

GMS Flash Alert

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United Kingdom – OTS Review of Hybrid and Distance Working

The Office of Tax Simplification (OTS) is the independent adviser to the U.K. government on simplifying the U.K. tax system. On 27 July 2022, the OTS published a scoping note outlining its intention to look at the tax and social security implications of both domestic and international hybrid and distance working arrangements.¹

On 31 August 2022, the OTS published its full call for evidence.² This invites submissions by 25 November 2022, from employers and advisers on their experiences. The OTS expects to publish its findings and any recommendations to the government in early 2023.

WHY THIS MATTERS

This is the latest in a line of employment tax projects from the OTS, some of which have resulted in substantial changes to the tax code. Therefore, this is an opportunity for employers to share their experiences, views, and recommendations for improving and simplifying the U.K. tax regime in respect of hybrid and distance working.

Hybrid and distance working can create significant tax and social security issues, especially – but not only – when there are international aspects and multiple tax jurisdictions involved.

This review is therefore an opportunity for all employers that currently have hybrid or distance working arrangements involving the U.K., or are considering implementing these in the future, to share their perspectives with the OTS so that these issues can be reviewed and, where appropriate, changes proposed which could help to simplify the position.

Background

The OTS recognises that as a result of the COVID-19 pandemic, many employees worked remotely (i.e., away from their employers' premises), both internationally (i.e., between the U.K. and another country) and within the U.K. itself. In many cases this has led to a permanent move away from traditional site-based roles or formal overseas assignments to remote or 'hybrid' home and site-based working arrangements.

The OTS therefore wants to understand the current levels of hybrid and distance working, whether this is likely to increase, and whether changes in working arrangements give rise to particular tax and social security complexities or challenges for employers and employees.

More Details – Key Issues and Questions

Key issues addressed in the call for evidence include:

- what working across international borders means for tax, social security, tax residence, and permanent establishments;
- how hybrid working affects accommodation, travel, and other expenses (including who meets the relevant costs and whether the permanent workplace tax rules are appropriate); and
- the short-term business visitor rules, overseas work-day relief rules, and the implications for modified PAYE schemes.

The call for evidence sets out several questions to allow the OTS to understand the trends in respect of hybrid and distance working and the issues experienced by employers, comparing the position to that prior to the pandemic, changes due to the pandemic, and the position going forward.

KPMG LLP (U.K.) NOTE

In our experience, challenges that employers experience in respect of cross-border hybrid and distance working include:

- determining an individual's residency position under both U.K. domestic tax law and any applicable double taxation treaty;
- confirming whether the business has a payroll reporting and withholding obligation in the country where the employee is carrying out work duties and/or where they are tax resident;
- managing potential double payroll reporting and tax withholding obligations, including actions they need to take to reduce the cash-flow impact for the individual; and
- analysing the social security position taking account of any agreement that the U.K. may have with the country concerned.

Employers should therefore review how they have approached cross-border hybrid and distance working to check that their systems and processes have allowed them to discharge their payroll reporting and compliance obligations correctly, and indeed that their employees are aware of when they may trigger a non-U.K. tax liability and need to file a tax return in the country concerned.

This call for evidence is a welcome opportunity for employers to make the OTS aware of specific issues that they encounter in respect of hybrid and distance working with a view to the relevant U.K. tax and social security rules potentially being simplified.

Employers can respond to the OTS directly or if there are particular points that you would like us to consider for inclusion in any submissions that KPMG in the U.K. may make to the OTS, please talk with your usual KPMG contact.

FOOTNOTES:

- 1 For coverage by KPMG LLP in the U.K. of the initial publication of the scope of the review, click [here](#) .
- 2 For the OTS' full call for evidence, click [here](#) .

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Contact us

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