

Talking Tax Reform

Mobile Workforce, Nexus, and Telework

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Presentation for Tax Foundation's Talking Tax Reform

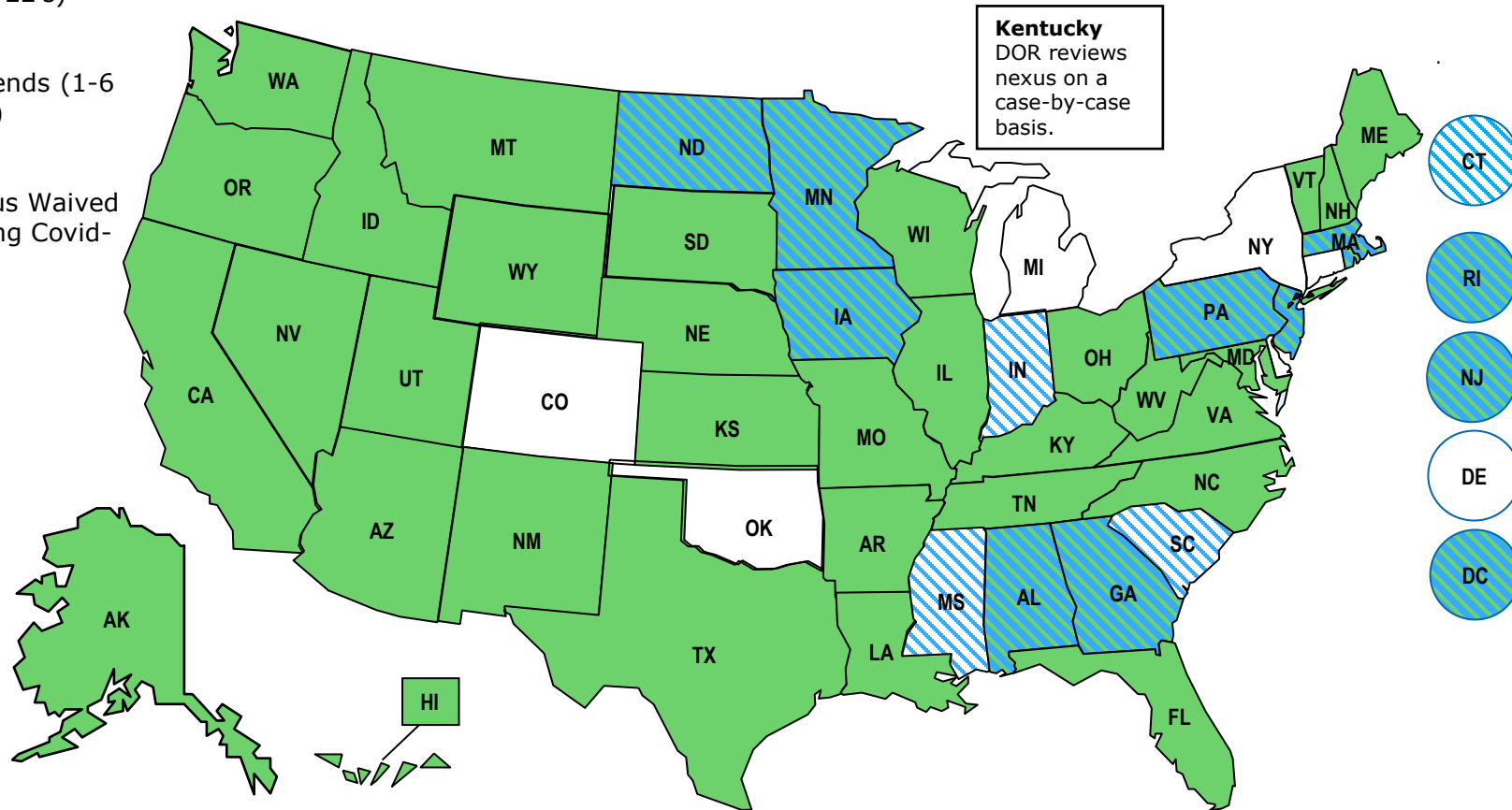
Mobile Workforce, Nexus, and Telework

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State Business Tax Nexus COVID-19/Telework

- Key**
- Nexus CIT and/or SUT (1-6 EE's)
 - Depends (1-6 EE's)
 - Nexus Waived during Covid-19



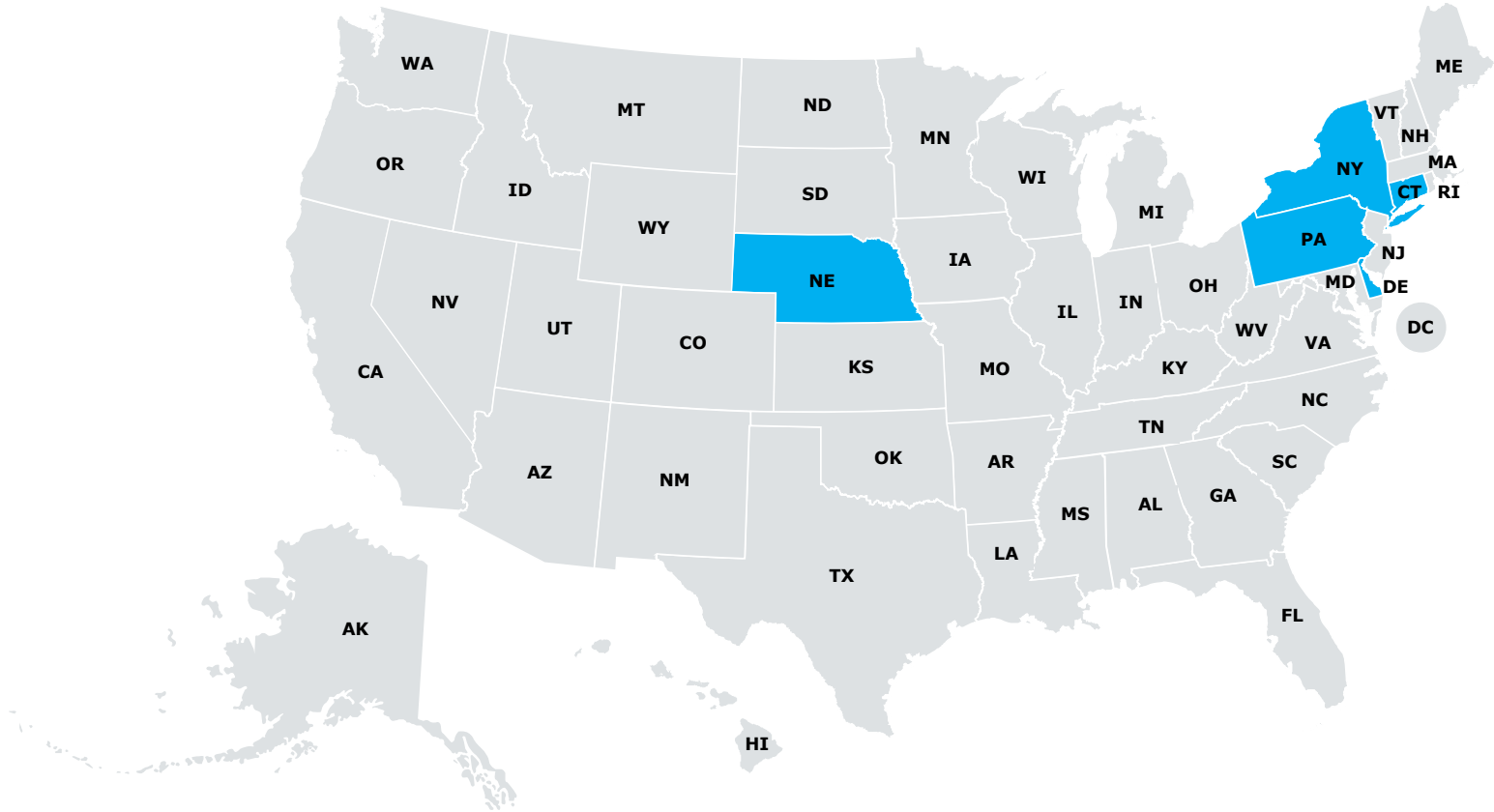
Source: Bloomberg Tax & Accounting

State Nexus Waivers for COVID-19 Telework

Corporate Net Income Tax and Sales/Use Taxes

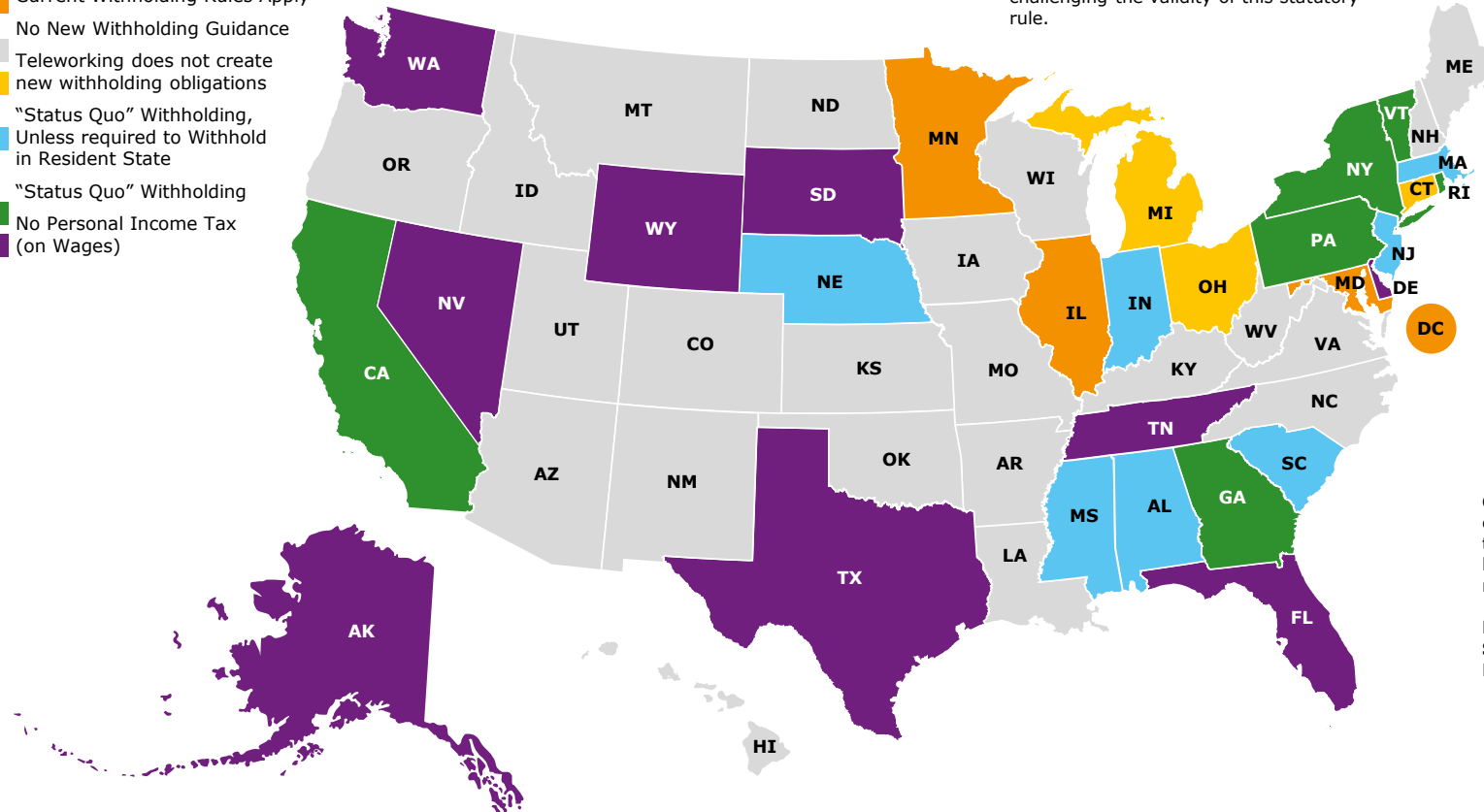
| State | CNIT/SUT | State | CNIT/SUT |
|-------|--------------------|-------|------------|
| AL | Yes/Yes | MA | Yes/Yes |
| CA | Yes/N/A | MN | Yes/Yes |
| CT | All (statutory) | MS | Yes/Yes |
| DC | Yes/N/A | NJ | Yes/Yes |
| GA | Yes/Yes | ND | Yes/N/A |
| IN | Yes/Yes | OR | Yes/No Tax |
| IA | Yes/N/A | PA | Yes/Yes |
| KY | "Case-by-case"/N/A | RI | Yes/Yes |
| ME | Yes/Yes | SC | Yes/Yes |
| MD | No/No | WI | Yes/Yes |

Convenience Rules



State Withholding Guidance – COVID-19

- Key**
- Current Withholding Rules Apply
 - No New Withholding Guidance
 - Teleworking does not create new withholding obligations
 - "Status Quo" Withholding, Unless required to Withhold in Resident State
 - "Status Quo" Withholding
 - No Personal Income Tax (on Wages)



Ohio municipal taxes: per statute, pandemic-related remote work does not count toward the 20-day grace period for the imposition of municipal income taxes. There are five pending cases challenging the validity of this statutory rule.

Michigan city taxes: a nonresident is not subject to city tax on wages earned while telecommuting from a location outside the city.

City of Philadelphia clarified that its existing withholding standard does not impose wage tax on teleworkers outside of the city.

Charleston, WV reminded employers that the application of the city's user fee will not change based on temporary pandemic-related work arrangements.

Kansas City, MO earnings tax v. St. Louis, MO earnings tax. Pending litigation in St. Louis.

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Telework and the Mobile Workforce



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1. How and why the pandemic challenges state wage sourcing

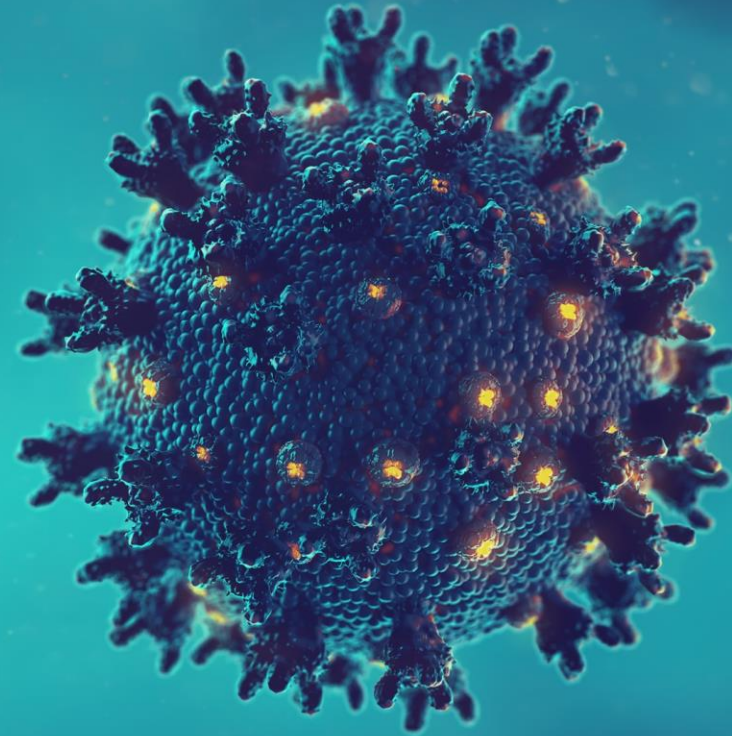
- Rapid and unexpected shift of workers amplifies tax consequences to remote employees

2. State income sourcing framework

- Physical presence – ex MA
- Convenience rules – ex NY
- Reciprocity – ex DC/MD

3. Future wage sourcing considerations

- Long-term hybrid work situations
- Federal legislation
- Wage sourcing uniformity



Reciprocity States

Reciprocity agreements mean that two states allow its residents to only pay tax on wages in the state where they live—instead of where they work. The following chart lists states that have reciprocity agreements with other states.

| State | Has reciprocity with ... |
|------------------|---|
| Arizona | California, Indiana, Oregon, Virginia |
| Illinois | Iowa, Kentucky, Michigan, Wisconsin |
| Indiana | Kentucky, Michigan, Ohio, Pennsylvania, Wisconsin |
| Iowa | Illinois |
| Kentucky | Illinois, Indiana, Michigan, Ohio, Virginia, West Virginia, Wisconsin |
| Maryland | Pennsylvania, Virginia, Washington, D.C., West Virginia |
| Michigan | Illinois, Indiana, Kentucky, Minnesota, Ohio, Wisconsin |
| Minnesota | Michigan, North Dakota |
| Montana | North Dakota |
| New Jersey | Pennsylvania |
| North Dakota | Minnesota, Montana |
| Ohio | Indiana, Kentucky, Michigan, Pennsylvania, West Virginia |
| Pennsylvania | Indiana, Maryland, New Jersey, Ohio, Virginia, West Virginia |
| Virginia | Kentucky, Maryland, Pennsylvania, Washington, D.C., West Virginia |
| Washington, D.C. | Maryland, Virginia |
| West Virginia | Kentucky, Maryland, Ohio, Pennsylvania, Virginia |
| Wisconsin | Illinois, Indiana, Kentucky, Michigan |