

# Thriving in the remote and hybrid work era

Successfully navigate the intricacies of remote work taxes



Employers have institutionalized remote and hybrid work policies, processes, and populations in response to workers' preference for flexibility and convenience. While these policies can enhance employee satisfaction and tap into a vast talent pool, they invite legal and operational complexities surrounding remote work taxation. These complexities can involve significant employer risk in several areas.

A systematic and informed approach to hybrid and remote work in the United States, as the American Institute of CPAs [has noted](#), can help businesses manage those complexities and reduce risks.

This guide is designed to help employers navigate the intricacies of remote work taxes and policies across diverse jurisdictions.

# Establish remote work policies



A formal remote and hybrid work policy is the bedrock of an arrangement that serves both the employer and its employees effectively. Remote and hybrid work policies clearly specify definitions and expectations to ensure tax compliance, workforce clarity and operational consistency.

Design a remote and hybrid work policy that defines or addresses the following:

- **Remote worker:** This is generally a worker who works for a significant part of each year at a specified location that is not the employer's office. (It is commonly the employee's residence.) Also, the policy usually specifies the assigned employer location and whether the employee is required to visit that location for a few business days each calendar year. The policy typically defines the percentage of time an employee must work from their residence to qualify as a remote worker.

Specifying the remote work location (the remote employee's "tax home") is important; some remote workers argue that they should be able to work from any desired location. This can cause payroll and other problems for an employer.

- **Hybrid worker:** This is generally a worker who is expected to work regularly in an assigned employer office (the hybrid employee's tax home) for a specified amount of time (generally per week) but is permitted to work from the employee's residence on other days.
- **Employee rights and responsibilities:** Clarify the expectations for remote employees regarding work hours, communication and collaboration. Be explicit about your company's commitments to remote employees, such as providing access to resources and support.
- **Working outside of the United States:** Some company policies specifically prohibit an employee from working outside of the United States without providing certain information to the company in advance and without company permission. Country-by-country permanent establishment rules can cause additional headaches and costs for companies that are not already located in that country.



### Scenario: Hybrid work classification

A hybrid employee living in Illinois is expected to work three days per week in the company's Chicago office and two days remotely from home. The employer's remote work policy requires employees to annually confirm their expected work location split and also update their residence information (often using Form W-4) if the employee's work-at-home address changes.

When the employee temporarily relocates to Indiana for two months, the company's policy triggers a review of tax withholding obligations across both states. Because the employee's remote location has changed, the payroll team adjusts wage allocations accordingly and ensures compliance with Illinois' state payroll rules, which could include the Illinois de minimis rules for nonresident work.



### Checklist: Remote and hybrid work policy

#### Define worker classifications

Clearly distinguish between remote and hybrid roles based on location and in-office expectations.

#### Set expectations for in-office days

Specify how many days hybrid employees are expected to work onsite each week.

#### Clarify employee responsibilities

Outline expectations for work hours, communication and collaboration.

#### Include location change protocols

Require employees to report changes in work-at-home location promptly to ensure tax and policy compliance.

#### Align policy with payroll and tax processes

Ensure human resources and payroll teams can operationalize the policy for accurate withholding and reporting.

# Review tax withholding compliance

Remote work can complicate payroll tax obligations, especially when employees work in one state and live in another. Local tax rules may also apply in certain states.

To ensure tax withholding compliance for remote and hybrid employees, companies need to understand and follow state and local requirements. This includes understanding the tax rates and withholding formulas that apply to remote workers in whatever jurisdiction they are located.

Companies should also periodically check whether tax withholding updates may be needed based on [changes in employee work locations](#).



## Tech tip: Automated compliance

Some employers use software solutions that automatically calculate wage allocations by jurisdictions based on employee location data or expectations for hybrid employees. Employers with more than a few remote workers may want to implement a robust tax compliance process to facilitate accurate withholding of remote work taxes.

## Scenario: Location-based payroll adjustment

A company with remote employees in New York, Texas and California uses a location-based payroll system to automatically adjust withholding rates. When an employee reports moving from Austin to San Diego, the system flags the change and updates the withholding to comply with California's first-day rule.



## Checklist: Tax withholding compliance

### Track employee work locations (both remote home location and longer assignment locations)

Maintain accurate records of where employees perform services, especially if they move or travel frequently.

### Review jurisdiction-specific withholding rules

Understand and apply the correct state and local tax rates and formulas based on employee location.

### Update Form W-4 as needed

Prompt employees to revise their withholding certificates when their work locations change.

### Evaluate payroll software solutions

Consider tools that automate wage allocations and withholding calculations based on location data.

### Audit withholding accuracy quarterly

Regularly review payroll records to catch errors and ensure compliance with evolving tax laws.

# Manage travel-related withholding

When employees travel across state lines, especially for more than a few days, unexpected tax withholding challenges can arise. These movements may affect how employees are classified and how their wages are taxed, especially when state-specific rules vary.

State-specific de minimis employee travel rules add a layer of complexity. Some states require withholding from Day 1, while others allow a grace period before the employer is required to start state payroll withholding on the employee's wages in the state where the employee is temporarily working.

Employers generally need to decide how strictly to follow these rules based on their risk tolerance and compliance strategy. Some employers have a specific policy for the number of days an employee can work in another state during a calendar year before starting to withhold under that state's rules.

Employers should distinguish between extended travel to an assigned company location and other types of business travel, such as occasional travel to a customer location. If a remote worker works for too long in another company location, the employee's remote worker designation may be jeopardized, depending, in part, on the employer's remote worker definition.

## Scenario: De minimis rule application

An employee based in Illinois travels to their assigned office in Indiana for 10 days. The company's policy sets a 14-day de minimis threshold, so no withholding adjustment is needed. If the employee stays longer, the payroll system updates withholding to reflect Indiana's rules.



## Checklist: Travel-related withholding

### Define assigned work locations

Ensure each remote employee has a designated "tax home" where the employee will generally work, and a designated company location. This assists with compliance tracking.

### Clarify remote and hybrid work expectations

Include guidance on:

- Frequency at which remote employees should visit their assigned office (generally a very limited number of days)
- Circumstances requiring an employee to provide an updated location (generally using Form W-4, Employee's Withholding Certificate)
- Locations where employees aren't allowed to perform services without prior approval

### Track cross-state travel

Use tools to monitor when employees work in different jurisdictions.

### Apply de minimis thresholds

Follow state-specific rules for when withholding is triggered based on days worked.

### Adjust payroll records as needed

Make manual corrections when travel plans change or thresholds are exceeded.

# Check the 'convenience of the employer' rule

The "convenience of the employer" rule allows certain states to impose income tax on remote employees who live elsewhere—if the remote work is considered a personal choice rather than a business necessity.

This rule can be complex and confusing and, in the worst-case scenario, lead to the double taxation of employees who live in one state and work remotely for an employer located in another.

To avoid pitfalls involving these remote work taxes, seek guidance from tax professionals who can clarify for you how the convenience of the employer rule applies to your remote workforce. Employers should also effectively communicate to employees the compliance requirements stemming from this rule.

## Scenario: Double taxation risk

An employee lives in Connecticut but works remotely for a company based in New York. If New York determines the remote arrangement is for the employee's convenience—not the employer's—the employee may owe income tax to both states.



## Checklist: 'Convenience of the employer' rule

### Identify applicable states

Determine which of the states where you have employees enforce the convenience of the employer rule.

### Consult tax professionals

Seek expert guidance to assess exposure and avoid double taxation.

### Communicate with employees

Explain how the rule affects their tax obligations and reporting requirements.

### Document business necessity

Maintain records showing that remote work arrangements serve business needs.

### Monitor rule changes

Stay updated on evolving state-level enforcement and interpretations.

# Adapt employee benefits to fit remote work policies

Employers need to consider how their benefits policies function for remote and hybrid workers, reflecting the realities of a distributed workforce. This means reviewing existing policies for gaps and customizing offerings to meet the needs of employees across different locations.

Employers need to identify provisions that may no longer apply or that need to be updated for remote workers. For example, telecommuting policies may need to be revised to clarify eligibility for stipends, virtual health services, or what equipment the employer may need to provide for a remote worker.

Another critical consideration is location-based customization. Employees working in different states—or even countries—may face varying eligibility rules or tax implications for certain benefits. Employers should evaluate whether fringe or health benefits are taxable in specific jurisdictions and adjust their offerings accordingly to remain compliant and equitable.

## Scenario: Virtual health benefit adjustment

A company with remote employees in multiple states offers virtual physical and mental health services, as well as medical coverage in the appropriate local areas. To ensure compliance, HR reviews state-specific benefit taxability rules and adjusts eligibility criteria accordingly.



## Checklist: Remote and hybrid work benefits

### Audit current benefit policies

Identify gaps or outdated provisions that don't reflect remote work realities.

### Revise telecommuting policies

Include specifics on eligibility for stipends, equipment and virtual services.

### Offer flexible benefits

Provide tax-free and taxable perks, like virtual health care and remote-friendly gym memberships, as appropriate for the employee base.

### Review tax implications

Check whether benefit changes affect taxability based on employee location.

### Communicate updates clearly

Use multiple channels to ensure employees understand their options and how to access them.

How should employers think about the future of their pay strategies if they have a number of employees in remote work arrangements? [Discover remote pay strategies that account for geographic differences.](#)

# Make expense reimbursement policies uniform

Remote and hybrid work arrangements introduce a wide range of employee expenses—from internet and electricity to travel and equipment. Without a clear and consistent reimbursement policy, employers may face inconsistent expectations, compliance risks and even tax exposure.

Employers need to determine which of these reimbursements are taxable as personal expenses and which might be tax-free business expenses.

Employees need to understand which expenses are covered, under what conditions, and how to submit claims. Without this transparency, assumptions can lead to disputes or compliance risks. For example, in California, regulations and case law may lead employees to believe that home internet or utility costs are reimbursable—even if the employer never intended to cover them.

Another key consideration is location-based variation. Reimbursement rules and tax treatment can differ significantly depending on where an employee lives and works. Remote workers who occasionally travel to their assigned office may be reimbursed tax-free for business travel, while hybrid workers who commute regularly to their usual employer location are typically not reimbursed—or can be reimbursed, but their reimbursements may be treated as taxable income. Employers must account for these nuances when designing policies that are both fair and compliant.

## Scenario: Reimbursing remote work expenses

An employee in California submits a reimbursement request for home internet. Because the company lacks a formal policy, the employee assumes it's covered. To avoid confusion and potential liability, the company updates its policy to specify that only business-related internet costs are reimbursable, with a monthly cap.



## Checklist: Expense reimbursement policies

### Define reimbursable expenses clearly

Specify which costs are covered (e.g., internet, electricity, equipment) and under what conditions.

### Distinguish between remote and hybrid travel

Remote workers may be reimbursed tax-free for occasional office visits. Hybrid workers, who commute regularly, typically receive taxable reimbursements, if any.

### Clarify tax treatment

Ensure your reimbursement policy and systems reflect IRS guidance on commuting vs. business travel and address state-specific rules.

### Address location-based variations

Consider how state laws affect employee expectations and employer obligations.

### Communicate the policy clearly

Include the policy in onboarding materials, employee handbooks and internal portals. Use plain language and examples.

### Provide a submission and approval process

Outline how employees should submit expenses, what documentation is required, and who approves them.

# Identify, quantify and budget for hidden costs

While remote and hybrid work can reduce overhead, they also introduce costs that may not be immediately obvious but can significantly impact your bottom line.

Remote work often requires investments that go beyond the basics:

- **IT support:** Increased demand for remote troubleshooting and help desk services
- **Home equipment:** Laptops, monitors, printers and related business equipment accessories for individual use
- **Cybersecurity:** Enhanced protection for remote access, virtual private networks (VPNs) and endpoint security

## Scenario: Budgeting for cybersecurity

A midsize firm expanded its remote workforce by 40% over two years. While office lease costs decreased, IT spending rose sharply due to increased demand for secure remote access and endpoint protection. By proactively adjusting its budget, the firm avoided service disruptions and maintained compliance.



## Checklist: Cost control for remote and hybrid work

### Conduct periodic cost audits

Review actual vs. projected expenses related to remote work infrastructure.

### Build flexible budgets

Account for both expected and unforeseen costs, including software upgrades and data protection.

### Align spending with workforce strategy

Ensure budget decisions support long-term goals for remote and hybrid work.

# Audit compliance regularly

Audit remote work compliance on a regular basis to mitigate risks, protect the company's reputation, and verify alignment with evolving regulations and industry standards. This can help identify and address compliance gaps before they lead to costly fines, reputational damage or other negative consequences.

Most importantly, employees must be required to promptly report location changes to their employer. Employees who move to a different county, state or country may trigger new tax obligations—and international moves often require prior approval due to legal and reporting complexities.

## Scenario: Location change protocol

An employee moves from Georgia to North Carolina without notifying HR. During a quarterly audit, payroll discovers the change and updates withholding to comply with North Carolina's tax rules. The company revises its remote work policy to require location change reporting within five business days.



## Checklist: Remote work compliance audit

### Review employee location data

Confirm where employees are working and whether those locations trigger new tax or legal obligations.

### Verify tax withholding accuracy

Cross-check payroll records against employee work locations and travel history.

### Confirm policy adherence

Ensure employees are following remote work policies, including required in-office days for hybrid roles.

### Monitor regulatory changes

Stay informed about updates to state and local tax laws that affect remote work.

### Require location change reporting

Require employees to notify HR or payroll within a stated period of time if they move to a different county, state or country.

### Flag international work risks

Be aware that remote work from another country—even short-term—can trigger complex tax and legal requirements. Consider requiring prior approval.

# Address international remote work arrangements

Remote work outside the United States introduces tax, legal and operational challenges that go well beyond domestic compliance. Even short-term international assignments can trigger reporting obligations for both the employee and the employer—potentially exposing the company to penalties, reputational damage or unintended permanent establishment risks.

It is crucial for employers to understand the tax and legal landscape of the host country. By proactively assessing whether an employee's presence abroad creates income tax obligations or corporate exposure, employers can avoid costly surprises and maintain compliance across jurisdictions.

Another key component is policy clarity. Defining which types of international remote work are permitted—such as temporary assignments for set periods of time, or fixed-location telecommuting—helps employers maintain control over risk. Clear approval protocols and documentation requirements also ensure that employees understand their responsibilities and that the company can support compliance effectively.

## Scenario: Short-term international assignment risk

An employee requests to work remotely from Spain for six weeks. The company consults an international tax advisor and determines that the assignment may trigger Spanish tax reporting obligations. The request is approved only after confirming the employee's role, duration and local compliance requirements.



## Checklist: International remote work

### Define eligible international work arrangements

Clarify which types of cross-border remote work are allowed and under what conditions to prevent unauthorized exposure.

### Assess tax and legal exposure

Evaluate whether the employee's presence in another country creates income tax, social security or permanent establishment risks.

### Require prior approval for international work

Establish a formal review process to ensure each request is vetted for compliance and business alignment.

### Provide compliance support

Offer access to tax advisors or legal counsel to help employees understand local obligations and avoid missteps.

### Monitor duration and location

Track how long employees work abroad and ensure their activities remain within approved limits to avoid triggering unintended liabilities.

# The value of experienced workforce tax advisors

An effective remote and hybrid work arrangement demands strategic insight and technical precision. From tax withholding and expense reimbursement to jurisdictional compliance and benefit eligibility, the stakes are high and the rules are complex. That's where experienced workforce tax advisors can make a valuable difference.

These professionals bring deep technical knowledge and practical insight into how tax laws intersect with workforce strategy. They help employers anticipate risks, avoid costly missteps and build policies that are both compliant and competitive.

Whether it's navigating multistate withholding rules, structuring fringe benefits across jurisdictions, or evaluating the tax impact of cross-border assignments, advisors can translate complexity into clarity.

With the right advisors, companies gain more than just compliance. They gain confidence that their remote work policies are defensible, their payroll processes are accurate, and their benefits are equitable and tax-efficient. And ultimately, they gain confidence that their workforce strategy supports long-term growth.

Take the next step toward building a remote and hybrid workforce that serves your business and your people.

**GET IN TOUCH WITH RSM**



+1 800 274 3978  
[rsmus.com](https://rsmus.com)

This document contains general information, may be based on authorities that are subject to change, and is not a substitute for professional advice or services. This document does not constitute assurance, tax, consulting, business, financial, investment, legal or other professional advice, and you should consult a qualified professional advisor before taking any action based on the information herein. RSM US LLP, its affiliates and related entities are not responsible for any loss resulting from or relating to reliance on this document by any person. Internal Revenue Service rules require us to inform you that this communication may be deemed a solicitation to provide tax services. This communication is being sent to individuals who have subscribed to receive it or who we believe would have an interest in the topics discussed.

RSM US LLP is a limited liability partnership and the U.S. member firm of RSM International, a global network of independent assurance, tax and consulting firms. The member firms of RSM International collaborate to provide services to global clients, but are separate and distinct legal entities that cannot obligate each other. Each member firm is responsible only for its own acts and omissions, and not those of any other party. Visit [rsmus.com/aboutus](https://rsmus.com/aboutus) for more information regarding RSM US LLP and RSM International.

RSM, the RSM logo and *the power of being understood* are registered trademarks of RSM International Association.

© 2025 RSM US LLP. All Rights Reserved.