



**IRIS** | Payroll

# The Payroll Guide to Remote and Hybrid Work

Navigating Compliance  
Across State Lines

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## A New Era, A New Set of Rules

Flexible work isn't just a passing phase. It's become a fixture of modern life. And while it's unlocked new freedoms for employees, it's also introduced new complexities for the payroll teams tasked with keeping everything compliant.

When people work from anywhere, payroll professionals need to track everywhere. From multi-state tax rules to municipal leave laws, the map has changed. And the stakes have never been higher.



This guide walks you through the key shifts and what they mean for payroll today. Whether you're an employer, provider, or trusted partner, this is about staying ahead—and staying steady.

## Why Flexible Work Models Complicate Payroll

What seems like a small shift—a few days working from home, a new hire in another state—can have a ripple effect across payroll.

- Hybrid job postings rose from 9% to 23% between early 2023 and late 2024.
- Over 4.5 million workers now cross state lines to get to work.
- Every state—and in many cases, every city—has its own set of tax and compliance rules.

Even a short assignment in a new location can change what's owed, what needs to be reported, and how workers are protected. The challenge isn't just managing payroll. It's managing everywhere payroll happens.

### Did You Know?

4.5 million U.S. workers commute across state lines. That's 4.5 million potential tax complications if compliance isn't managed carefully.

## Understanding Flexible Work Models

The language we use matters, especially when it comes to remote work arrangements. Here's how the key terms differ:

- **Telework:** A formal arrangement where employees work from an approved location (often home) during regular hours, possibly with some in-office days.
- **Remote Work:** Fully location-independent. Employees can work from anywhere, rarely (if ever) visiting a physical office.



- **Hybrid Work:** A structured mix of remote and in-office work, typically on a fixed schedule.
- **ADA Accommodations:** If remote work is offered to some, it must be offered equitably under the Americans with Disabilities Act.

Each model carries its own set of tax and labor implications. Understanding these distinctions is the first step in keeping compliance on solid ground.

**“The more fluid the arrangement, the more complex the payroll scenario.”**

**—Loreene Kemperman,  
IRIS Payroll Compliance Expert**

NACTP Payroll and Information Reporting  
Committee Chair and member of the  
National Payroll Consortium

## Six Payroll Traps to Watch For

Because the rules don't follow the worker—they follow the work.

As hybrid and remote work have become more common, so too have the blind spots that catch employers and payroll teams off guard. Here are six areas where a little clarity can go a long way.

### 1. Double Taxation: The Exception That Becomes the Rule

Most states help avoid double taxation by offering tax credits: employees pay income tax in the higher-tax state, and the other state offers a credit.

But five states don't follow suit:

- Connecticut
- Delaware
- Nebraska
- New York
- Pennsylvania

Even if an employee never steps foot in these states, they may still owe taxes there simply because their employer is based there.

Trap to avoid: Assuming remote means untaxed. In these five states, it may mean taxed twice.

### Case to Watch

**A remote employee in North Dakota working for a New York firm may be taxed by both states—with no credit relief.**

### 2. State Reciprocity Agreements: The Patchwork Problem

Reciprocity agreements between states are designed to simplify things. In theory, they let employees pay income tax only in their state of residence.

But in practice?

- Agreements vary in terms, duration, and thresholds.
- Most don't cover city or municipal taxes.
- Some can be revoked—or revived—without much notice.

Trap to avoid: Treating reciprocity like a

permanent fix. These agreements shift and differ more than you might think.

### Keep in Mind

Reciprocity agreements can be rescinded without much warning. Stay current on changes in bordering states.

### 3. The Convenience of the Employer Test: The Tax Rule That Turns on a Word

Here, it's not just where the employee works—it's why.

If they're working from home for personal convenience, the employer's state may still tax their income. But if the employer requires remote work—for office closures, geography, or business needs—the employee may be taxed only in their home state.

A recent case in New York hinged on a single word: "permitted." Because the employer's letter said remote work was permitted, not required, the employee was denied a tax refund.

Trap to avoid: Casual wording in HR documents. It can have major tax implications.

### One Word, Big Difference

In *Struckle v. NY*, the word 'permitted' cost the employee a tax refund. 'Required' would have protected him.

### 4. Temporary Presence Rules: The Clock Is Ticking

States set thresholds that define how long someone can work there before taxes apply. These thresholds vary:

- **Utah:** 20 days (with exceptions)
- **Maine:** 12 days or \$3,000 in earnings
- **Montana:** 30-day safe harbor
- **West Virginia:** 30 days—if reciprocity exists

Once those thresholds are crossed, the employer must withhold taxes—or risk penalties.

Trap to avoid: Overlooking travel days, trainings, or site visits. Even brief stays can tip the scales.

### Watch the Calendar

Short assignments, site visits, and trainings all count toward state presence thresholds. Don't lose track.



## 5. Local and City Taxes: Small Borders, Big Consequences

Tax complexity doesn't stop at the state line. In many cities, even a few days of work can create a tax obligation.

**Example:** A hybrid worker in Ohio who spends two days a week in Dayton and three in Eaton pays:

- 2/5 of their taxes to Dayton
- 3/5 to Eaton

Even PTO is split proportionally based on their schedule.

Trap to avoid: Assuming cities don't matter. They often do—and they often enforce.

### City Lines Matter

Even if the state stays the same, crossing a city boundary can trigger separate local taxes.

## 6. Beyond Taxes: Compliance in the Fine Print

Tax rules get the attention, but labor laws can be just as impactful.

For example:

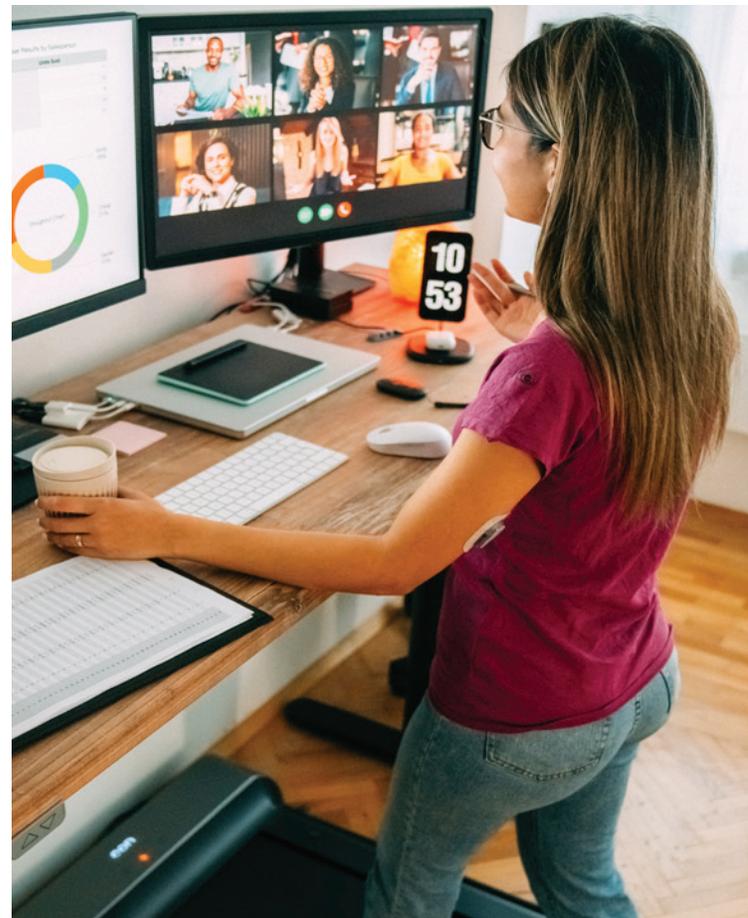
- **Paid Leave:** Michigan mandates 72 hours of paid sick leave.
- **Overtime:** In California, it kicks in after 8 hours per day, not 40 per week.
- **PFML:** Oregon taxes all in-state employees—even if they can't claim the benefit.

Wage statements, garnishment limits, transportation taxes, pay equity reporting—it all varies. And it all matters.

Trap to avoid: Assuming your home state's rules apply everywhere. They don't.

### From Payroll to Policy

Some states enforce benefit and wage rules immediately, even for employees who only work there part-time.





## What Payroll Providers Need to Track

Managing hybrid and remote payroll is about visibility and vigilance:

- ✓ Days and hours worked per state/city
- ✓ Applicable reciprocity agreements
- ✓ Paid leave and benefit thresholds
- ✓ Income tax withholding and filing obligations

### How IRIS Payroll Helps

IRIS Payroll automates tax calculations across jurisdictions, tracks changes in state and local law, and updates rates in real time—so your team doesn't have to. Our compliance team monitors new legislation so your software stays up to date.

*"We don't just monitor the rules—we help you stay ahead of them."*

—Loreene Kemperman,

IRIS Payroll Compliance Expert



## Your Action Plan

What payroll providers and employers should do next:

- 1. Audit your workforce:** Know where people actually work and for how long.
- 2. Review state and local laws:** Especially thresholds for tax liability and paid leave.
- 3. Update your policies:** Include clear guidelines for remote and hybrid employees.
- 4. Lean on your software:** Make sure it can handle multi-location logic.
- 5. Stay informed:** Tax rules are evolving. Your approach should too.

# Appendix

## State Reciprocity Reference Chart

STATE AGREEMENTS WITH:	
Arizona	California   Indiana   Oregon   Virginia
Washington D.C.	Maryland   Virginia
Illinois	Iowa   Kentucky   Michigan   Wisconsin
Iowa	Illinois
Kentucky	Illinois   Indiana   Michigan   Ohio   Virginia   West Virginia   Wisconsin
Maryland	Pennsylvania   Virginia   West Virginia   Washington D.C
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   Maryland   Pennsylvania   West Virginia
Pennsylvania	Indiana   Maryland   New Jersey   Ohio   Virginia   West Virginia
Virginia	Kentucky   Maryland   Pennsylvania   Washington D.C   West Virginia
West Virginia	Kentucky   Maryland   Ohio   Pennsylvania   Virginia
Wisconsin	Illinois   Indiana   Kentucky   Michigan

## Glossary

- **Telework:** Authorized home-based work with structured schedule
- **Remote Work:** Location-flexible work with little/no office requirement
- **Reciprocity Agreement:** State-level tax agreement preventing double taxation
- **Convenience of the Employer Test:** Determines which state gets to tax remote workers
- **Temporary Presence Rule:** Time threshold before an employee is taxed by a new state

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