



Multistate Nonresident Withholding Survey Report

KPMG LLP's Employment Tax Practice

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Introduction

In today's increasingly mobile business environment, the role of the United States cross-border business traveler is growing. Consequently, the ability of multistate employers and their third-party providers to proactively manage the overall compliance issues associated with domestic, state-to-state, and short-term travel is vital to bringing together both business and regulatory demands. Add to the equation various types of income including base compensation, bonus payouts, and equity compensation, and the job of accurately tracking and taxing mobile employees can quickly become onerous and technically challenging.

Properly managing and tracking a mobile workforce can further complicate the already difficult payroll tax reporting processes dictated by a large geographic footprint. With a wide variety of complex rules governing state withholding, including *di minimis* treatment, reciprocal relationships, and specific reporting methodologies, it is not surprising that many employers have been unable to effectively comply on a state-by-state basis. Layer onto that the increasingly common position of telecommuters and work-at-home employees, and the employment tax diligence requirements continue to expand.

To better understand current business attitudes and actions taken with respect to nonresident taxation in the United States, KPMG LLP's (KPMG) Global Mobility Services practice teamed with the American Payroll Association to conduct a survey of tax /payroll professionals across a range of industries, organization types, and sizes. Concluded in August 2018, the survey assessed what the primary concerns are and how organizations are addressing this growing issue. The survey results provide an in-depth look at corporate reaction by over 1,300 participating organizations to this increasingly complex and ever-changing issue. A similar survey was completed in November of 2014, and comparative findings are also discussed in these results, where applicable.

Survey highlights

Is nonresident withholding/reporting an issue?

Based upon the survey results, 48 percent of the participants indicated that U.S. state-to-state nonresident withholding and reporting is either currently a major issue or a growing concern for their organization. When reviewed in the global context, almost 26 percent of respondents viewed this as a major or growing issue on an international basis as well, with about 27 percent of the respondent population tracking compliance globally.

An interesting point of consideration with these results can be noted in comparison to the prior survey. In 2014, 37 percent of respondents indicated that their traveling population visited multiple states in excess of 10 days per year, compared to about 12 percent in this survey. Globally, the 2014 survey reflected international travel in excess of 10 days for 10 percent of their population, while the current survey reflects such travel at only about 3.5 percent.

In comparison to our prior survey, the level of concern with respect to this issue seems to have dropped somewhat significantly, as the prior survey indicated that 60 percent of respondents had concerns with respect to U.S. travel, while 33 percent of respondents expressed global concerns. It is important to note, however, that the number of employers with internal controls in place (at some level) to track/monitor mobile employment has increased by about 12 percent combined with a seeming reduction in overall travel, which likely contributed to the reduction in the level of concern noted.

The extent of business travel was also reflected in several of the survey responses. Most notable was that while almost 71 percent of respondents had at least some employees traveling outside of their U.S. home market regularly, almost 60 percent of organizations had employees working in up to 10 states during a calendar year, while almost 12 percent of employees were deemed to travel regularly in excess of 10 days per year. Globally, 34 percent traveled up to 10 days outside their home market and only 4 percent traveled more than 10 days outside their home market.

Basis for concern

A lack of control in the area of nonresident withholding can result in a number of business issues arising for organizations with a mobile workforce. Employer audits in some states and countries can specifically target this item for review, with the results ranging from a financial cost to a reputational impact in the event of adverse publicity.

Ultimately, nonresident withholding is an organizational-level responsibility, with potential officer and board-level ramifications in the event of systemic failures being identified. While just over 9 percent of survey respondents have indicated they have experienced a state withholding audit or review, which is consistent with our 2014 survey, almost all are aware of the audit risk.

Lack of internal controls

The creation of internal processes and procedures to gain control of a mobile employee base can be extremely complex, with many items to consider such as how to physically identify when and where employees are traveling, how to properly tax all types of compensation (including base, bonus, equity, etc.), and who will bear the costs of the additional tax. Of the employers surveyed, 50 percent of respondent organizations currently do not have any processes/procedures in place to track and tax based on work location. Interestingly, of those organizations that indicated they do not have processes/procedures in place, 60 percent of them do not anticipate formulating a program in the near future.

Future state

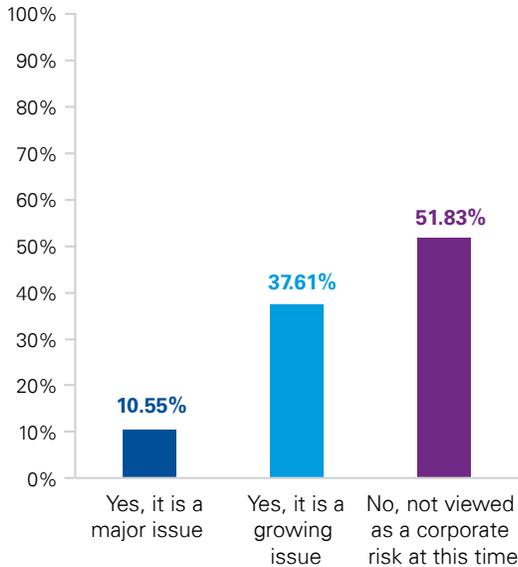
Overall, almost 32 percent of the organizations without a program in place are anticipating implementing controls around nonresident taxation in the next 24 months. Also noted was that almost 84 percent of the organizations were not planning on providing employee-level assistance for additional state withholding, either in the form of additional compensation to employees to cover nonresident taxes or in the form of tax preparation assistance, up from 80 percent in the prior survey. One other interesting question posed was to what extent organizations would consider utilizing some type of GPS system in tracking mobile employees for tax purposes—almost 21 percent of respondents indicated they would consider such a methodology, down from 26 percent in the prior survey.

Also interesting to note was that the demographic breakdown of respondents seemed to dictate only minimally the degrees to which this area is a concern or what the future-state solution will be. Thirty-one percent of respondents were organizations with an excess of 5,000 employees, while almost 20 percent had in excess of 10,000 employees. The results of the various questions posed for those specific demographics generally mirrored the overall findings, indicating that this issue cuts across companies of all sizes.

In response to the overall workforce shifts experienced by many employers, we added an additional survey question this year with respect to telecommuters. When asked if they expected their telecommuting/work-from-home population to grow over the next 5 years, 64 percent indicate they do anticipate an increase in work-from-home employees. While this could change many organizations' outlook on their future views of mobility, it could also result in even more complex state employment tax reporting concerns, as payroll departments will need to grapple with other aspects of taxation related to those home locations.

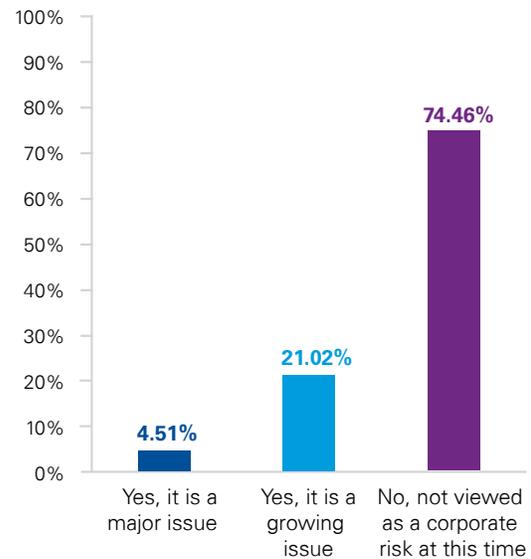
Key findings

Q1. Is U.S. nonresident state withholding/reporting or business travelers a major or growing issue for your organization with respect to compliance and/or risk?



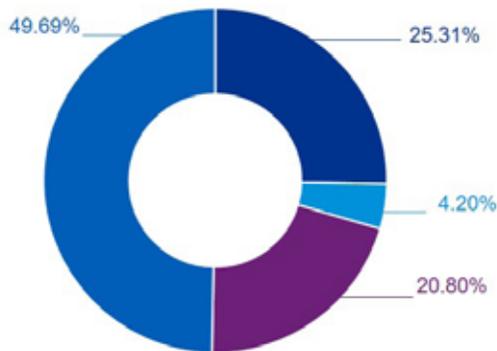
n=1,308

Q2. Is global nonresident withholding/reporting or business travelers a major or growing issue for your organization with respect to compliance and/or risk?



n=1,308

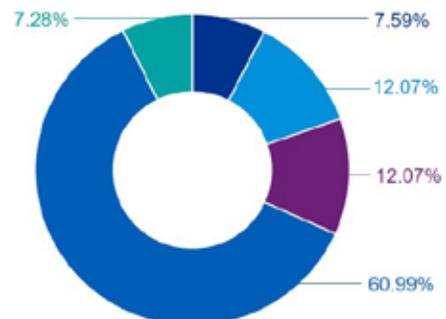
Q3. Do you currently have procedures in place to monitor your U.S. or global short-term business travelers and remit/report taxes accordingly?



- Yes, we have procedures in place to track/tax U.S. only
- Yes, we have procedures in place to track/tax global only
- Yes, we have procedures in place for both U.S. and global tracking and taxation
- No, we do not track or tax either U.S. or global short-term business travel

n=1,308

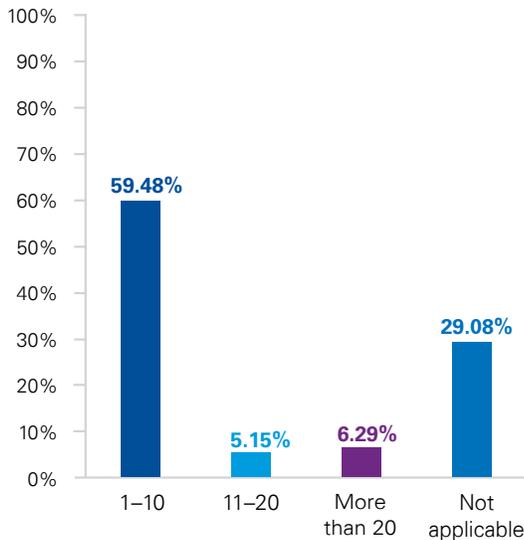
Q4. If your organization has not implemented U.S. state tracking and taxing compliance policies and procedures, do you anticipate implementing such a program in the next:



- 12 months
- 12 to 24 months
- 24 months or more
- Do not anticipate implementing a program
- Already implemented a program

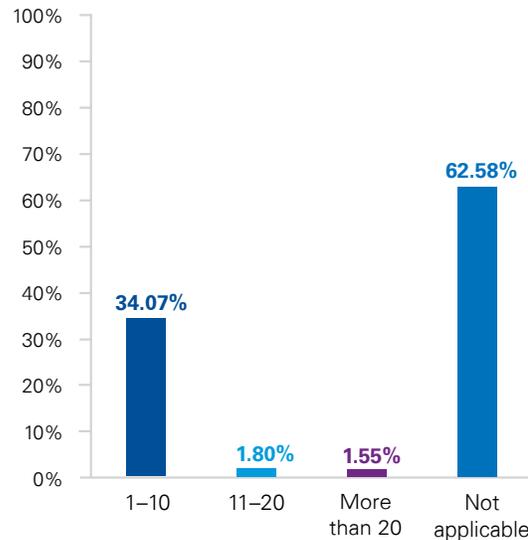
n=646

Q5. With respect to those U.S. employees who travel outside their home work location more than 10 work days a year, approximately how many states do you estimate they work in during a given year?



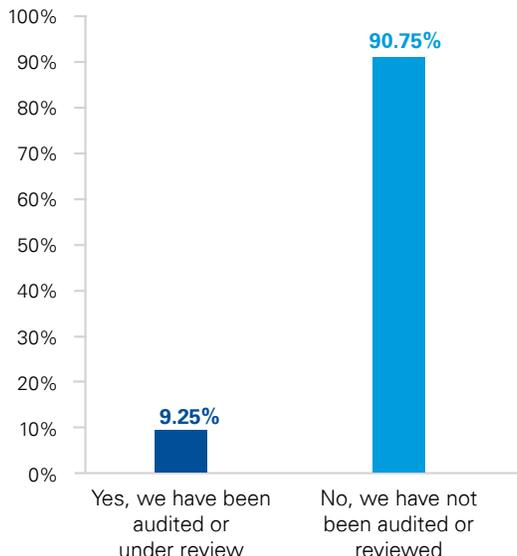
n=1,224

Q6. With respect to those global employees who travel outside their home country location more than 10 work days a year, approximately how many countries do you estimate they work in during a given year?



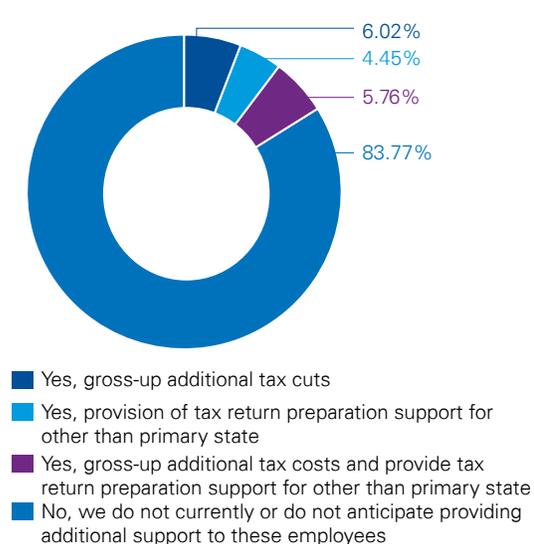
n=1,224

Q7. Has your organization been audited or under review from any U.S. state or local jurisdiction with respect to nonresident withholding/reporting compliance?



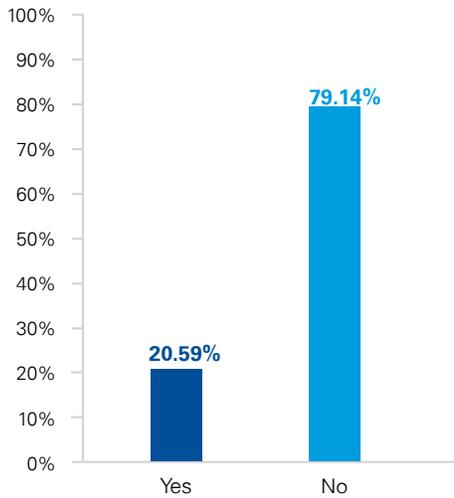
n=1,146

Q8. Does your organization currently, or expect to, provide financial/tax support to employees working in multiple U.S. jurisdictions?



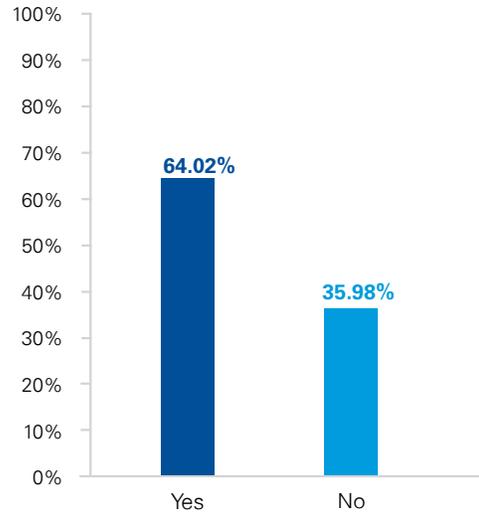
n=1,146

Q9. Would you consider tracking your employees, solely for work location, by GPS via their mobile phone?



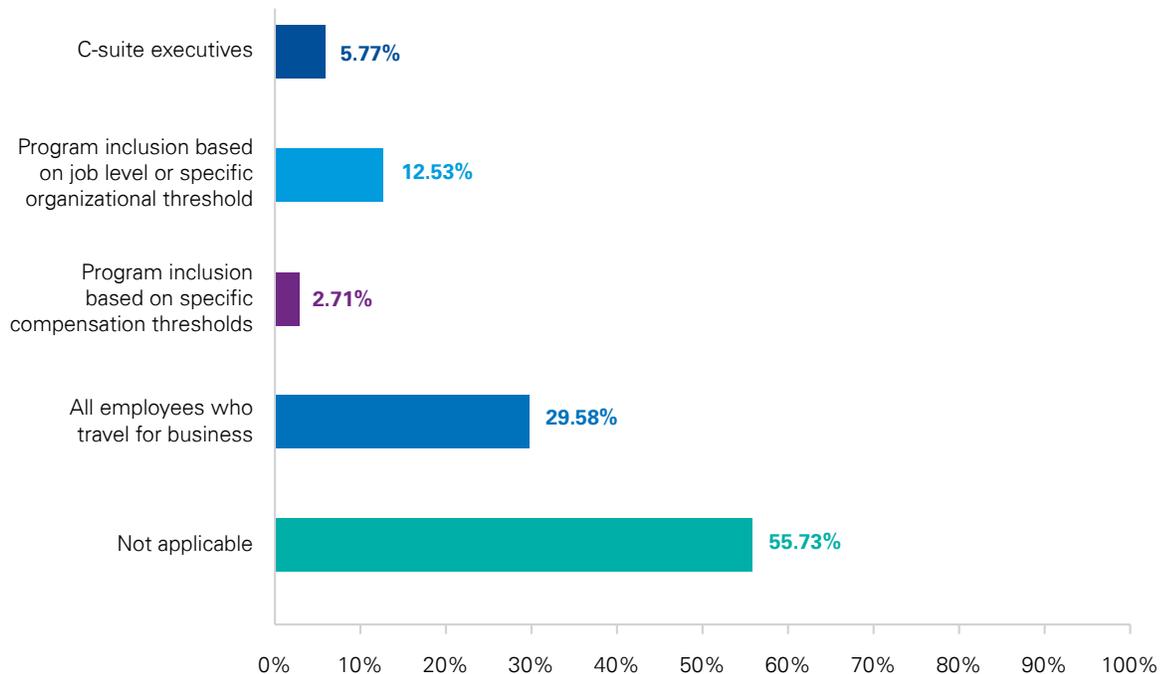
n=1,146

Q10. With respect to your U.S.-based employee population, do you anticipate your telecommuting/work-from-home workforce to grow over the next 5 years?



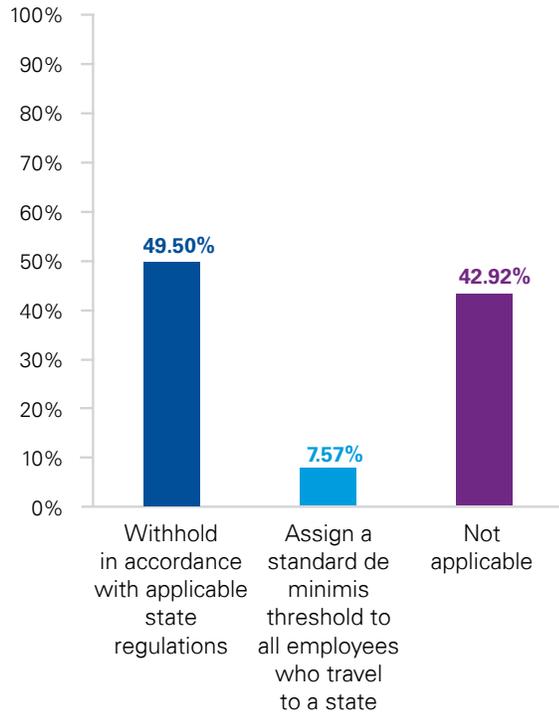
n=1,146

Q11. If you have a program to track and tax employee travel currently in place or under development, what employee population is in the program? (check all that apply)



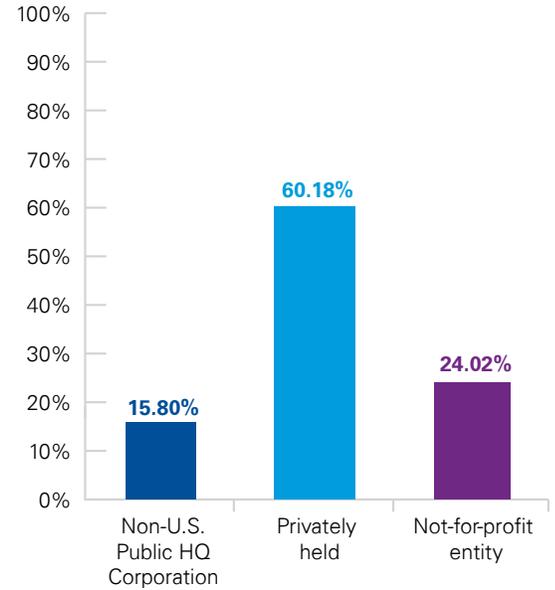
n=1,109

Q12. If you have implemented multistate income tax withholding, do you currently:



n=1,109

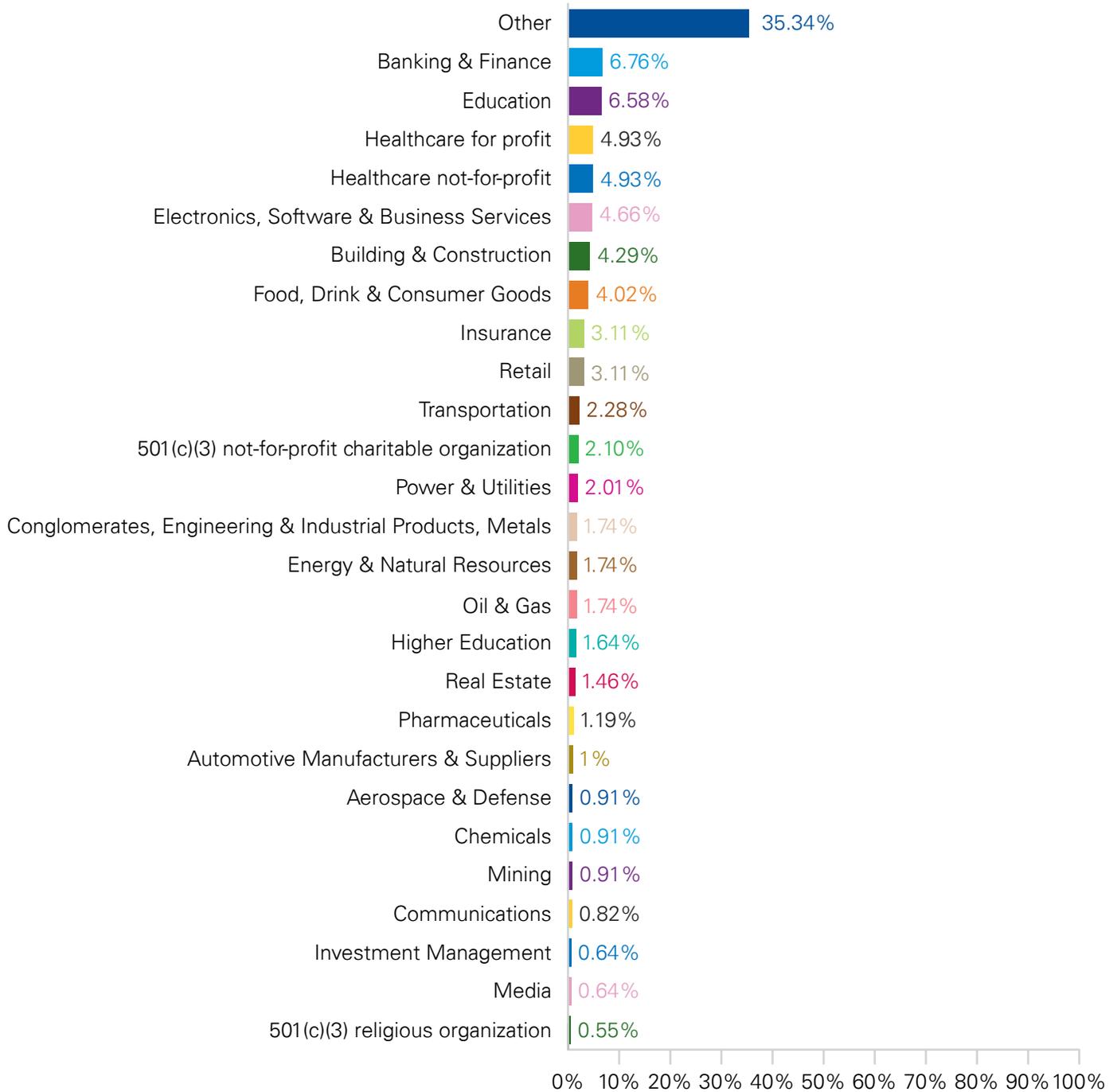
Q13. What type of organization are you?



n=1,095



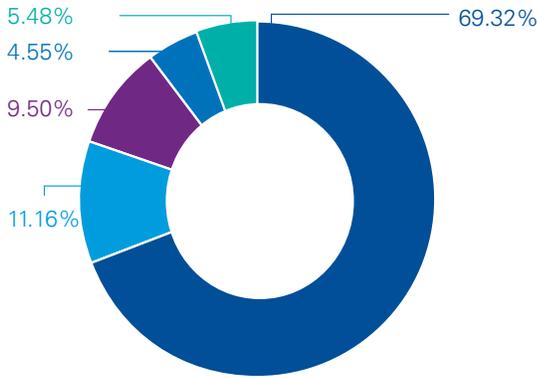
Q14. What type of organization are you?



n=1,095

Answer choices	Responses	
Aerospace & Defense	0.91%	10
Automotive Manufacturers & Suppliers	1.00%	11
Banking & Finance	6.76%	74
Building & Construction	4.29%	47
Chemicals	0.91%	10
Communications	0.82%	9
Conglomerates, Engineering & Industrial Products, Metals	1.74%	19
Education	6.58%	72
Electronics, Software and Business Services	4.66%	51
Energy & Natural Resources	1.74%	19
Food, Drink & Consumer Goods	4.02%	44
Healthcare for profit	4.93%	54
Healthcare not-for-profit	4.93%	54
Higher Education	1.64%	18
Insurance	3.11%	34
Investment Management	0.64%	7
Media	0.64%	7
Mining	0.91%	10
501(c)(3) not-for-profit charitable organization	2.10%	23
501(c)(3) religious organization	0.55%	6
Oil & Gas	1.74%	19
Pharmaceuticals	1.19%	13
Power & Utilities	2.01%	22
Real Estate	1.46%	16
Retail	3.11%	34
Transportation	2.28%	25
Other	35.34%	387
TOTAL		1,095

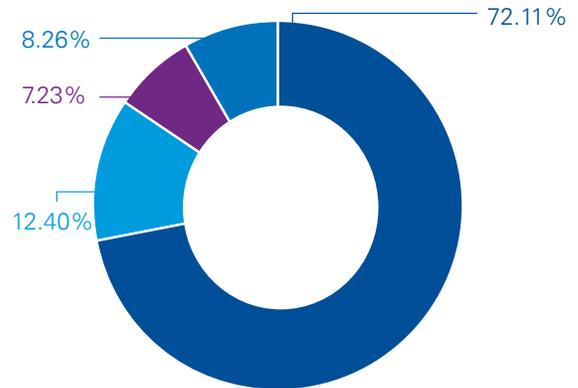
Q15. Approximately how many total employees (U.S. and global) does your organization have?



- Less than 5,000
- 5,000 to less than 10,000
- 10,000 to less than 25,000
- 25,000 to less than 50,000
- 50,000 or more

n=968

Q16. Of those employees, how many are U.S. based?



- Less than 5,000
- 5,000 to less than 10,000
- 10,000 to less than 25,000
- 25,000 or more

n=968

Conclusion

The primary objective of this survey was to attempt to answer the questions posed to KPMG by our clients in the area of multistate and global withholding on the compensation of mobile employees—what is everyone else doing? While we, as tax professionals, are often asked to assist with defining this issue, developing ongoing controls and advising in the event of audits by state taxing authorities, it is the overlapping complexities that make a real solution to the challenges difficult to implement. What the survey clearly shows is that although there is an understanding of the employment tax compliance requirements inherent with a mobile workforce, there is still the larger question of what the right answer is to solve these issues. In many organizations, there is not necessarily another business need to track employee work travel other than for taxation, which further clouds and complicates the nontax aspects of the issue and the immediacy of a solution.

By looking at the survey results this year and in the prior survey and attempting to develop a future-state theme, the data indicates that many organizations would like to come into compliance in this area over the next few years, but that, to some extent, travel to multiple jurisdictions in excess of 10 days per year has been reduced. With almost 50 percent of respondents indicating that this is a major or growing issue, and the likelihood of continued business travel and the rise of telecommuting, organizations generally want to find appropriate methodologies and technology to address nonresident withholding and maintain compliance as required.



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