

Employers are Rocked by Employees' Demands to Incentivize Their Return to the Office

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In March of 2020, over one-third of the U.S. workforce packed up their desks and headed to work from their home office, and many of them are hoping to stay there. Recent industry surveys of working professionals and entrepreneurs indicate that **97% of the U.S. workforce prefer some degree of flexibility between working remotely and working in an office.** Whether it is due to increased productivity, saving time and money on their commute, or enjoying additional time with their families, employers are finding that it is more difficult than they thought to transition their employees back to a traditional workplace model. Many companies in the public relations (“PR”) and advertising industries are receiving **previously unheard-of requests from employees**, who are not willing to return to the office full-time unless employers meet demands such as:

- A stipend for transportation to and from the office;
- An allowance for the purchase of office-appropriate, professional clothing;
- Wellness benefits such as gym memberships, meditation sessions and therapy; and
- A retention bonus, often based on years of service.

Tax Implications

According to one recent study by an industry insider, the demand for a hybrid work environment is the biggest return-to-work challenge facing PR and advertising agencies. However, the desire for a hybrid work environment, with employee return-to-office demands factored in, pose significant tax ramifications for both employers and employees that businesses must consider as they plot their future.

At the onset of the COVID-19 pandemic, many states extended temporary relief from state tax nexus and payroll withholding obligations to out-of-state employers with remote employees working within their state. **However, as the U.S. returns to normalcy, many states have begun to roll back these exemptions, triggering income and sales tax nexus and employer payroll withholding responsibilities that did not exist previously.** As these relief measures are rescinded, employees working outside of the state in which their employer is based could create nexus in that state, triggering filing requirements for both income tax and sales tax. These additional filing requirements will add to the compliance burden of many businesses and, in many cases, increase their overall tax exposure. For up-to-date information about the status of these temporary measures in your state, please refer back to our [Anchin Alert](#) discussing these rollbacks.

Additionally, a remote working arrangement complicates payroll and withholding tax requirements and may even lead to double taxation for an employee in some instances. States generally tax employees' wages based on the number of days they worked within the state, however, some states have a convenience rule stating that if an employee works from home for their own convenience, it is deemed as if they worked in the office-location state. This can create a situation in which an employee is taxed on the same wages in both the residence state and working state.

Furthermore, fringe benefits, such as a retention bonus, can be considered compensation and therefore taxable to the employee as wages. There are notable nontaxable exceptions, such as qualified transportation fringes and certain types of education reimbursements, however if the benefit does not fit within these narrow categories, the employer is **required to include the value of the fringe on the employee's W-2 as income and withhold income and social security taxes.**

This often leaves the employee disappointed when there is a reduction in their net pay.

The Future for PR & Advertising

With the workplace rapidly changing due to the fallout from the pandemic, businesses will need to continually adapt and find creative ways to retain and attract top talent. Employers are facing more barriers than expected to bring their employees back into the office, yet the rollback of the COVID-era tax relief measures is providing enticing reasons to require a full return to the office. There is little consensus on how quickly staff will return, if at all, to the office, and as state tax rules are reverting back to their pre-pandemic guidance, only time will tell what the new “normal” will be for the PR and advertising industries.

For more information on the tax implications of employee return-to-office benefits and the hybrid work model in the PR and advertising industry, please contact [Michael Belfer](#), Partner and Leader of Anchin’s Public Relations Group, [Alan Goldenberg](#), Principal and Leader of Anchin’s State and Local Tax Group, or your Anchin Relationship Partner.