



# Employer trends in the remote work world

**2021 Remote and Multistate Payroll Reporting  
Survey Report**



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# Executive summary

## Enabling remote work was simple. Managing its impact on payroll tax compliance is far from it.

We are going through a once-in-a-generation change in the way we work. Increased instance of remote work is firmly here to stay. This new way of working has led to expanded geographic footprint for companies, increased reporting requirements, and significantly increased related compliance risk.

Expanding geographic footprint. Increased reporting burdens. New tax liabilities. Added compliance risk.

As the way people work undergoes seismic changes, so do expectations on tax and payroll departments. In a new-reality work environment that is increasingly flexible and remote, many employers are struggling to stay compliant with tax regulations in all the areas where they operate.

The chief emerging challenge is tracking a mobile workforce of many shapes and sizes across state and even national lines. Since the onset of the pandemic, large numbers of employees have untethered from physical workplaces and scattered across jurisdictions. To comply with payroll tax withholding and reporting rules, employers must know where their people are working. But doing so accurately and at scale is a huge undertaking given the patchwork of disparate and confusing rules governing state payroll tax withholding.

At the same time, the regulatory environment is heating up. State remote tax requirements continue to expand, but not in a standardized way, adding complexity and risk to payroll tax processes. Scrutiny is increasing, too. State authorities are fighting over tax income from employees who are generating revenue in their jurisdiction, but whose

employers are based elsewhere. Pressure is mounting for organizations to withhold and report payroll taxes based not on assumption, but on the true location of their people—monthly, weekly, or even hourly.

The stakes for complying with remote and multistate workforce tax rules are high. Failure to withhold appropriately could result in significant tax exposure, including principal, penalties, and interest. And the problems only compound from there. Impacts could even trickle down to the employee level, with remote and multistate workers encountering roadblocks when filing personal income tax returns.

To examine how today's employers are navigating pressing nonresident taxation issues, the KPMG Employment Tax practice and the American Payroll Association surveyed 610 tax and payroll professionals representing a range of industries and organization types and sizes. Concluded in October 2021, the survey assesses current attitudes and actions on remote and multistate payroll reporting challenges, focusing on the compliance side of the issue.

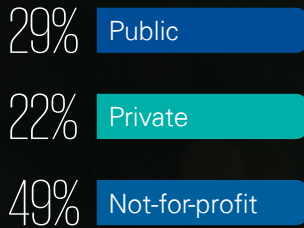
This report draws on the survey findings to provide a useful snapshot of key trends on this hot topic in employment tax compliance. As year-end approaches, we hope it shares timely data and insights that can help you measure your progress and drive better tax outcomes for your business and workforce.

## Survey demographics

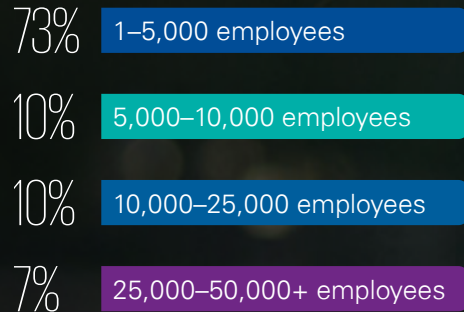
The KPMG Employment Tax practice and the American Payroll Association conducted an online survey of 610 U.S. tax and payroll professionals in October 2021.



Company type



Company size



Percentages throughout the report may not equal 100% due to rounding.

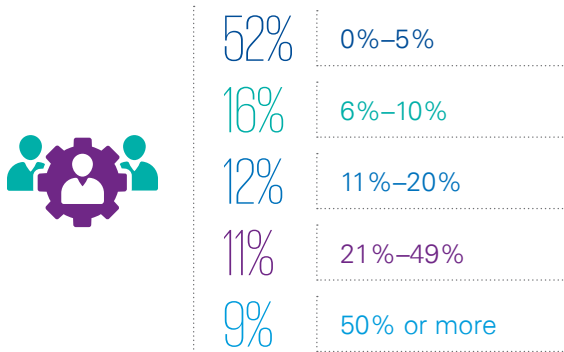
# Key findings

## Widespread remote work is here to stay

The COVID-19 crisis spurred significant changes in how people work and what they expect from their employers. One of the major impacts has been a significant rise in remote and hybrid work arrangements. Our survey finds that slightly more than half of organizations have at least 5 percent of their employees working in a state other than their primary home office. In 20 percent of organizations, more than 1 in 5 employees work in states where they are not residents.

### Substantial mobile workforce

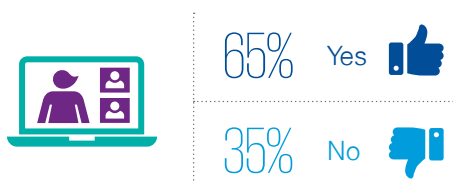
What percentage of your employees are working in a state other than their primary office location state?



All signs indicate that remote and hybrid work models are not going away any time soon—or maybe ever. With people across industries, roles, and seniority calling for more flexible work options, what began as a massive, forced experiment is now becoming permanent. Almost two thirds (65 percent) of survey respondents say their organization has either updated or implemented a remote work policy since the onset of the pandemic, and 81 percent say their organization will allow hybrid work arrangements going forward.

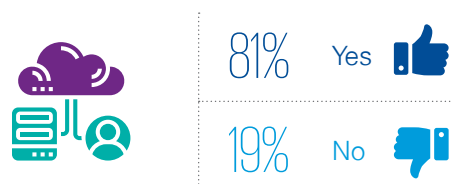
### Remote work options expand

Have you updated or implemented a remote worker policy as a result of the pandemic?



### Employers plan hybrid future

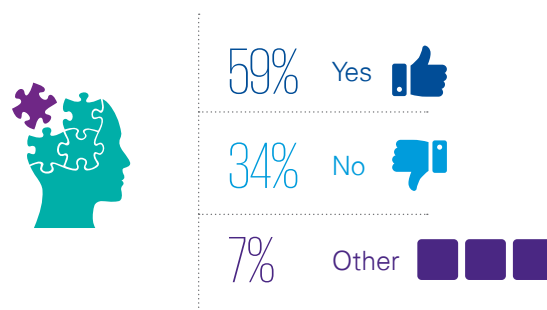
Are you planning to allow hybrid work arrangements (partial work from the office and from home)?



The patterns are so clear that many employers are now using alternative work arrangements as a talent recruiting and retention tool. Amid a “great resignation,” the big fear is losing out on top people by failing to accommodate the desire for flexibility. Nearly 3 in 5 organizations surveyed now include flexibility as part of their talent strategy.

### Flexibility as talent strategy

Is employee workforce flexibility part of your talent acquisition/retention agenda?





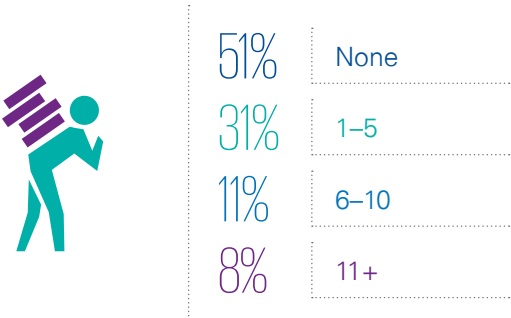
## Employers have extra compliance obligations

When it comes to wage reporting and taxation, employees working outside of their home offices, either partially or fully, has major implications for employers. With regulators scrutinizing remote worker payroll compliance, employers face big consequences for failure to withhold appropriately.

Filing obligations have increased in most organizations. Half of surveyed organizations file payroll tax returns in at least one new state as a result of remote work shifts. Almost 1 in 5 (19 percent) must file in six or more new states.

### Increased filing burden

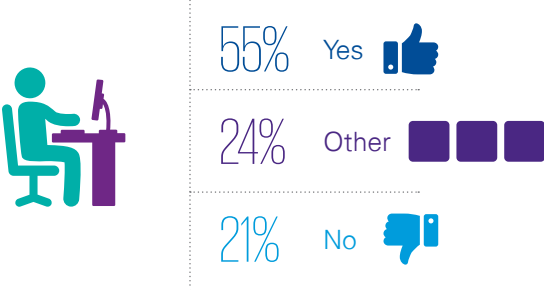
**Has a remote workforce caused you to file payroll tax returns in new states? If so, how many new states?**



As a result, employers are making significant changes to how they manage payroll tax issues to meet additional compliance burdens and avoid exposure. More than half (55 percent) of organizations adjust state withholding for applicable remote and hybrid employees and two thirds (67 percent) review payroll tax obligations for employees who historically worked in states with a telecommuting regulation.

### More withholding adjustments

**If you are allowing employees to work partially in the office under a hybrid work arrangement, will you adjust state withholding if the employee lives in a different state than their primary work state?**



## Attention on telecommuting rules

Do you review and consider state payroll taxation obligations for your employees who have historically worked in states that have a telecommuting regulation?



67% Yes

33% No

Finally, there are serious financial implications for employers to navigate beyond the cost of filing more payroll tax returns.

Whether favorable or unfavorable, the remote workforce has a direct impact on tax nexus in 22 percent of surveyed organizations. And the real number could be higher, as 44 percent of respondents say their organizations have not completed the required modeling to know the impact of changes in the remote worker population on nexus status.

## Uncertainty over nexus consequences

Have you analyzed the state and local income and indirect tax nexus consequences of your remote workforce?



10% > Favorable impact

12% > Unfavorable impact

35% > No impact

44% > Have not analyzed nexus impact

However, ultimately, payroll and tax leaders may have minimal say in either setting or managing remote work strategies. According to the survey, 66 percent of organizations do not include state and local tax functions in reviewing and approving remote work requests.

## Tax input limited

Has your state and local tax function been involved in reviewing and approving remote work requests?



34% Yes

66% No

In addition, 19 percent of organizations support or plan to support employees working in multiple states with their personal income taxes, increasing the cost of doing business.

## Helping employees with returns

Do you currently, or expect in the near future to, provide financial/tax support to employees working in multiple states?



19% Yes

81% No





## Employee location is the focal point

Whether the biggest worry for payroll and tax teams in the new work reality is increased liabilities, nexus triggers, a strain on reporting operations, or all of this together, the crux of the issue comes down to knowing where employees are. If employers don't know that, then they simply can't meet their compliance requirements.

Properly tracking remote and hybrid workers complicates already difficult payroll tax reporting activities. Most payroll processes and systems were not set up to handle highly dispersed, multijurisdictional, mobile workforces. Many organizations don't have the data they need to do the correct reporting, nor a way to manage the data they do have across HR, payroll, and reporting systems.

The tracking issue is raising numerous strategic questions for organizations. How can employers get a handle on where their people are working without having to hire a dozen people just to do the job? How do organizations balance privacy rights with compliance needs when tracking employees? Should employers restrict where employees work, and if so, when?

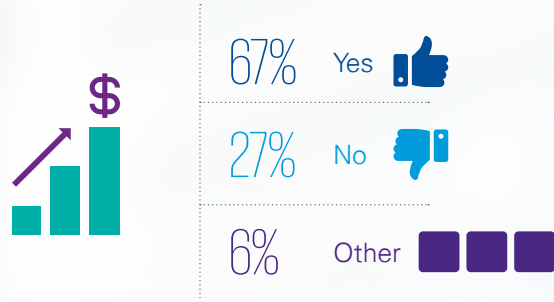
How employers are responding is both complex and evolving.

The majority of organizations (67 percent) currently track employee work locations for state payroll withholding and reporting purposes. That percentage has increased from the pre-COVID-19 era and appears poised to continue to rise, although timing is unclear.

## Employee tracking increases

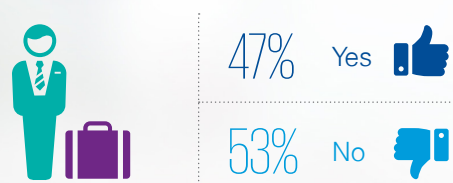
### Current

**Do you have a process in place to track employee work locations for purposes of multistate payroll reporting and withholding compliance?**



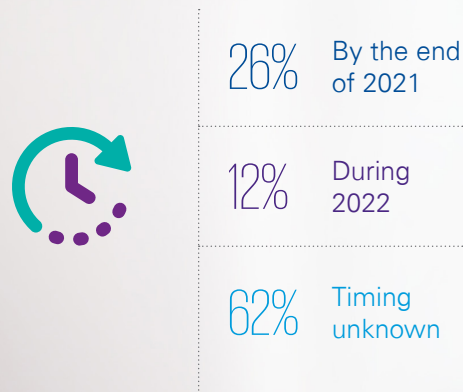
### Pre-2020

**Did you track employee work locations for business travel and/or remote work prior to 2020?**



### Future

**If you have not implemented procedures to track employee work locations for U.S. state payroll reporting and withholding compliance, when do you anticipate implementing such a program?**

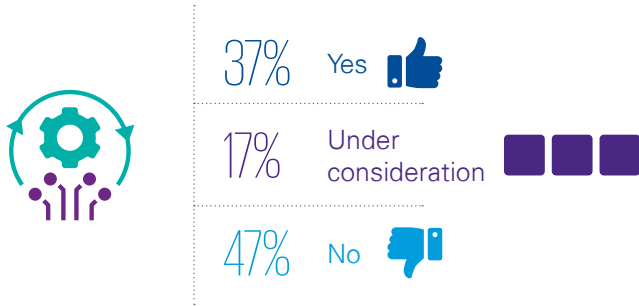


However, there is a limit to employer tracking activities. Only slightly more than half (54 percent) currently use or are considering using a technology solution to identify employee taxing jurisdiction. And only a small minority plan to track employees by GPS.

### Tracking technology

#### Tech usage lags

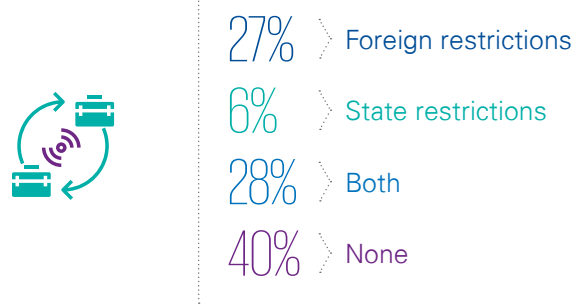
Do you utilize a technology solution to identify the taxing jurisdiction in which remote employees are performing services?



In some circumstances, the cost, complexity, and uncertainty of tracking the mobile workforce—and the tax risks of getting it wrong—may not be deemed worth the effort. More than 3 in 5 survey respondents (61 percent) say their organizations have imposed restrictions on employees working remotely in certain state and/or foreign jurisdictions.

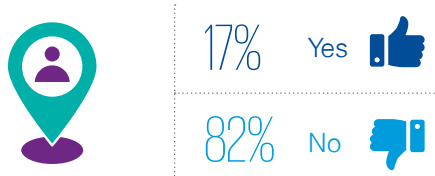
### Setting remote work boundaries

Have you restricted the states or foreign locations where your employees can work remotely?



### GPS resistance

Would you consider tracking your employees, solely for work location purposes, via a GPS enabled mobile phone app?



# How KPMG can help

**The KPMG Employment Tax team helps employers navigate the complexity of payroll and employment tax issues, today and into the future.**

Now more than ever, navigating the complexities of payroll and employment tax is a critical focus for many organizations. KPMG has experienced Employment Tax professionals who help employers proactively identify, manage, and resolve payroll and employment tax challenges to mitigate issues before they escalate into

significant tax problems and successfully support the business and its employees through the latest tax and regulatory requirements. As part of a large global network, we help organizations address these issues at home as well as abroad.

## Key services

### Risk assessment and monitoring



### Strategy and policy development



### Tax structure review and planning



### Technology enabled compliance management



## Learn more

[tax.kpmg.us/services/global-mobility/employment-tax.html](https://tax.kpmg.us/services/global-mobility/employment-tax.html)

## Authors



John Montgomery is a partner in KPMG's Employment Tax Services practice. He has more than 21 years of experience helping clients manage all types of payroll tax and compliance issues in a wide array of industries.

John leads consulting and compliance services related to the movement of employees between legal entities, including corporate reorganizations, mergers and acquisitions, entity classification changes, and liquidations. These services include helping to ensure a client complies with all federal, state, and local guidelines, including completing all necessary employment tax forms with respect to withholding and unemployment taxes.

John also assists clients with reviewing payroll tax processes and procedures to determine leading practices, assessing compliance with federal and state employment tax requirements, and identifying savings opportunities and potential exposure or risk. His expertise extends to the review and implementation of multijurisdictional withholding policies, procedures, and capabilities for clients with a mobile workforce throughout the United States.



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Anne has spent the last several years assisting clients in implementing business travel programs, focusing not only on tracking employee travel but also on the end-to-end processes and how they fit into the client's organization. Before starting her KPMG career in Dublin, Anne worked in London and New York with some of KPMG's largest GMS clients.

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