



Working remotely is convenient, but it may have tax consequences

Many employees began working remotely during the pandemic and continue doing so today. Remote work has many advantages for employers and employees, and as a result, it's here to stay in many industries. But it may also lead to some tax surprises, especially if workers cross state lines.

Double taxation may occur

It's not unusual for employees to work remotely for an employer in another state. For some businesses, remote work has become a permanent arrangement that allows employees to live and work further away from a physical office.

If you live in one state and work remotely for an employer in another state, familiarize yourself with the tax laws in both states and determine how they may affect you. For example, you may need to file income tax returns in both states, which could result in increased — or even double — taxation.

Here's the problem: A state generally has the power to tax the incomes of people who are domiciled in it as well as people who reside there. Domicile is a state of mind and is often based on a person's intent to make a location his or her "true, fixed, permanent home." Residency is based on physical presence in a state for a certain amount of time (typically, 183 days per year).

It's possible to be domiciled in one state and a resident of another. For example, let's say you have a permanent home in one state where your job is located and a vacation home in another state. Your employer allows employees to work remotely, so now you spend more than 200 days per year living and working at your vacation home. The state where your permanent home

is located considers you to be domiciled there, but the state where your vacation home is located views you as a resident. So you may be subject to taxes on the same income in both states. You could avoid double taxation if one or both states provide credit for tax paid to other states. But your tax bill may still increase if, for example, one state's income tax rate is significantly higher than the other state's rate.

Complications for employers

From an employer's perspective, allowing employees to work remotely may create obligations to withhold and remit income and payroll taxes in several states. Plus, having employees in other states may be sufficient to establish "nexus" with those states, potentially triggering liability for their income, franchise, gross receipts, or sales and use tax. In addition to the expense of tax reporting in multiple states, this may increase an employer's overall tax liability. There are other complications as well.

Business expense deductions

Under current law, employees generally can't deduct unreimbursed job-related expenses. Years ago, employees could claim certain costs as miscellaneous itemized deductions, which are deductible to the extent they exceed 2% of adjusted gross income. But those deductions were eliminated for 2018 through 2025.

Remote workers typically aren't eligible for the home office deduction either. That deduction is generally limited to self-employed business owners. Prior to 2018, employees could claim the deduction if, among other things, they worked at home "for the convenience" of their employers. But that deduction was also eliminated for 2018 through 2025.

Employers may reimburse remote workers for their business expenses according to an "accountable plan" that requires employees to substantiate expenses and meet other requirements. Properly reimbursed expenses are deductible by an employer and excludable from an employee's income.

Be aware of the consequences

If you're a remote worker or own a business that employs remote workers, be sure you understand the tax implications. In some cases, you may be able to take steps to minimize them. But even if you can't, it's important to know what to expect.