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Abstract: Remote work can offer advantages for both employers and employees. But it may also lead to some tax surprises, especially if workers cross state lines.

The tax implications of remote work

Remote work can offer advantages for both employers and employees. But it's not without problems, such as unexpected tax consequences.

State tax issues for employees

Remote work allows employees to live in one state and work for an employer in another, which can create complex tax issues. Each state has the right to tax people based on domicile, which is where they intend to make their permanent home, and residency, where they're physically present for a significant portion of the year, typically 183 days.

It's possible to be domiciled in one state and a resident of another, which can lead to being taxed by both states on the same income. While some states offer tax credits to prevent double taxation, differences in tax rates could still mean a higher overall tax bill.

The hidden tax burden for employers

Allowing employees to work remotely may introduce significant tax and compliance challenges for employers. For example, when employees are located in multiple states, employers may be required to withhold and remit income and payroll taxes in each jurisdiction.

Having employees in another state can also establish what's known as a "nexus" — a legal connection that subjects the employer to that state's tax laws. Once nexus is established, the employer may become liable for a range of state-level taxes, including income, franchise, gross receipts, and sales and use taxes.

Beyond the financial impact, managing multistate reporting and compliance can be time-consuming and costly. These added complexities can increase an employer's overall tax burden and administrative workload, making proactive planning and professional guidance essential.

Job-related expenses

Before 2018, employees could claim a home office deduction if they met certain conditions. In most cases, that deduction is no longer available except for self-employed business owners. Employees also generally can't deduct other unreimbursed job-related expenses under current law.

Employers may reimburse remote workers for their business expenses according to an "accountable plan" that requires employees to substantiate the costs and meet other requirements. Properly reimbursed expenses are deductible by an employer and excludable from an employee's income. They also generally aren't subject to payroll taxes.

Know the consequences

Remote workers and their employers need to understand the tax implications they may face. You may or may not be able to minimize negative tax consequences, but it's still important to know what to expect.