("DTTL"), its global network of member firms, and their related entities (collectively, the "Deloitte organization"). DTTL (also referred to as "Deloitte Global") and each of its member firms and related entities are legally separate and independent entities, which cannot obligate or bind each other in respect of third parties. DTTL and each DTTL member firm and related entity is liable only for its own acts and omissions, and not those of each other. DTTL does not provide services to clients. Please see www.deloitte.com/about to learn more.

Deloitte Legal means the legal practices of DTTL member firms, their affiliates or their related entities that provide legal services. The exact nature of these relationships and provision of legal services differs by jurisdiction, to allow compliance with local laws and professional regulations. Each Deloitte Legal practice is legally separate and independent, and cannot obligate any other Deloitte Legal practice. Each Deloitte Legal practice is liable only for its own acts and omissions, and not those of other Deloitte Legal practices. For legal, regulatory and other reasons, not all member firms, their affiliates or their related entities provide legal services or are associated with Deloitte Legal practices.

Deloitte provides industry-leading audit and assurance, tax and legal, consulting, financial advisory, and risk advisory services to nearly 90% of the Fortune Global 500® and thousands of private companies. Our professionals deliver measurable and lasting results that help reinforce public trust in capital markets, enable clients to transform and thrive, and lead the way toward a stronger economy, a more equitable society and a sustainable world. Building on its 175-plus year history, Deloitte spans more than 150 countries and territories. Learn how Deloitte's more than 345,000 people worldwide make an impact that matters at www.deloitte.com.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited ("DTTL"), its global network of member firms or their related entities (collectively, the "Deloitte organization") is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No representations, warranties or undertakings (express or implied) are given as to the accuracy or completeness of the information in this communication, and none of DTTL, its member firms, related entities, employees or agents shall be liable or responsible for any loss or damage whatsoever arising directly or indirectly in connection with any person relying on this communication. DTTL and each of its member firms, and their related entities, are legally separate and independent entities.

© 2022. For information, contact Deloitte Global.

Designed by CoRe Creative Services. RITM0970328