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Tax Implications While Working Remotely Due to the COVID-19 Pandemic

Background

Under normal circumstances, Massachusetts residents generally must pay state personal income tax on all of their income, unless they receive a tax credit for income tax paid in another state. Nonresidents must pay Massachusetts personal income tax only on gross income earned in Massachusetts.

Due to the COVID-19 state of emergency, however, many employers both in and outside of Massachusetts have required their employees to work remotely, which has led to some confusion for employees who live and work in different states.

Massachusetts has issued a technical information release (TIR) on tax implications for different aspects of employees working from home. The rules being adopted are for the time period beginning March 10 until the Governor gives notice that the state of emergency is no longer in effect. See our summary below, and check out the full text of TIR 20-5 [here](#).

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Summary

As noted above, the Massachusetts Department of Revenue's TIR 20-5 covers a variety of tax-related issues for employees working remotely during the COVID-19 state of emergency. While the language used in the TIR can be technical and challenging to understand, the general theme of the guidance is fairly simple. **In short, employees and employers will continue to be taxed as they would have been if not for the COVID-19 state of emergency.** Here is a summary of the specific topics covered in TIR 20-5.

Personal Income and Withholding Tax:

Compensation received by a nonresident who, prior to COVID-19, was an employee in Massachusetts and is now performing such services from a location outside Massachusetts due to the pandemic, will continue to be treated as Massachusetts source income subject to personal income tax. Other states have adopted similar sourcing rules. Employees are still eligible for credit for taxes paid in other states if they are not working remotely in Massachusetts but incur tax liability in another state.

Sales and Use Tax / Corporate Excise:

Businesses are generally subject to Massachusetts sales and use taxes and excise taxes if they are engaged in business in the Commonwealth of Massachusetts. Under normal circumstances, having one or more employees working in Massachusetts would make an employer eligible for these taxes.

For the duration of the COVID-19 state of emergency, however, employees working remotely in Massachusetts due solely to the COVID-19 pandemic will not trigger collection of these taxes if the business would otherwise not have owed them. Further, jobs performed by employees working remotely in Massachusetts due to COVID-19 will not be considered when determining their employer's payroll factor for apportionment purposes.

Paid Family and Medical Leave:

Massachusetts residents who were previously not subject to Paid Family and Medical Leave (PFML) rules due to working in another state will not become subject to them if they are working remotely in Massachusetts due solely to the COVID-19 pandemic.

The inverse is also true. Nonresident Massachusetts employees who would otherwise have been subject to PFML but are now working remotely in another state due solely to the COVID-19 pandemic will continue to be subject to PFML. Essentially, the COVID-19 state of emergency will not count toward or against an employee's eligibility either way.

Employer Next Steps

- If you are a Massachusetts employer or have employees residing in Massachusetts, review TIR 20-5 to help determine your and your employees' tax obligation.
- If you have employees who live or work in other states, keep an eye out for specific information from those states. Many states are issuing similar guidance to provide clarity to employers.
- If you have any questions about these regulations, consult with a tax professional for help and guidance with your specific circumstances.
- If you are a Full-Service or Virtual HR client and would like our assistance with updating or clarifying your policies, please [email us](#).

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