



# Remote and cross-border employment trends - Is Canada ready?

November 2021



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# Executive summary

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## Study mandate

When COVID-19 arrived in March 2020, lockdowns caused a rapid and forced shift to working from home (WFH) for many employees. Over a year and a half later, remote work, even across provincial and international borders, is becoming increasingly common. These trends have major implications for how employers conduct payroll.

In this context, the Canadian Payroll Association (the Association) engaged PricewaterhouseCoopers LLP (PwC, we, or us) to conduct a study on the impacts of remote and cross-border work on Canadian employers, with a focus on implications for payroll. In this report, “remote and cross-border work” refers to work arrangements that include options for WFH, as well as work across provincial and international borders.

This study relies on primary and secondary data sources, including 46 interviews with Canadian employers conducted between June and August of 2021.

## Summary of findings

Stay-at-home orders during the pandemic forced many employees to WFH and have enabled employers and employees to reimagine the future of work. At the same time, Canada and other countries have continued to experience a growing shortage of in-demand skills. This report explores how new work arrangements may affect employers, including helping to address their skill shortages, and creating more complex payroll challenges.

This study provides practical considerations for employers interested in embracing remote and cross-border work arrangements and identifies areas where government policy could be better used to support remote and cross-border work.

## A fiercely competitive Canadian labour market means employers need to be agile

Canada's job vacancy rate hit a high of 4.6 per cent in the second quarter of 2021.<sup>1</sup> In the months prior, job vacancies in Canada grew by 22 per cent from May to June 2021, amounting to over 800,000 job openings.<sup>2</sup> In line with these trends, three times the number of Canadians resigned from their jobs in June 2021 compared to June 2020 due to dissatisfaction.<sup>3</sup>

In these competitive circumstances, employers who are looking to attract and retain top talent need to be agile and adapt to employee preferences. Enabling remote and cross-border work can help employers retain and attract talent by providing employees the flexibility to choose where they work and by expanding the talent pool. Employees may choose other employment (and are even willing to take less money) for the option to work more flexibly. Furthermore, remote and flexible work can facilitate workplace equity and employee well-being. Potential equity benefits include accommodating those with childcare or eldercare responsibilities and those with disabilities.

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<sup>1</sup> Statistics Canada, [Job vacancies, second quarter 2021](#).

<sup>2</sup> RBC Economics, [Emerging labour shortages in Canada](#).

<sup>3</sup> Ibid.

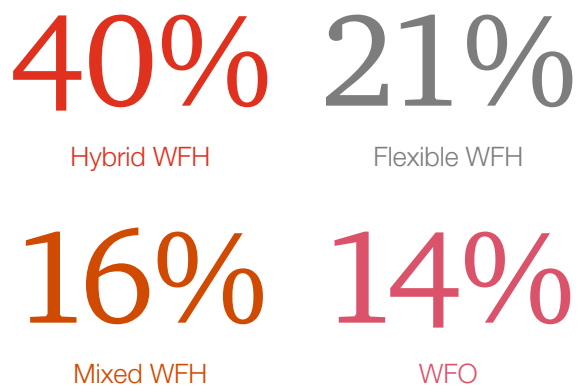
### Most remote work compatible employers are adopting a WFH policy, while relatively few have returned to business as usual

As of May 2020, 39 per cent of Canadian employees were in WFH-compatible jobs.<sup>4</sup> However, as of September 2021, only 24 per cent of Canadians were working at least half of their usual hours from home; the lowest share since the onset of the pandemic.<sup>5</sup> Of the WFH-compatible employers that we interviewed, 83 per cent are adopting some form of WFH policy. The most common work policy among interviewees (40 per cent) was a hybrid WFH policy, which means that employees are expected to work from the office/on-site (WFO) a certain number of days per week. The second most common policy (21 per cent) was a flexible policy, which allows employees to WFO or WFH as they choose.

Of the employers interviewed for this study, 16 per cent have adopted a mixed policy, such as an arrangement where some employees are fully remote, while others work flexibly (WFH/WFO when they choose); this model often grants employees the ability to completely choose where they live and work and is therefore the most employee-friendly policy. Flexible or mixed work arrangements are generally preferred by employees and allow for flexibility in the face of COVID-19 uncertainty. Finally, only 14 per cent of interviewees represent employers that will be mandating a full return to the office. Every interviewee at a company without a WFH policy acknowledged their uncertainty about the company's ability to attract and retain talent.

### Core motivations for offering remote work are flexibility, well-being and competition for talent

The top employer motivations for offering a WFH policy are to attract and retain talent, accommodate employee preferences and save costs. Flexible policies allow employers to offer the benefits of WFH while maintaining some client and employee face time. Compared to full-time WFO, flexible arrangements can be more equitable by allowing employees increased flexibility to accommodate childcare and health commitments. The top



Note: the distribution of work arrangements among employers does not sum to 100%. Three interviewees answered "not applicable" or "to be determined." This table does not include undecided employers.

employee motivations for flexible arrangements include improved flexibility, work-life balance and well-being. WFH can also yield positive environmental benefits by reducing or eliminating office energy consumption, office waste and emissions caused by commuting.

Some employers are reluctant to offer a flexible WFH policy. The motivations for offering a more strict, hybrid policy are similar to the motivations for a WFO policy, which include company culture, collaboration between colleagues and effectively onboarding and training employees. Some employers are inclined to return to the office to keep in closer contact with employees. This sentiment is aligned with the fact that 42 per cent of interviewees with visibility on employee productivity believe WFH has mixed or negative impacts on productivity.

### Employers are more receptive to hiring remote workers within Canada than internationally

Openness to remote and cross-border hiring is driven by high competition for talent. Most Canadian employers we spoke with (65 per cent) are currently engaged in or open to hiring remote employees across Canada. However, hiring remote employees across international borders is still less common for Canadian employers: approximately one-third of interviewees are open to or engaged in international remote hiring. Currently 23 per cent of interviewees have international remote employees (with the greatest concentration in information and communication technology (ICT)

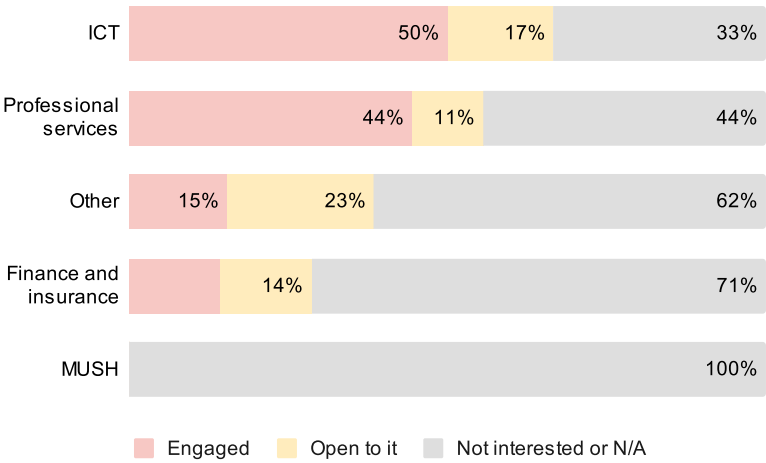
<sup>4</sup> Statistics Canada, [Running the economy remotely: Potential for working from home during and after COVID-19](#).

<sup>5</sup> Statistics Canada, [Labour Force Survey, August 2021](#).

and professional services) and 14 per cent would be open to international remote hiring in the future. This distribution is shown in Figure A.1 below. We found that large companies are more likely to be engaged in or open to international remote hiring. This may be linked to the fact that large employers are more likely to have offices in multiple countries. In line with these observations, we note that it is currently very rare for

the employers we interviewed to hire an employee to work remotely in a foreign country without already having an establishment in that jurisdiction. This is likely due to a combination of compliance complexity and some employers’ discomfort with purely remote work, which was relatively uncommon before the pandemic.

**Figure A.1: Interviewee perspectives on international remote hiring<sup>6</sup>**



**Employers need to consider the payroll implications of each work model**

While remote and cross-border work provides benefits, employers should be aware of the potentially significant implications for payroll administration and payroll compliance. This study outlines the constraints that employers need to consider for various work arrangements, as shown in Table A.1.

For remote work, the main challenges for employers are tracking when employees are WFH compared to WFO, valuation of taxable benefits and treatment of WFH expenses. Hybrid and flexible work can be quite complex because they create the possibility of employees working across multiple provinces or countries. This scenario is common across the Ottawa/Gatineau and Windsor/Detroit borders. Organizations with employees in another country

(or in Québec) must deal with different tax authorities (e.g. Internal Revenue Service (IRS) and state unemployment insurance authorities, Revenu Québec) and interactions between two tax authorities, if work is being done in two jurisdictions through a hybrid or flexible model. There is also complexity due to varying employment standards and workers’ compensation premium requirements between jurisdictions.

<sup>6</sup> "MUSH" refers to (Municipalities, universities, school boards and hospitals).

**Table A.1: Payroll considerations for different work models**

	Province of Employment (PoE)	Employment standards	Workers compensation	Taxable benefit identification and valuation	Work from home expenses	Challenges identifying employees' work location	International compliance complexities	Double withholding	Employees' perceived loss of benefits
Hybrid or flexible work - domestic, interprovincial	✓	✓	✓	✓	✓	✓			
Hybrid or flexible work - international	✓	✓	✓	✓	✓	✓	✓	✓	
Domestic remote work	✓	✓	✓		✓	✓			✓
International remote work	✓	✓	✓		✓	✓	✓	✓	

Based on our primary and secondary research findings, we are of the view that, for Canadian employers the risks and opportunity costs of not engaging in international hiring may, in many cases, far outweigh the risks and costs of the additional administrative burden. Many employers we interviewed were deterred from engaging in international remote hiring because of the complexity of compliance in another country. However, although international remote employment requires payroll departments to learn and adapt to a new set of requirements, the ability to manage these obligations can often be accomplished by existing staff where time is invested in learning and development. Alternatively, the entire foreign payroll can be outsourced to an external service provider. In our interviews, larger employers were more likely to embrace international remote hiring because they typically have a large payroll team, experience with global mobility and the ability to engage consultants for support.

### **Governments can address policy challenges created by new work arrangements**

Policy challenges can be a barrier for employers looking to pursue remote and cross-border work arrangements. Given the importance of these arrangements for Canadian employers' ability to address their skill gaps, governments should consider working to remove barriers affecting

employers. We identified key considerations for governments to enable that wish to promote remote and cross-border work, as shown in table A.2.

For the economy as a whole, there are advantages and disadvantages to foreign employers hiring Canadian employees, addressed in Item 4 in table A.2. Potential advantages include reversing "brain drain" and keeping high-income earners in Canada, as Canadians may prefer to live in their home country while working for a foreign employer. This arrangement can also provide cost savings for employers. From a government perspective, it is desirable to have these employees residing in Canada rather than leaving the country. This arrangement maintains an income tax base in Canada, may have positive spillover effects through professional communities, and maintains a skill base in the country that Canadian employers could hire from in the future. On the negative side, Canadian employers we interviewed are concerned about their ability to compete with foreign employers on salaries. However, overall, the benefit of keeping highly skilled Canadians from leaving the country likely outweighs this concern.

**Table A.2: Takeaways for government**

**Considerations**

<b>1.</b>	<b>Review T2200 requirements in the WFH context</b> Employers interviewed would prefer a simplified version of the T2200 form, which is required for claiming WFH expenses. This could be similar to the T2200S, the simplified form for WFH expenses brought in amid increased WFH during the pandemic. Employers would like to see a similar form available for their employees that WFH long term.
<b>2.</b>	<b>Evaluate aligning province of employment with province of residence</b> Currently, Province of Employment (PoE) is determined by where the employer is established, which may not align with the province or territory where an employee is WFH. The majority of our interviewees expressed a desire to have the PoE aligned with employees' province of residence (PoR), in order to address confusion when PoE does not match PoR. The opportunity to evaluate the current determination would provide insight into a method that may better align with a shift in work models.
<b>3.</b>	<b>Consider the mismatch in employment standards and workers' compensation premiums</b> When employees work across multiple provinces or territories, multiple sets of employment standards and workers' compensation rules may apply. Employers interviewed would like to see greater harmonization in employment standards and more clarity around workers' compensation rules in WFH settings.
<b>4.</b>	<b>Consider foreign employers' ability to remotely hire Canadian employees</b> Our jurisdictional review of Canada and five peer countries (Australia, Brazil, India, the US and the UK) identified areas where Canada imposes more strict requirements for remote hiring employees based here. These include: the requirement for government approval for reduction in withholdings due to an anticipated foreign tax credit; a lack of clear guidance on whether the Canada Pension Plan (CPP) and Employment Insurance (EI) are required; a relatively higher administrative burden in the case of termination; and the lack of an online registration system for foreign employers.

**Payroll is a key enabler**

Remote and cross-border work arrangements are critical to employers' future success and payroll is a key part of enabling those arrangements. Although the rationale for pursuing different work arrangements should be driven by business and hiring needs, payroll should be involved early in the strategic decision-making process so that tax and other statutory withholdings, reporting requirements and other payroll implications such as employment standards and workers' compensation are understood. A clear understanding of the payroll implications can help employers realize that in many cases, the benefits of remote and cross-border work outweigh the costs. However, these administrative costs must not be overlooked and would need to be addressed.

# 1. Introduction

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## 1.1 Study background and scope

When COVID-19 arrived in March 2020, lockdowns caused a rapid and forced shift to working from home for many employees. A year and a half later, remote work, and even work across provincial and national borders, is becoming increasingly common. These trends have major implications for how employers conduct payroll.

In this context, the Canadian Payroll Association (the Association) engaged PricewaterhouseCoopers LLP (PwC, we, or us) to conduct a study on the impacts of remote and cross-border employment in Canada, with a focus on implications for payroll. The scope of this study is to:

- assess the current state of remote and cross-border work in Canada and employers' plans for the future;
- identify the implications of remote and cross-border work arrangements for employers from a payroll perspective;
- compare requirements for a foreign employer hiring a resident employee in Canada and other key jurisdictions including, Australia, Brazil, India, the US and UK; and
- determine policy barriers to remote and cross-border work.

## 1.2 Approach and methodology

This study relies on primary and secondary data sources, including the following:

- 46 in-depth interviews with payroll and human resources (HR) representatives from Canadian employers conducted between June and August of 2021;
- secondary sources including academic research, news articles and government bulletins;
- information on requirements in international jurisdictions from across the PwC network; and
- data from Statistics Canada.

## 1.3 Report structure

The rest of the report is organized as follows:

- Section 2 describes the trends in remote and cross-border work with a focus on five sectors;
- Section 3 identifies the payroll implications of different remote and cross-border work arrangements;
- Section 4 presents a jurisdictional review of the process for a foreign employer hiring a resident employee in six comparison countries;
- Section 5 describes how remote and cross-border hiring will impact employers and why and how governments in Canada should support these arrangements; and
- Section 6 provides key takeaways for employers and governments to consider in advancing remote and cross-border work in Canada.

For the purposes of this report, “remote and cross-border work” refers to all work arrangements with some work from home (WFH) element, working across provinces and territories or working across international borders. We also speak specifically about work across interprovincial or international remote work using those more specific terms. For the purposes of this report, we use the term “interprovincial” to refer to work across provincial or territorial borders.

## **1.4 Limitations**

Our findings are subject to the methodology and assumptions described in this report and the limitations described in Appendix A: Limitations. This report has been prepared solely for the use and benefit of, and pursuant to a client relationship exclusively with, the Association. The Association may share this report with third parties only in its entirety. No person or entity shall place any reliance upon the accuracy or completeness of the statements made herein. In no event shall PwC have any liability for damages, costs or losses suffered by reason of any reliance upon the contents of this report by the Association or any other person.

## 2. Overview of the current state of remote and cross-border work trends

### 2.1 How COVID-19 accelerated remote and cross-border work trends

Stay-at-home orders during the pandemic forced office-based employees to WFH and have enabled companies to reimagine the future of work. In response to demand from employees, most (83 per cent) employers we interviewed are moving toward hybrid or flexible work models that include a combination of WFH and WFO. Through our interviews, we found that employers are adapting work location and flexibility to address COVID-19 restrictions and accommodate employee expectations, but these tools can also be used to address the growing skill gap in certain roles. Some employers are beginning to consider hiring outside of

the province and, more rarely, the country, in order to access a larger pool of talent.

In this section, we discuss how trends in remote and cross-border work<sup>7</sup> have affected employees and employers, with a focus on five sectors: finance and insurance; information and communication technology (ICT); municipalities, universities, school boards and hospitals (MUSH); professional services; and head office functions (including payroll) across the rest of the economy.

The table below shows the split of work arrangements planned by employers we interviewed. The most common is a hybrid WFH arrangement, which dictates the number of days per week that employees must WFO.

**Table 2.1: Description of work arrangements**

Arrangement	Share of employers interviewed	Description
Hybrid WFH	40%	<ul style="list-style-type: none"><li>Employees are expected to WFO a certain number of days per week</li><li>Days WFO range significantly from one to two days per week reviewed on a monthly basis, to more strict policies, such as three to four days in the office without exception and predetermined days</li></ul>
Flexible WFH	21%	<ul style="list-style-type: none"><li>Allows employees to WFO or WFH as they choose</li><li>Some flexible policies leave WFH/WFO decision-making up to team managers</li></ul>
Mixed WFH	16%	<ul style="list-style-type: none"><li>A mix of different work arrangements; the most common mixed policy is where some employees are fully remote and others work in a hybrid or flexible model, depending on employee location and preferences</li><li>The most flexible, and therefore employee-friendly, policy</li></ul>
WFO	14%	<ul style="list-style-type: none"><li>All work is WFO</li></ul>

**Note:** the distribution of work arrangements among employers does not sum to 100 per cent. Three interviewees answered "not applicable" or "to be determined." This table does not include undecided employers.

<sup>7</sup> In this report, "remote and cross-border work" refers to work arrangements that include options for WFH, as well as work across provincial and international borders.

Many interviewees we spoke to were still in discussions about the design and implementation of their work models. In August, some interviewees shared that their company would be delaying return to WFO or hybrid work plans from September 2021 to January 2022, due to the fourth wave of COVID-19.

Only 14 per cent of interviewees indicated their company will be mandating a full return to WFO. Every interviewee at a company without a WFH policy disclosed that they feel uncertain about the company’s ability to attract and retain talent.

Interviewees noted that it was important for employers with WFH policies to prioritize integrating new, effective ways to collaborate, train and onboard, especially for the benefit of young people. An interviewee in the legal sector captured this in saying, “the larger trend in the legal practice is toward flexible and remote working arrangements. [These work models] make it difficult to mentor young lawyers, a critical component of the training and experience.”

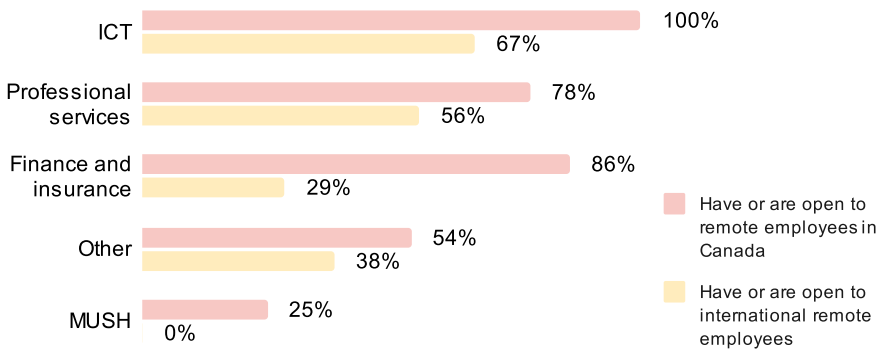
**Remote international hiring is less common than remote hiring within Canada, but employer interest is growing**

Our findings suggest that Canadian employers are more receptive to hiring remote interprovincial hiring than remote international hiring (see Figure 2.2 below). Currently, 65 per cent of interviewees have hired, or are open to hiring, interprovincial remote employees (53 per cent are currently engaged in interprovincial remote hiring and 12 per cent would

be open to it in the future). In comparison, 38 per cent of interviewees have or are open to hiring remote employees in a different country (23 per cent are currently engaged in international remote hiring and 14 per cent would be open to it in the future). This is consistent with The Conference Board’s survey findings in the US that 36 per cent of large employers would be willing to hire 100 per cent remote employees anywhere in the country or internationally, up from 12 per cent before COVID-19.<sup>8</sup> However, we note that it is currently very rare for employers to hire an employee to work remotely in a foreign country without already having an establishment in that jurisdiction. This is likely due to a combination of compliance complexity (as discussed in Section 4 of this report) and the fact that purely remote work setups were less common before the pandemic.

Employers that are not interested in international remote hiring cited the increased cost, burden of tax and payroll compliance, uncertainty around compliance requirements and the desire to support the local economy by hiring locally. Among our sectors of focus, MUSH employers are the most resistant to international remote hiring. Employers interviewed cited several reasons for this, including the ability to secure sensitive data on international servers, the fact that many employee salaries are funded by Canadian tax dollars and the in-person nature of many roles in the sector making them difficult to fill (e.g., nurses).

**Figure 2.2: Interviewees’ willingness to hire remote employees, by sector**



8 The Conference Board US, [Survey: Companies 3 Times More Willing to Hire Remote Workers Anywhere in US or World](#).

## Impacts on productivity vary by employee

Evidence of WFH's impact on productivity is mixed. Statistics Canada finds that 90 per cent of newly remote employees self-report being just as productive or more productive at home than their usual place of work.<sup>9</sup> However, research conducted in Canada and overseas using firm-level data shows that while working hours have increased during the pandemic, output has remained static or declined, which suggests a decline in productivity.<sup>10,11</sup> Employees with children have the largest productivity losses while WFH, likely related to ongoing school and daycare closures during the pandemic.<sup>12</sup>

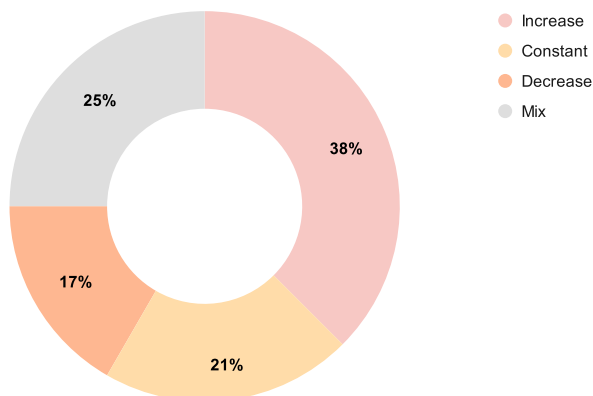
In our interviews, 58 per cent of respondents noted that company productivity has increased or remained constant, as shown in Figure 2.3. However, 42 per cent believe WFH has had mixed or negative impacts on productivity. Interviewees commonly reported that some employees are less motivated, while others are working longer hours than necessary. Many employers we interviewed noted that employees have been experiencing burnout and fatigue. WFH burnout may be aggravated by the reality that some employees are pushing back their vacation time to when COVID-19 restrictions are lifted.<sup>13</sup> These mixed findings on productivity are one reason why many employers offer a flexible arrangement.

## Remote work can support equity and employee well-being

Work models, including remote work, can facilitate workplace equity and employee well-being. Research has identified that potential equity benefits include accommodating those with care responsibilities and those with disabilities. For example, in balancing childcare responsibilities, WFH policies can reduce the stress associated with scheduling family commitments, such as school pick-up and drop-off, or medical appointments.<sup>14</sup> Research by the Institute for Gender and the Economy at the University of Toronto found that women are less likely to take higher paying jobs in cities due to how long commutes affect family obligations. Flexible and remote work arrangements bring better work-life balance, allowing women to take higher paying jobs.<sup>15</sup> Remote work can also support employees with disabilities by providing more flexibility in terms of physical environments and scheduling.<sup>16,17</sup>

Overall, impacts of remote work on employee well-being vary by employee, but seem to be more positive than not. Some employees report improved well-being thanks to reduced commuting time and more flexibility for integrating breaks and exercise into their day.<sup>18</sup> Others have raised concerns about loneliness and isolation, difficulty adapting to rapid

**Figure 2.3: Interviewees' perceptions of WFH impact on productivity**



Note: components of this figure do not sum to 100 per cent due to rounding

9 Statistics Canada, [Working from home: Productivity and preferences](#).

10 Becker Friedman Institute, [Work from Home & Productivity: Evidence from Personnel & Analytics Data on IT Professionals](#).

11 Aternity, [The Global Remote Work Productivity Tracker](#).

12 Becker Friedman Institute, [Work from Home & Productivity: Evidence from Personnel & Analytics Data on IT Professionals](#).

13 ADP, [Half of Working Canadians Taking Less or No Vacation Time this Holiday Season](#).

14 Institute for Gender and the Economy, [Remote Work and Gender Inequality Throughout and Beyond the COVID-19 Pandemic](#).

15 Institute for Gender and the Economy, [Remote Work and Gender Inequality Throughout and Beyond the COVID-19 Pandemic](#).

16 The Atlantic, [The Hidden Toll of Remote Work](#).

17 Forbes, [How The New Normal Of Remote Work Evens The Playing Field For Workers With Disabilities](#).

18 The Washington Post, [What we learned about wellness while working from home, and how to use those insights](#).

changes and lower likelihood of promotions.<sup>19</sup> As with productivity, whether remote work is supportive of well-being or not depends on an individual's circumstances, such as where they live, or whether they have caring responsibilities.

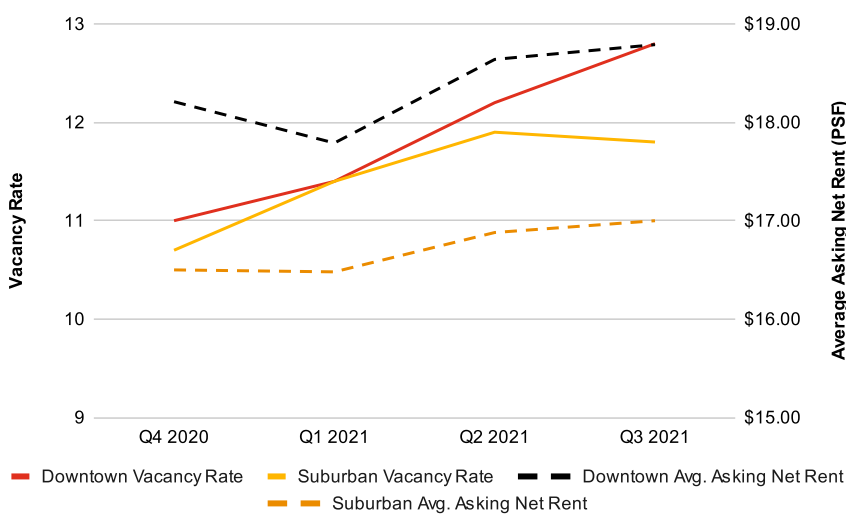
### Fewer than half of employers are reducing office real estate

Some employers are planning on reducing their office space due to an increase in remote work. Among employers we interviewed, 38 per cent reported plans to decrease their office space, while 33 per cent do not currently have plans to change their real estate footprint. Several interviewees noted that they were not expanding their office space despite a significant increase in staff over the course of the pandemic. Instead, they are implementing hybrid/flexible work arrangements and switching to a “hoteling” system<sup>20</sup> that allows them to better accommodate hybrid working practices. One employer in the ICT sector found that, after establishing a completely flexible work policy, many employees moved cities or countries, which resulted in a change in office space needs in several cities across the US and Canada. As a result, the company may have to increase office space in “secondary

cities,” for example adding an office in Surrey while reducing office space in downtown Vancouver.

The pandemic continues to significantly affect office real estate. In the third quarter of 2021, downtown offices had a vacancy rate of 12.8 per cent, one percentage point higher than in the suburbs (see Figure 2.4).<sup>21</sup> However, there are indications that demand for urban office space may be returning. Several companies in downtown Toronto recently reversed their decisions to sublet their office space because of demand from employees to return to the office.<sup>22,23</sup> The long-term effects on real estate are still unclear. In our interviews, many employers shared that they are delaying decisions about office space until they determine their long-term office space needs. Despite this uncertainty, the market in large Canadian cities like Toronto and Vancouver remains among the tightest and most competitive in North America in terms of the expected annual supply of office real estate and price per square foot.<sup>24</sup> The COVID-19 pandemic has caused uncertainty about how much space tenants will need in the future, but office construction has remained steady in Canada.

Figure 2.4 Canada Real Estate Market Snapshot, Q4 2020 - Q3 2021



Source: PwC analysis based on Colliers Canada data.

19 Forbes, [The Untold Side Of Remote Working: Isolation And Lack Of Career Progression](#).  
 20 Hotelling is a flexible workplace practice where employees use a reservation system to schedule the use of their workspace, such as desks, cubicles and offices.

21 Colliers, [National Market Snapshot Q2 2021](#).  
 22 The Globe and Mail, [Companies drop plans to sublease space as more workers want to return to the office](#).  
 23 Toronto Star, [Businesses pulling back on sublet space as return to office looms: report](#).  
 24 CBRE, [Real Estate Market Outlook 2020](#).



One of the biggest challenges [of hybrid and flexible work] is determining who is in the office, who is not, who is on vacation and who is not."

### WFH can reduce environmental footprints

WFH not only improves well-being and saves money, it can yield positive environmental benefits by eliminating commutes, office energy consumption and office waste.<sup>25</sup> Prior to the pandemic, commuting times in Canada were long and getting longer.<sup>26</sup> A 2016 study by Statistics Canada found that over 12.5 million Canadians (over 70 per cent of commuters)<sup>27</sup> drove to the office and over 1.5 million Canadians reported commuting at least one hour to work each day.<sup>28</sup> Eliminating the need to commute to work can yield significant emissions reductions. If WFH-compatible employees transitioned to working fully remote it would eliminate approximately 8.6 megatonnes of greenhouse gasses (GHGs) annually.<sup>29</sup> This is equivalent to 6 per cent of emissions from Canadian households and 11 per cent of transportation emissions.<sup>30</sup> It should be noted that if employee homes are less energy-efficient than office buildings, part of these GHG reductions could be offset by emissions caused by increased home heating and cooling.

## 2.2 Overview: focus sectors

This section summarizes our findings on remote and international remote work in different sectors. These findings are informed by our interviews and organized by themes that were common to all sectors and themes that arose on a sector-specific basis. See table 2.2 below for the remote work uptake among interviewees by sector.

<sup>25</sup> Global Workplace Analytics, [Advantages of Agile Work Strategies For Companies](#).

<sup>26</sup> Statistics Canada, [Study: Long commutes to work by car](#).

<sup>27</sup> Statistics Canada, [Commuting to work](#).

<sup>28</sup> Statistics Canada, [Study: Long commutes to work by car](#).

<sup>29</sup> Statistics Canada, [Study: Working from home: Potential implications for public transit and greenhouse gas emissions](#).

<sup>30</sup> Ibid.

### Common employer perspectives on WFH

Among all employers, motivations for offering flexible work arrangements, where employees choose when to WFO or WFH, include:

- following the lead of competitors to avoid losing talent (a US survey found that 65 per cent of respondents are willing to take a 5 per cent pay cut to have the option to WFH full-time);<sup>31</sup>
- offering employees a better work-life balance;
- accommodating employee preferences;
- addressing labour shortages;
- creating a policy that works for younger workers, who tend to highly value flexibility;
- cost savings (e.g., reducing office real estate); and
- balancing company needs with employee aspirations.

Hybrid and flexible policies, which include a mix of WFO and WFH, allow employers to offer the benefits of working from home, while maintaining some client and employee face-time.

Although there are a myriad of benefits associated with flexible policies, where employees choose when to WFH, these policies have presented challenges for payroll professionals because of the implications of employee location for payroll administration and payroll compliance. An interviewee captured this by saying, "one of the biggest challenges is determining who is in the office, who is not, who is on vacation

<sup>31</sup> Breeze Insurance, [To remain remote, employees are ready to give up benefits, PTO, & salary](#).

and who is not.” This challenge is also applicable to payroll professionals at a hybrid-work employer (with set days WFO) without a reliable location reporting system. Many payroll professionals are managing a variety of compliance issues caused by employees who permanently moved provinces without prior approval. A detailed account of the payroll implications and compliance obligations for Canadian employers is addressed in Sections 3 and 4.

Motivations for offering a stricter hybrid policy, where WFH and WFO days are determined by the employer, are similar to the motivations for a WFO policy. These include:

- promoting company culture in the office;
- connecting with colleagues;
- supporting the local economy near the office;
- ability to effectively onboard new hires; and
- keeping closer contact with employees.

We heard similar comments from both HR and payroll professionals representing companies that have adopted a strict hybrid arrangement or full-time WFO. On the other hand, several payroll professionals we spoke to believed that despite the associated payroll challenges, employees should be able to manage their own time and should not be mandated to work at certain hours (e.g., 9 - 5) or come into the office on employer-determined days. Interviewees were also concerned about the impact of these arrangements on retention. A payroll professional we interviewed

stated that “any company that insists on people returning to office risks losing their employees to competitors.”

### Common employer perspectives on interprovincial and international hiring

Openness to hiring across international borders is driven by the high competition for talent. Interviewees that hire for WFH-compatible roles in highly competitive labour markets held that the primary motivator for cross-border remote hiring is finding the right candidate. This applies to both attracting new employees and retaining existing employees who want to relocate.

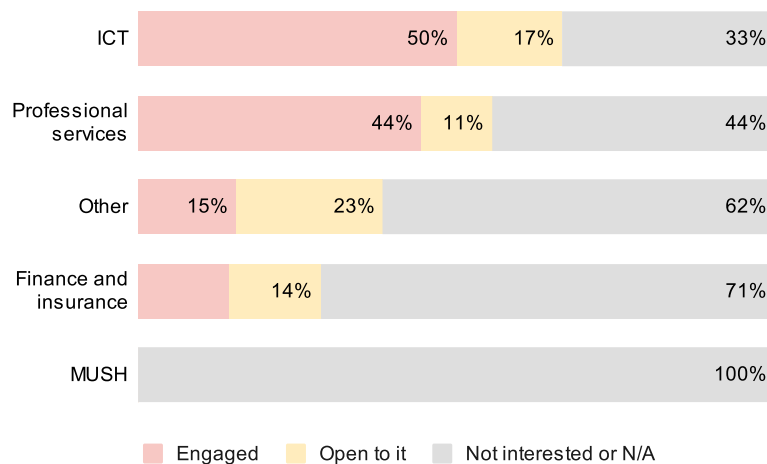
Interviewees representing employers that have international remote employees often have an existing establishment in the location of the remote employee or have a global mobility program that was operating prior to the pandemic. See Table 2.5 for the distribution of employers’ willingness to hire international remote employees by sector.

Several interviewees suggested that their company’s potential to engage with international remote work arrangements depends on the success of remote work in Canada. If employers are not comfortable with remote-only employees, then international remote hiring becomes less attractive. Other interviewees noted that they may consider hiring interprovincially in the future, but would not consider hiring internationally due to corporate tax and payroll complications.

**Table 2.2: Remote work uptake by sector**

	Finance and insurance	ICT	Professional services	MUSH	Other
WFH uptake	100%	100%	88%	63%	69%
Interprovincial remote work (engaged or open to in the future)	86%	100%	78%	25%	54%
International remote work (engaged or open to in the future)	29%	67%	56%	0%	38%
Source: PwC analysis based on interview data.					
Very high (90% - 100%)	High (70% - 89%)	Moderate (50% - 69%)	Low (30% - 49%)	Very low (< or = 29%)	

**Figure 2.5: Interviewee perspectives on international remote hiring**



The table below summarizes common and sector-specific themes presented in this section. More detail on each sector is provided in the following pages.

**Table 2.3: Summary of key themes by sector**

Sector	Key themes
<b>Common to all sectors</b>	<ul style="list-style-type: none"> <li>83 per cent of employers are implementing a policy with some WFH. The most popular policy is a hybrid model.</li> <li>65 per cent of interviewees are open to, or currently engaged in, interprovincial remote employment.</li> <li>38 per cent of interviewees are open to, or currently engaged in, international remote employment (almost exclusively in regions where the company has an existing establishment, often in conjunction with a global mobility program).</li> <li>100 per cent of employers without a WFH policy are concerned about talent attraction and retention.</li> <li>58 per cent of employers believe WFH productivity has remained constant or improved. The literature suggests working hours have increased while output is constant or has slightly declined.<sup>32, 33</sup></li> <li>38 per cent of interviewees reported plans to decrease their office footprint. Many are waiting to evaluate office space needs until after the new policies are in effect.</li> <li>Some employers are reducing compensation packages based on where employees live (for instance, if an employee moves from a downtown core to a remote region with a lower cost of living).</li> </ul>
<b>Finance and insurance</b>	<ul style="list-style-type: none"> <li>100 per cent of employers interviewed in this sector are offering a WFH policy; most are offering a hybrid policy. Rationale varies, but most seek to have employees in the office together on scheduled days to reap WFO benefits related to company culture and collaboration.</li> <li>86 per cent are engaged in, or are open to, interprovincial remote work.</li> <li>29 per cent are engaged in, or are open to, international remote hiring.</li> <li>Finance and insurance firms are experiencing a labour shortage in data analysts and statisticians.</li> </ul>
<b>ICT</b>	<ul style="list-style-type: none"> <li>100 per cent of employers interviewed in this sector are offering a WFH policy; most are offering a mixed policy (e.g., allow either flexible or fully-remote work), giving employees maximum flexibility.</li> <li>100 per cent are engaged in, or, open to, interprovincial remote hiring.</li> <li>67 per cent are engaged in or open to international remote hiring.</li> <li>The market for talent is very competitive in this sector; ICT positions are among the hardest to fill. ICT employers are expending more effort on recruiting and increasing hiring from other countries.</li> </ul>

<sup>32</sup> Becker Friedman Institute, [Work from Home & Productivity: Evidence from Personnel & Analytics Data on IT Professionals](#).

<sup>33</sup> Aternity, [The Global Remote Work Productivity Tracker](#).

Sector	Key themes
<b>Professional services</b>	<ul style="list-style-type: none"> <li>88 per cent of employers interviewed in this sector are offering a WFH policy. The most common is a flexible policy. Four employers are currently engaged in international remote work.</li> <li>78 per cent have interprovincial remote employees.</li> <li>56 per cent are engaged in, or are open to, international remote work.</li> <li>Professional services firms are experiencing a labour shortage in mechanical engineers, data analysts and statisticians. Employers interviewed are not changing compensation packages to address hard-to-fill roles.</li> </ul>
<b>MUSH</b>	<ul style="list-style-type: none"> <li>This sector has relatively low WFH work potential, primarily due to data and IT security and a significant share of roles that need to work on-site/from office.</li> <li>63 per cent of employers interviewed are offering a WFH policy; the most common is a stringent hybrid policy. Some employers are mandating a full WFO policy across lines of service to eliminate fairness concerns.</li> <li>25 per cent are engaged in or open to interprovincial remote work, none are engaged in or open to international remote work.</li> </ul>
<b>Other sectors and head office functions</b>	<ul style="list-style-type: none"> <li>69 per cent of employers interviewed in this sector are offering a WFH policy. Some employers are mandating a full WFO policy across lines of service to eliminate fairness concerns.</li> <li>54 per cent of employers interviewed in this sector are engaged in, or are interested in, interprovincial remote work; 38 per cent are engaged in, or are open to, international remote hiring.</li> </ul>

## 2.2.1 Finance and insurance

Finance and insurance employers commonly offer flexible and hybrid setups with a combination of WFH and WFO, but are currently reluctant to engage in international remote hiring. Below we provide more details on work trends in this sector.

**Table 2.4: Definition and key statistics in Canada's finance and insurance sector**

Definition	Key statistics
<p>Organizations in this sector are engaged in financial transactions and the pooling of risk by underwriting annuities and insurance. This includes:</p> <ul style="list-style-type: none"> <li>Commercial banking;</li> <li>Credit unions;</li> <li>Loan administration, cheque cashing and other services;</li> <li>Foreign currency exchange services;</li> <li>Life insurance and annuities;</li> <li>property, casualty and direct insurance;</li> <li>Insurance brokers and agencies; and</li> <li>Real estate investment trusts.</li> </ul>	<p>In 2019, the finance and insurance sector:</p> <ul style="list-style-type: none"> <li>Generated \$136.6 billion in GDP<sup>34</sup> and \$424.4 billion in revenue;<sup>35</sup></li> <li>Employed nearly 750,000<sup>36</sup> people across Canada with an average annual salary of \$56,550;<sup>37</sup></li> <li>Had 236,000+ establishments, including a large number of sole practitioners;<sup>38</sup> and</li> <li>Faced a labour shortage in data analysts and statisticians/actuaries in Canada.<sup>39</sup></li> </ul> <p>Hiring challenges:</p> <ul style="list-style-type: none"> <li>Based on our interviews, the roles that are the most difficult to hire are: paralegals, accountants, positions in remote/northern regions, entry level positions and any position offering less than \$20 per hour.</li> <li>To address hiring challenges, companies are engaging recruiters, looking for talent within their organizations and incenting employee referrals.</li> <li>Some employers in this sector view a WFH policy as a perk for employees.</li> </ul>

<sup>34</sup> Statistics Canada, [Gross domestic product \(GDP\) at basic prices, by industry, annual average, industry detail \(x 1,000,000\)](#).

<sup>35</sup> Statistics Canada, [Input-output multipliers, detail level](#).

<sup>36</sup> Statistics Canada, [Employment by industry, annual](#).

<sup>37</sup> Government of Canada, [Canadian Industry Statistics](#).

<sup>38</sup> Ibid.

<sup>39</sup> OECD, [Skills of the Canadian workforce](#).



One interviewee noted that an employee who preferred to work fully remotely had resigned due to a strict requirement to be in the office a certain number of days per week."

### **Potential for remote work in finance and insurance is high**

The finance and insurance sector has high potential for long-term hybrid or fully remote work arrangements. The vast majority of activities in finance and insurance (e.g., research, analysis, meetings) can be done remotely. However, some employers and employees find certain tasks more effective in person, such as the ability to network, build relationships, collaborate and train/coach (especially for young people). This has led some employers to resist a fully remote model. In our interviews, we found that 100 per cent of finance and insurance companies are offering various forms of long-term WFH policies for their Canadian offices.

### **Employee retention and culture are top considerations for work arrangements**

In this sector, 71 per cent of interviewees are offering a hybrid work arrangement, typically ranging from one to three days in the office each week. One interviewee noted that an employee who preferred to work fully remote had resigned due to a strict requirement to be in the office a certain number of days per week. Within financial services, the banking sector is more inclined than other sectors to have employees return to the office. By offering a WFH policy, banks are reportedly concerned about losing the "buzz" on trading floors, and worry that they may lose an edge to competitors engaging with clients face-to-face.<sup>40</sup>

### **Employers are pursuing interprovincial remote work, but some are wary of international remote work**

The potential for remote work has increased during the pandemic and could be feasible in this sector given the ability to work remotely for most roles. Among interviewees in the finance and insurance sector, 86 per cent have or are open to having interprovincial remote employees, while 29 per cent are open to, or engaged in, international remote work. Based on our experience, larger finance and insurance companies are more likely than other sectors to explore new geographies and therefore allow employees to work from regions without a permanent establishment, where they feel there are business opportunities. This may be attributable to the fact that many finance and insurance companies operate multinationally and are more familiar with the implications of operating in a new region.

### ***2.2.2 Information and communication technology (ICT)***

ICT is among the sectors most open to remote and cross-border work, including international remote work. On the next page we provide more details on work arrangements in this sector.

<sup>40</sup> Forbes, [Wall Street Banks That Demanded Workers To Return To Their Offices May Have To Change Their Plans Due To The Delta Variant](#).

Table 2.5: Definition and key statistics in Canada’s ICT sector

Definition	Key statistics
Organizations in this sector are manufacturers and service providers whose products enable information processing and communication by electronic means. This includes: <ul style="list-style-type: none"><li>• Data science;</li><li>• Cyber security;</li><li>• Software engineering;</li><li>• Programming;</li><li>• Systems engineering;</li><li>• Web development; and</li><li>• Tech support.</li></ul>	<p>In 2019, the ICT sector:</p> <ul style="list-style-type: none"><li>• Generated \$94.1 billion in GDP<sup>41</sup> and \$210.0 billion in revenue;<sup>42</sup> and</li><li>• Employed 666,500+ people across Canada with an average annual salary of \$82,221. There are 43,200+ establishments in this sector.<sup>43</sup></li></ul> <p>Hiring challenges:</p> <ul style="list-style-type: none"><li>• Canada is facing a labour shortage in many ICT occupations including: computer engineers, software engineers and designers, computer programmers and interactive media developers.<sup>44</sup></li><li>• In 2020 and 2021, interviewees struggled to recruit international talent to live and work in Canada due to COVID-19 restrictions.</li><li>• ICT companies are taking the most significant steps to address hiring challenges among the sectors we spoke to.</li><li>• Hiring tactics include: engaging recruiters, providing more opportunities for training and upskilling, offering opportunities to work on meaningful projects and offering flexible time off and/or unlimited sick days.</li><li>• ICT employers are also increasing compensation packages.</li></ul>

**WFH arrangements are common in ICT, driven by stiff competition for talent**

Several large US-based technology companies led the transition to permanent remote work, as they announced in spring 2020 that employees would be permitted to WFH indefinitely.<sup>45</sup> In our interviews, all ICT companies are offering various forms of long-term WFH policies for their Canadian offices. Most interviewees are offering flexible work arrangement policies that allow employees to choose whether they WFH or WFO on a flexible, self-determined basis. Since most ICT work is computer-based, tasks have a very high potential to be conducted remotely. However, interviewees noted that there are ICT roles that can be done

more effectively in person, such as certain ICT engineering roles that are engaged in creating new products and need to access equipment or in-person collaboration. Further, many ICT support roles require in-person troubleshooting, which cannot be done remotely.

Interviewees in this sector view a WFH policy as a “must” in order to remain competitive in attracting and retaining talent. An interviewee captured this, saying, “Any time you reject an employee’s request, you run the risk of losing them.” Employers in ICT that were resistant to interprovincial and international remote hiring prior to the pandemic reported having more difficulty hiring when COVID hit because travel restrictions decreased their ability to bring employees to Canada.

“Interviewees in ICT view a WFH policy as a “must” in order to remain competitive in attracting and retaining talent.”

**ICT is the among the most open to remote hiring of all focus sectors**

Of the interviewees, 100 per cent of ICT employers are engaged in interprovincial remote hiring and 67 per cent are currently engaged, or are interested in, international remote hiring. All companies with international remote employees had these arrangements prior to the pandemic, mostly in cities with office locations. This represents the highest share among the focus sectors in this study, along

41 Innovation, Science and Economic Development Canada, [Canadian ICT Sector Profile 2020](#).  
42 Ibid.  
43 Innovation, Science and Economic Development Canada, [Canadian ICT Sector Profile 2020](#).  
44 Ibid.  
45 The Observer, [Interest in Twitter, Facebook Jobs Surges After CEOs Allow Permanent Work From Home](#).



An interviewee in professional services noted that WFH arrangements may negatively affect customer and colleague relationships and the benefits from collaboration, such as 'the solutions that happen by accident.'

with professional services. Nonetheless, it is very rare that companies will hire an international candidate where they do not already have an establishment. ICT employers that are not open to international remote hiring cited data and IT security issues, and time zone challenges as the main reasons.

### 2.2.3 Professional services

After ICT, professional services is the sector most open to remote and cross-border work. Below we provide more details on employers' plans for work arrangements.

**Table 2.5: Definition and key statistics in Canada's professional services sector**

Definition	Key statistics
Organizations in this sector rely on the expertise and skills of employees to deliver knowledge-based services to clients. This includes: <ul style="list-style-type: none"><li>• Legal services;</li><li>• Management;</li><li>• Scientific and technical consulting services;</li><li>• Advertising, public relations and related services;</li><li>• Accounting, tax preparation, bookkeeping and payroll services;</li><li>• Employment services;</li><li>• Architectural and engineering services; and</li><li>• Specialized design services.</li></ul>	<p>In 2019, the professional services sector:</p> <ul style="list-style-type: none"><li>• Generated \$101.0 billion in GDP<sup>46</sup> and \$161.6 billion in revenue;<sup>47</sup></li><li>• Employed 897,600+ people across Canada with an average annual salary of \$63,434;</li><li>• Had 361,280+ establishments in that sector, including a large number of sole practitioners;<sup>48</sup> and</li><li>• Faced a labour shortage in data analysts, mechanical engineers and statisticians/actuaries in Canada.<sup>49</sup></li></ul> <p>Hiring challenges:</p> <ul style="list-style-type: none"><li>• For the most part, these firms are not changing their tactics to address hiring challenges.</li><li>• This suggests that their hiring challenges are not affecting operations significantly; employers continue to use recruiters and job boards to advertise roles.</li><li>• Some employers in this sector view a company WFH policy as a perk for employees.</li></ul>

### Hybrid and flexible options are common in professional services, with employers seeking to get the best of both worlds

Similar to finance and insurance, the professional services sector has a high potential to sustain long-term remote work arrangements. Core employee tasks in this sector require cognitive thinking, problem solving and data analysis, which can be done remotely. However, WFH arrangements

may negatively affect customer and colleague relationships and the benefits from collaboration, such as "the solutions that happen by accident," as said by an interviewee. Among interviewees in the professional services sector, 88 per cent of employers are offering some type of a WFH policy. The most common WFH policy is a flexible policy, followed by a hybrid policy. Only one employer interviewed in the professional services sector is mandating a full return to the office, without exceptions.

<sup>46</sup> Statistics Canada, [Input-output multipliers, detail level](#).

<sup>47</sup> IBISworld, [Professional Services in Canada](#).

<sup>48</sup> Ibid.

<sup>49</sup> OECD, [Skills of the Canadian workforce](#).

Competition for talent is driving openness to remote hiring

Among interviewees, 78 per cent are engaged in interprovincial remote hiring and 56 per cent are currently engaged in, or open to, international remote hiring. There has been anecdotal evidence that American law firms are hiring Canadian lawyers to work remotely, offering significantly higher salaries than Canadian law firms.<sup>50</sup> This trend suggests that Canadian law firms could have the potential for remote hiring, and international remote hiring, in the future.

2.2.4 Municipalities, universities, school boards and hospitals (MUSH)

Of the sectors reviewed in this study, MUSH employers are the most reluctant to engage in remote and cross-border work, driven by the nature of roles and institutions. Below we provide more details on employers' intentions in this sector.

Table 2.6: Definition and key statistics in Canada's MUSH sector

Definition	Key statistics
<p>The MUSH sector refers to establishments in the following public subsectors:</p> <ul style="list-style-type: none"><li>Local, municipal and regional public administration;</li><li>Universities, community colleges and CEGEPs;</li><li>School boards; and</li><li>Health-care and social assistance.</li></ul>	<p>In 2019, the MUSH sector:</p> <ul style="list-style-type: none"><li>Generated \$374.9 billion in GDP<sup>51</sup> and employed 3,203,377 people across Canada <sup>52</sup>with an average annual salary of \$56,340.<sup>53</sup> There are 287,860+ establishments in this sector.<sup>54</sup></li></ul> <p>Hiring challenges:</p> <ul style="list-style-type: none"><li>Faced with a labour shortage in data analysts, mathematicians/statisticians/actuaries, professors in specialized fields, specialist physicians, general practitioners/family physicians, optometrists, chiropractors, dentists and dental professionals, physiotherapists, medical laboratory technologists and technicians, cardiology technologists and nursing professions in Canada.<sup>55</sup></li><li>To address these hiring challenges, MUSH employers are trying to highlight their benefit plans, pension plans and flexibility.</li></ul>

Many MUSH roles do not lend themselves to remote work

The potential for remote work in this sector is varied, and interviewees described a range of preferences depending on roles. In government, some roles are highly comparable to occupations in ICT, professional services and finance and insurance, where virtually all tasks can be done remotely. Roles in MUSH that lend best to WFH are ones that were previously office-based and/or computer-based, such as HR analysts and planners. Additionally, among some health-care occupations, digital technologies can be used to communicate with patients. For instance, general practitioners or psychologists can use digital resources to increase scale and capacity, while improving social equity and accessibility.

Roles are varied within the MUSH sector. Some municipal positions such as civil engineers have responsibilities on-site that cannot be done remotely, or work that is highly sensitive and cannot be done from home. In educational services, some tasks can be done remotely, such as lectures or panel discussions (although many universities prefer in-person teaching). Other tasks, such as mentoring or teaching children, are much more effectively done in person. In the health-care sector, tasks such as the act of caring, performing surgery and operating technical equipment traditionally require a physical presence. However, there have been recent technological advances in 5G remote surgeries that could potentially transform the health-care industry.<sup>56</sup>

56 Business Insider, [5G is being used to perform remote surgery from thousands of miles away, and it could transform the healthcare industry.](#)

50 The Globe and Mail, [Wall Street looks north for legal talent amid surge of deals, IPOs.](#)  
51 Statistics Canada, [Gross domestic product \(GDP\) at basic prices, by industry, annual average, industry detail \(x 1,000,000\).](#)  
52 Ibid.  
53 Government of Canada, [Canadian Industry Statistics.](#)  
54 Ibid.  
55 OECD, [Skills of the Canadian workforce.](#)



Employers shared that they are hesitant to move certain roles to WFH so that all employees are treated equally in being required to WFO."

To address hiring challenges in the MUSH sector, one interviewee started offering hiring bonuses during the pandemic. Another is undergoing an organization-wide compensation review to improve competitiveness.

#### **Remote and cross-border work is less common than in other sectors**

In our interviews, 63 per cent of MUSH employers are offering some kind of WFH policy. The most common work arrangement in the MUSH sector was a strict hybrid work arrangement, requiring employees to come into the office on set days or a specific number of days per week or per month. Most MUSH employers have a significant share of employees that need to work in-person. Employers shared that they are hesitant to move certain roles to WFH so that all employees are treated equally in being required to WFO. Only 13 per cent are engaged in interprovincial remote hiring and the same percentage are open to this in the future. No interviewees are currently hiring international remote employees or are open to this, other than for temporary exemptions or special contract employees.

#### **2.2.5 Other sectors and head office functions**

In this subsection, we explore trends across a variety of sectors. We focus on head office functions, including payroll departments, because these roles can generally be done remotely across all sectors. However, many employers interviewed are engaging in remote and cross-border work beyond these roles. Below we provide more details on remote and cross-border work outside of the sectors described above.

#### **Company culture drives decisions on work arrangements**

Most head office tasks are concerned with administration, sales and management and can be done remotely. This includes many payroll functions, although some payroll professionals reported needing to be physically in the office as they rely heavily on paper documentation as well as the need for employee documents to be kept in a secure location. Similar to finance and insurance, professional services and ICT, some tasks can be more effectively done in-person, such as collaboration, training and relationship building. Among interviewees, 69 per cent are adopting some form of WFH policy, the most popular is a hybrid policy. Interviewees that selected a full return to WFO noted that, although head office positions can functionally WFH, the company wanted an even policy across lines of service (e.g., if employees in logistics and operations have to be in-person, head office functions should be too) to avoid fairness or equity concerns.

#### **Some employers allow interprovincial remote work, but compliance is a barrier to international remote work**

Of interviewees, 54 per cent are currently engaged or open to interprovincial remote work while 38 per cent are currently engaged or open to international remote hiring. Interviewees noted that there were some employees who temporarily left the country during the pandemic and are unable to return due to border closures. The employers who are managing these situations regret allowing employees to travel internationally during the pandemic and plan to avoid international work complications in the future.

Table 2.8: Definition and key statistics in Canada’s other sectors and head office functions

Definition	Key statistics
<p>This analysis focuses on head office employees across sectors, who are the most likely to be able to work remotely.</p> <ul style="list-style-type: none"><li>• Employees that work in head offices are engaged in directing or managing the enterprise as a whole.</li><li>• Head office work includes providing general management and/or administrative support services; these duties can feasibly be done remotely.</li><li>• Their activities include corporate functions such as strategic organizational planning, communications, tax, legal services, marketing, finance, HR, payroll and IT services.<sup>57</sup></li></ul> <p>Employer sectors represented in our interviews included: manufacturing, retail, food and beverage, energy, utilities, automotive and transportation logistics.</p>	<p>In 2019, head offices:</p> <ul style="list-style-type: none"><li>• Employed 227,600+ people in head office roles across Canada in 2,750 establishments;<sup>58</sup></li><li>• Had an average annual salary for head office roles of \$40,852;<sup>59</sup> and</li><li>• Faced a labour shortage in: statisticians/actuaries, computer engineers, payroll professionals, computer programmers, mechanical engineers, internal IT talent and graphic designers in Canada.<sup>60</sup></li></ul> <p>Hiring challenges:</p> <ul style="list-style-type: none"><li>• To address hiring challenges, employers in this sector are hiring recruiters, looking to hire internationally, hiring under-qualified candidates and training, collaborating with local post-secondary institutions to co-create curriculums and asking current employees to provide referrals.</li></ul>

57 Statistics Canada, [North American Industry Classification System \(NAICS\) Canada 2017 Version 3.0](#).  
58 Statistics Canada, [Head offices and head office employment](#).  
59 Glassdoor, [Head office salaries in Canada](#).  
60 OECD, [Skills of the Canadian workforce](#).

# 3. Implications for Canadian employers

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## 3.1 Key considerations for employers

As described in Section 2, many employers are beginning to think about, or are already implementing, new work arrangements. Employer motivations range from attracting and retaining talent to lowering operating costs. However, there are significant payroll and compliance obligations associated with the new forms of work. In our interviews, a payroll professional reflected this view, saying, “payroll changes are onerous, but flexibility is critical and essential to enable the workforce of the future.” This section summarizes the payroll implications of different work arrangements and reviews what employers need to know.

Of the employers interviewed, 14 per cent are not considering a new form of work and are planning on a full return to WFO. The remainder of interviewees have plans to adopt one or more of the following work models:

- hybrid or flexible work within Canada, including interprovincial (across provinces and territories);
- hybrid or flexible work across international borders;
- remote work within Canada; or
- international remote work.



Payroll changes are onerous, but flexibility is critical and essential to enable the workforce of the future.”

Table 3.1 summarizes the key payroll considerations employers face with each work model. We have identified these challenges through a combination of our interviews and PwC’s experience supporting clients in implementing each work model.

**Table 3.1: Payroll considerations for different work models**

	Province of Employment (PoE)	Employment standards	Workers compensation	Taxable benefit identification and valuation	Work from home expenses	Challenges identifying employees' work location	International compliance complexities	Double withholding	Employees' perceived loss of benefits
Hybrid or flexible work - domestic, interprovincial	✓	✓	✓	✓	✓	✓			
Hybrid or flexible work - international	✓	✓	✓	✓	✓	✓	✓	✓	
Domestic remote work	✓	✓	✓		✓	✓			✓
International remote work	✓	✓	✓		✓	✓	✓	✓	

Each of these models are discussed in turn below.

The corresponding row from the above table has been reproduced for ease of reading.

## 3.2 Hybrid or flexible work

### 3.2.1 Hybrid or flexible work — domestic, interprovincial

Hybrid and flexible work provides the opportunity for employees to work temporarily or permanently from a different province or territory than their employer. The payroll complexities that arise in these situations are identified in Table 3.2 and described in detail below.

**Table 3.2 Hybrid or flexible work — domestic, interprovincial**

	Province of Employment (PoE)	Employment standards	Workers compensation	Taxable benefit identification and valuation	Work from home expenses	Challenges identifying employees' work location	International compliance complexities	Double withholding	Employees' perceived loss of benefits
Hybrid or flexible work - domestic, interprovincial	✓	✓	✓	✓	✓	✓			

As detailed in table 2.1, 61 per cent of employers are moving toward a hybrid model (which dictates the number of days per week that employees must WFO) or a flexible model (which allows employees to choose when they WFO or WFH). While these models provide many benefits, they also create payroll challenges.

Employers who have employees carrying out their duties in more than one province must be mindful of provincial corporate tax obligations in cases where they do not have a Permanent Establishment (PE) or a fixed place of business in the provinces where the employee is working.

### Hybrid, flexible and remote work may complicate Province of Employment determination

An employer has the obligation to withhold income tax and social program contributions according to the Province of Employment (PoE) of the employee. Currently, the PoE is determined based on where an employee physically reports to work at an establishment or “place of business” of the employer. In a case where there is no physical place of work, the PoE is determined based on the location from which payroll is administered.

Administrative guidance provided by the Canada Revenue Agency (CRA) regarding the physical location acknowledges that determining place of business can be complex:

“This does not have to be a permanent physical location. For example, the place of business for a construction company can be one or more construction sites or the place of business for a carnival can include a shopping mall parking lot. In these examples, the employee’s province or territory of employment would be the one in which the field office or shopping mall is located.”<sup>61</sup>

PoE determination can be further complicated when an employee works in one province or territory and lives in another. A common example is employees living and working in Ontario, reporting to an Ontario PE for a Québec-based employer with payroll managed out of Québec. Based on CRA guidance, these employees would be set up in the payroll system with their PoE being Ontario. In this case, Ontario would also be the province of residence (PoR) for personal income tax purposes. This means that the employer is withholding the same rate of income tax that the employee will ultimately be required to pay when they file their personal income tax return. Social security contributions are also being withheld and remitted in line with the Ontario PoE.

If the employment contract changed to a WFH arrangement with no requirement to WFO, the PoE would generally be considered the location of the payroll department (i.e., Québec in the example



PoE determination can be complex when an employee works in one province or territory and lives in another.”

above). The employer would also switch the employee’s social security premium contributions from the Canada Pension Plan (CPP) to Québec Pension Plan (QPP), Québec Parental Insurance Plan (QPIP) as well as continue to contribute to Employment Insurance (EI). This remittance is required because payroll obligations in Québec mandate contributions to provincial plans, whereas all other provinces require participation in federal programs. The employer-related payroll costs will increase as well, given that Québec has more employer-related payroll costs than other provinces.

During COVID-19, the CRA and Revenu Québec agreed that PoE changes were not required if employees were WFH because of the pandemic. If, however, any of the WFH arrangements extend beyond the end of the pandemic, PoE changes may be required.

The complexity of determining PoE leads many employers to seek guidance from professional service firms, such as accounting and law firms, which results in increased costs. Current guidance leaves much to interpretation, particularly given the rapid introduction of more hybrid, flexible and 100 per cent remote work arrangements. Professional service fees can also increase based on an employer’s need for assistance with employee communication and guidance on steps to take in order to rectify the misalignment of PoE to the PoR (where appropriate and if possible).

The majority of our interviewees expressed a desire to have PoE aligned with an employees’ PoR. While this may seem to simplify many of the complications

<sup>61</sup> Government of Canada, [Which provincial or territorial tax tables should you use?](#)

discussed above, it is worth noting that a move to switch from PoE to PoR could generate the need for employers to establish a Québec payroll account and facilitate remittances and contributions where they currently are not required and on a different tax base, as Québec has its own taxation and social services legislation. This may be an impediment to hiring Québec-based employees for organizations that do not currently have a PE in Québec.

Other provincial and territorial payroll taxes such as health and education taxes may also need to be considered. For example, an employer situated in Alberta hiring British Columbia-based employees would need to pay Employer Health Tax Levies that they are currently not obligated to pay.



Adhering to the provincial standards when employees work remotely from different provinces is a major challenge for employers."

#### **Variations in employment standards across provinces may cause confusion in a hybrid environment**

Employment standards in Canada vary by province and territory and determine requirements for vacation time, sick time, minimum wage, termination pay and other employer obligations. Many of these standards require special treatment from payroll, so the need to understand each jurisdiction's standards (and where they apply) increases the burden of compliance for employers.

Adhering to the provincial standards when employees work remotely from different provinces is a major challenge for employers. Typically, employment standards apply to the province in which the employee is physically working. However, if an employee is working part time in two provinces

due to a hybrid or flexible work arrangement, the situation is less clear, as there is no general guidance available with respect to the application of employment standards where an employee has more than one usual place of work. That being said, if the WFH arrangement is an extension of the WFO arrangement, the WFO employment standards would apply. Determining if the WFH arrangement is an extension of the WFO arrangement is necessary in order to maintain the office-based employment standards. The majority of our interviewees expressed a strong desire for a consistent set of employment standards across Canada. While this may seem a lofty goal, consideration could be given to arriving at some consistency on most standards, with the understanding that minimum wage is maintained at a provincial level to align with provincial costs of living. As such, this standard would likely not be tabled for harmonization.

It is important to note that employment standards currently set the minimum requirements. Employers faced with adhering to multiple employment standards could choose to select their own set of standards to apply nationally as long as the minimum requirements are met in each province. However, employers would need to determine if this is a viable and efficient approach.

#### **Hybrid scenarios may require the splitting of workers' compensation premiums across provinces**

Workers' compensation premiums are based on employee earnings attributable to working in a specific province. In hybrid or flexible work arrangements, there may be instances where employees work from multiple provinces. In this case, employers may be required to pay premiums to the multiple provinces where the employee works, based on how the employee's time is split. To address this scenario, the workers' compensation boards in Canada signed an Interjurisdictional Agreement on Workers' Compensation (IJA) for the benefit of employees and employers, providing for an allocation of earnings to provinces where work is performed to eliminate employers potentially paying duplicate premiums. The IJA also provides guidance on claim processing in the case of employee injury.



If employers are not aware of where the employee is working, or their obligations in a hybrid or flexible scenario, they may be non-compliant."

However, if employers are not aware of where the employee is working, or their obligations in a hybrid or flexible scenario, they may be non-compliant. In order to comply, employers will need to spend additional time and incur additional costs to confirm the proper allocation of earnings in order to determine the appropriate level of workers' compensation premiums due to each jurisdiction.

#### **Taxable benefits must be identified and valued**

Some compensation items might be offered based on the number of days physically spent in an office, such as parking or employer-provided meals. Hybrid or flexible work arrangements add multiple layers of complications in determining the value of these taxable benefits because employers need to keep track of the number of days each employee spends working from a particular location to ensure that they record these taxable benefits correctly. For example, an office-related benefit, such as parking, should not be included in income for days during which the employee worked from home and did not have access to the parking facility. In situations where employees were not restricted from accessing the parking benefit on their WFH days, the full taxable benefit would be attributed, causing potential for employee confusion and the need for payroll personnel time to address concerns.

#### **Employers lack clarity on how to treat WFH expenses post-lockdowns**

Government mandates requiring employees to WFH during COVID-19 resulted in a significant increase in WFH expenses. As a result, governments provided relief with a flat daily rate tax credit for eligible

employees. They also provided a simplified form, called the "T2200S - Declaration of Conditions of Employment for Working at Home Due to COVID-19." Pre-COVID-19, the "T2200 - Declaration of Conditions of Employment" form was issued to employees who were required to incur expenses in connection with their employment and who were eligible to claim business use of home expenses (among other expenses). During the pandemic, this form was augmented by the T2200S to relieve employers of the burden of completing the longer form T2200 where the eligible expenses incurred related solely to the requirement to WFH. In most cases, this form was not required because the vast majority of employees were better off claiming the flat daily rate the CRA prescribed for claiming WFH expenses as a result of COVID-19 health and safety requirements.

It is important to note that some employers still struggled with the preparation of the T2200S for 2020. Challenges were encountered in determining who was eligible, if employees should be issued both the T2200 and T2200S, and with the actual completion of the form.

All employers we interviewed found that there was a lack of clarity regarding whether employees under a flexible WFH arrangement will be entitled to claim WFH expenses. For instance, in certain hybrid models, employers will require a minimum number of WFH days. In these cases, employees will not have the option to come into the office five days a week; would the employee then be eligible to claim WFH expenses? What about situations where the employee can choose their own schedule, with

the option of not WFO at all? In any type of hybrid or flexible arrangement, should the employer be responsible for establishing an employee's eligibility to claim WFH expenses the way they are under the current system?

The current version of the T2200 was designed to cover all employee-paid expenses and is challenging to complete. Its use will result in additional employer time required to provide employees with completed forms. Specifically, question 10 on the form asks: "Did this employee's contract of employment require them to use a portion of their home for work? If yes, approximately what percentage of the employee's duties of employment were performed at their home office?" The answer to just this question could change from week to week and be different from employee to employee.

Our interview respondents expressed a strong desire for a permanent, simplified version of the T2200, similar to the T2200S, to be available for employees who WFH due to hybrid/flexible work arrangement options.

### **There is a new need to track employee work locations**

In order to meet compliance requirements in a hybrid or flexible model, employers would need to develop a labour-intensive process to identify the amount of time spent in the office versus time spent working from different locations— and track where those locations are. For some employers this process would be manual, while others may invest in technology to assist. As described above, accurate tracking of where an employee is working from (on-site vs. at home and in which province) has implications for workers' compensation obligations, employment standards and ability to claim WFH expenses.

Among our interviewees, 81 per cent did not have a system in place for tracking the whereabouts of their employees when they work remotely in a hybrid or flexible arrangement. Some employers were working with their HR information systems providers to assist with tracking, while others rely on manual tracking by



All employers we interviewed found that there was a lack of clarity regarding whether employees under a flexible WFH arrangement will be entitled to claim WFH expenses."

managers. Lack of an efficient mechanism to track employee whereabouts was a concern expressed by most employers pursuing hybrid and flexible work because, without that capability, they are challenged to meet the heavily regulated payroll requirements currently in place.

### ***3.2.2 Hybrid or flexible work — international***

Payroll considerations for hybrid or flexible work across an international border are shown in Table 3.3. Below, we describe those considerations not covered in Section 3.1, focusing on international cross-border compliance requirements and double withholding.

### **Employers with hybrid or flexible international commuters can no longer avoid the complexities**

Hybrid work across country lines often occurs where a multinational entity operates near an international border. Hybrid or flexible work across international borders is a common situation faced within the manufacturing, utilities, agriculture and financial services sectors where goods and/or services are produced, offered or sold by a company on both sides of the border. It is also prevalent in industries with long and complicated supply chains, such as manufacturing, where a single part can cross an

international border multiple times as it is built into more complete and complex systems. We see this fully integrated in the European Union, but also see international commuting as a very viable solution for entities that operate along the Canada/US border. Both countries have an educated workforce, and it would only be natural for employers to want to tap into these markets. There is an ample number of Canadian companies with American employees who regularly commute into Canada each work day and vice versa.

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Employers hiring internationally risk creating a permanent establishment, which would have corporate tax implications.”

Table 3.3 Hybrid or flexible work — international

	Province of Employment (PoE)	Employment standards	Workers compensation	Taxable benefit identification and valuation	Work from home expenses	Challenges identifying employees' work location	International compliance complexities	Double withholding	Employees' perceived loss of benefits
Hybrid or flexible work - international	✓	✓	✓	✓	✓	✓	✓	✓	

In the days before COVID-19, many companies would have treated international commuters as employees of the entity to which they reported (i.e., the on-site work location). Many employers would only comply with the payroll reporting requirements of the country of employment and leave the employee to deal with their home country earnings reporting. In the Canada/US example, this would have meant that the employee would file a tax return in both countries and determine the correct earnings to report on the return in their country of residence. In the case of a Canadian working in the US, the employee would also be required to make instalment tax payments throughout the calendar year to supplement the lack of Canadian withholding remittances, as the Canadian tax rates are higher than the combined US federal and state tax rates that they would be subject to as a full-time US employee.

Employers will no longer be able to ignore the home country compliance obligations when employees in this situation are working under a hybrid or flexible model. Continuing to do so would mean that too much tax will be remitted to the WFO location and none to the WFH location. The result would be a cash flow issue for the employee and a higher likelihood of identification of the non-compliance by taxing authorities.

Employers of international commuters are also implementing hybrid and flexible return to work arrangements. As a result, they are now dealing with the reporting requirements associated with having an employee who does not reside in the same country as their employer. The complications are myriad: many mirror the domestic hybrid challenges, with the added complexity that the employer will have to deal with their employees' home country reporting and remittance requirements, including employment standards.

Further complications with these arrangements exist when the desire to work internationally is driven by employer business needs, rather than employees' personal choice. As the obligation to pay personal income tax is largely driven by the physical location of the employee performing their duties, income tax in the remote country could be due by the employee. Where the employee is choosing this situation to fit their personal circumstances, that additional tax often rests with the employee. However, in situations where the employer has requested the work arrangement, they often assume the additional personal tax burden by implementing a tax equalization policy. The payment of personal income tax on behalf of an employee is a taxable benefit that needs to be identified and properly recorded.

While tax equalization policies are common among employers with a globally mobile population, employers that are considering international hybrid and flexible work may find themselves having to consider this as an option.

Employers must properly review the issue of PE in the work situation listed above as there can be corporate tax implications associated with this type of arrangement depending on the nature of the work carried out by the employee.

### **International commuters face the risk of double withholding**

In cases where international commuters are residents of Canada, they may be subject to double withholding. This is because they are subject to withholding on their worldwide employment income, irrespective of any relief from double taxation that might be available when they file their tax returns. Employees would need to conduct additional analysis to determine whether there are any waivers (described below) to reduce payroll withholdings. While Canada requires the employee to apply for such a waiver, the application usually involves the employer. Most employers feel that they may not have the in-house expertise to review such scenarios. This determination is based both on the interviews conducted for this report as well as our professional experience dealing with employers in this situation.

Canadian employees are required to file form “T1213 - Request to Reduce Tax Deductions at Source” with the CRA to receive approval to have withholdings reduced on account of income being subject to withholdings based on days worked outside of Canada. There is no similar requirement imposed on American or Australian taxpayers, the result being that this requirement creates obstacles for foreign employers when hiring Canadians.

### **Compliance requirements for hybrid and flexible international employees are significant**

Assuming a US employer who employs a Canadian wants to be fully compliant with its Canadian responsibilities, there are a number of steps that must be carried out. Note that the work arrangement

described below is detailed on the assumption that the US employer does not create a PE in Canada.

For a hybrid or flexible work arrangement where the WFH component is carried out from Canada by a Canadian resident, the Canadian implications for the US employer are:

- registering with the CRA for a Canadian Business Number and opening a payroll account;
- determining the appropriate amount of total remuneration to report according to each country’s rules;
- sourcing the earnings between Canada and the US according to workdays;
- applying the appropriate Canadian withholding tax rate on the full earnings in addition to the US withholding tax rate;
- filing a T1213 waiver to reduce Canadian payroll withholdings for estimated foreign tax credit;
- making remittances to the CRA;
- issuing annual “T4 - Statement of Remuneration Paid” slips for each employee and “T4 - Summary of Remuneration Paid” for the employer; and
- complying with other additional requirements in cases where provinces have remittances to other government bodies such as an Employer Health Tax.

The requirements listed above are in addition to the payroll obligations that the employer must meet in the US. The concept of having an active payroll in the employer’s home country while also mirroring this with a payroll in a foreign country is referred to as running a “shadow payroll” in the foreign country. Please refer to Section 4 of this report for a multi-jurisdictional comparison.

One of the crucial requirements for a hybrid or flexible international work arrangement is the tracking of workdays. This situation is more complicated than the domestic hybrid arrangement because there are payroll systems for two countries involved for one

employee. Based on our interviews with a number of payroll service and software providers (PSSPs), none are currently offering a solution that can automatically integrate multiple international jurisdictions. However, each of these PSSPs indicated that they would be able to build out a system capable of managing multiple international locations if there was a demand for it, suggesting that these solutions could become available in the future.

### 3.3 Remote work

Table 3.4 summarizes payroll considerations for work that is fully remote from anywhere in Canada for a Canadian employer. These are described in Sections 3.1 and 3.2 except for perceived loss of benefits, which is detailed below.

**Table 3.4 Domestic remote work**

	Province of Employment (PoE)	Employment standards	Workers compensation	Taxable benefit identification and valuation	Work from home expenses	Challenges identifying employees' work location	International compliance complexities	Double withholding	Employees' perceived loss of benefits
Domestic remote work	✓	✓	✓		✓	✓			✓

A fully remote work arrangement (where all work is WFH) shares the majority of the concerns of the hybrid or flexible arrangement, such as PoE challenges, workers' compensation complications and challenges related to form T2200. It also comes with additional challenges such as loss of perceived benefits for employees who WFH compared to their WFO colleagues. Examples can include gym and fitness related benefits, meals and parking (in situations where a remote or part time WFH employee does not get the benefit of a full time parking space). Since the employees will not be physically present in the workplace, they will most likely forgo these benefits.

Out of the challenges noted above, taxable benefit identification and valuation are among the most significant. The current CRA guidelines around an employer paying for home internet costs provides for the "business use" portion as a non-taxable benefit. Extending the current guidelines in a fully remote work model results in higher administrative costs for employers. It leaves employers to establish a process for gathering and evaluating the necessary details either by using technology or manually to be compliant.

**Table 3.5 International remote work**

The table below summarizes the key payroll considerations for international remote work arrangements.

	Province of Employment (PoE)	Employment standards	Workers compensation	Taxable benefit identification and valuation	Work from home expenses	Challenges identifying employees' work location	International compliance complexities	Double withholding	Employees' perceived loss of benefits
International remote work	✓	✓	✓		✓	✓	✓	✓	

Searching for talent across borders provides opportunities for employers to significantly expand their field of candidates. However, this opportunity comes with a higher payroll and compliance cost compared to hiring locally. The decision to hire in another country requires collaboration between corporate tax, HR, immigration, labour law and payroll to identify the risk of employees creating a PE of the employer in that country along with any additional exposure risk that an entity might encounter in the new country. Employers also need to ensure they provide competitive benefits, meet appropriate labour standards, and identify, budget, and manage their full set of payroll obligations.

While a full analysis of the factors to consider for the determination of a corporate PE are beyond the scope of this report, it is important to note that the duties of an employee can give rise to a PE. The creation of a PE in a new jurisdiction potentially brings with it the obligation to file a corporate income tax return, which is something most organizations do not wish to do. This risk was cited by most interviewees as the main reason they would not look to other jurisdictions to hire.

Additionally, having employees work from another country requires added effort on the part of HR to ensure the level of compensation meets with local employment expectations and not necessarily those of the employer's country. Further complexities exist where the employer has benefits such as a company pension plan, or equity plans. The plan documentation would need to be reviewed to ensure that compliance with the employee's home country laws is not impacted by the plan itself, and to ensure that having a non-resident employee does not impact the plan.

### **3.4 Considerations for employers under alternative work models**

As identified above, any variation from a traditional work model brings significant challenges that cannot be addressed by one group within the employing entity alone. Solutions require collaboration among HR, legal, corporate tax and payroll professionals to

arrive at a holistic policy ensuring overall compliance while meeting the needs of the employer.

In addition to the comments above related to each work model, it is important that employers consider insurance and human rights legislation, both of which could be different in remote locations. These considerations are beyond the scope of this report.

## 4. Jurisdictional review

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With an increase in international cross-border hiring, markets for some skills are becoming increasingly global. We know from our interviews with employers that real and perceived payroll requirements, along with other compliance issues, such as corporate tax matters, can play a role in where employers decide to hire or from where they allow employees to work.

In that context, we worked with our global network of Employment Tax and Global Mobility Specialists to analyze, compare and evaluate the steps required to comply with payroll in six jurisdictions. This comparison provides useful insights from both an employer and government perspective. For employers considering hiring remote employees in another country, it highlights the main issues they will encounter, and indicates the relative difficulty of meeting compliance obligations, which is one of the factors that employers consider in deciding where to hire. From a policy perspective, this comparison identifies where Canada has more complex requirements compared to other countries. Governments may wish to address these issues to better enable international hiring of Canadian employees while allowing them to remain in Canada. Although there are both benefits and drawbacks from a broader economic perspective, an important benefit is allowing Canadian employees to stay in Canada rather than relocate. Section 5 discusses this issue in further detail.

### 4.1 Payroll obligations in comparative jurisdictions

As noted above, we selected six jurisdictions to compare in terms of the relative ease, or lack thereof, for a foreign employer to comply with payroll withholding, remitting and reporting obligations of a resident employee working for a foreign employer.

The six countries considered in our analysis are: Australia, Brazil, Canada, India, the UK and the US. We selected these jurisdictions based on the availability of in-demand skills that employers in Canada and globally are seeking.

Payroll obligations in each of these countries are complex. For the purpose of our analysis, we focused on the overarching themes of registration, basis of withholding, remittance requirements, method of payment and reporting obligations. We have summarized the overall evaluation in Table 4.1 and provided insight into the requirements.

**Table 4.1 Overview: Relative complexity for operating a foreign payroll in comparative jurisdictions**

	Canada	Australia	US	UK	Brazil	India
Is a local establishment required?						
Paper payroll account registration (no online process)						
Multiple registrations? (i.e. federal, state, local, social, etc)						
Are there payroll registration fees?						
Is a foreign employer with no local establishment required to remit?						
Regular employer remittance requirements						
Social program contribution requirements						
Year-end reporting to tax authority and employee						
Record of employment of equivalent						
TD1 or equivalent						
T2200 or equivalent						
T1213 or equivalent						
Limited compliance challenges		Moderate compliance challenges		Significant compliance challenges		

### Obligation to register and obtain payroll reporting account

All countries, with the exception of Brazil, require a foreign employer to register as an employer in the country of residence of the employee. Brazil requires a domestic payroll only if a PE is created in Brazil. India will not allow a foreign employer to hire someone from India unless the employer registers in India via a branch, a liaison office, project office or other entity form. This obligation is substantially more onerous, creating a significant compliance challenge.

Sub-national applications are required in Australia, Canada, the UK and India, adding complexity to the registration process depending on the location of the employee.

Canada is the only country that does not have an online registration system for foreign employers.

### Basis of withholding

All countries apply withholding and remittance obligations based on 100 per cent of taxable employment income paid to a resident employee.

Employers have this obligation regardless of their jurisdiction; however, in the case of a Brazil resident employed by a non-Brazil entity, the obligation to pay the monthly income tax falls on the employee.

Where an employee resident in one country has a tax obligation in another country (e.g., due to a taxable business trip in another country), all jurisdictions allow for consideration of an eventual foreign tax credit in determining tax to be withheld. The UK and US are the only jurisdictions to allow a reduction in withholdings on account of an anticipated foreign tax credit without additional filings/approval from the

resident tax authority. Canada and the UK require government approval before withholding can be reduced. India reviews on a case-by-case basis.

### **Administration of income tax, payroll taxes and social program contribution obligations**

All countries subject wages to income and payroll taxes as well as social security premiums. This means that irrespective of an employee's resident status or the number of days an employee is in a country, that country will expect to collect income tax and social program contribution premiums from the first day of work in that country. However, there are international income tax and social security agreements that may amend this obligation. In addition to federal remittances, all jurisdictions that have sub-national tax authorities (e.g., states, provinces or localities) also require registration with and remittances to those tax authorities. This is similar to the province of Québec's separate payroll and tax reporting regime in Canada.

Furthermore, all jurisdictions also require separate registrations for other tax and non-tax items such as goods and services tax on benefits, social program contribution obligations, workers' compensation plans and unemployment insurance. The US potentially has the largest number of registration processes simply due to the number of jurisdictions overall (e.g., federal, state, local, school district, economic improvement areas and federal and state unemployment insurance boards, as well as social security administrations), but no country is more or less challenging in terms of these obligations once an employer is registered and determines the process for meeting their obligations to each one.

### **Canadian social program contributions for foreign employers of Canadian residents**

For Canada specifically, there are areas where social security obligations for foreign employers are unclear. Where social program contributions are concerned, while guidance exists,<sup>62</sup> Canada does not provide clear rules on whether or not CPP and EI are due from a foreign employer paying a Canadian

resident who is performing their duties 100 per cent in Canada. This guidance can be confusing to many foreign employers.

It is possible that an employer would need to contribute to social programs in two countries. There are social security agreements in place that may alleviate the obligation. However, one criterion (depending on the country combination) is that the nature of the arrangement for employment in the "host country" should be temporary in nature. In the hiring context of this analysis, the employment arrangement is not temporary, but a permanent arrangement, thereby eliminating the opportunity to rely on social security agreements.

It is also possible that an employer would not have the obligation to contribute to social programs in either country. The Social Security Administration (SSA) in the US has stated that their charging base is the territory where the work is performed (if a social security agreement does not apply), leaving additional room for interpretation when considering which social security applies.<sup>63</sup> For example, if a US employer is paying a Canadian resident working from Canada, Canadian social security would not apply (unless an application was filed). The SSA would also not collect US social security because they would presume that Canadian social security applied as a result of Canada's territorial jurisdiction position.

Further clarification and global alignment are required to facilitate a smoother transition to future international remote hiring, and to provide security of pension funds upon retirement and protection under employment insurance plans upon end of employment, maternity leaves, etc.

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<sup>62</sup> For example, the Government of Canada, [Foreign employees and employers](#).

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<sup>63</sup> See Section 3 for further discussion on these issues.

**Table 4.2: Foreign employer payroll life cycle comparative obligations**

	Registration process and timing	Remittance frequency and method of making payments	Withholding obligation impact of cross-border work	Annual reporting and wage statement requirements	End of employment obligations	Is it common to outsource payroll?
<b>Canada</b>	Yes - 4 to 6 weeks	Depends on remitter type	Yes	Yes	Yes	Yes
<b>Australia</b>	Yes - 6 to 10 weeks	Depends on employer classification	Yes	Yes	No	Yes
<b>US</b>	Yes - 3 days to 6 weeks	Depends on liability amount	Yes	Yes	Yes	Yes
<b>UK</b>	Yes - 6 weeks	Monthly	Yes	Yes	Yes	Yes
<b>Brazil</b>	No - Assuming that there is no permanent establishment	N/A	No - Assuming that there is no PE	N/A	Yes	Yes
<b>India</b>	Yes - 6 to 8 weeks	Monthly	Yes	Yes	Yes	Yes

### Remittance requirements and methods of payment

Remittance frequency varies by country. Australia, Canada and the US have remittance frequencies that vary according to the total value of payroll. This adds complexity when a foreign employer is trying to comply with varying payroll deadlines and could result in missed payments. Generally, jurisdictions will allow an employer at least a few business days to remit regardless of the value of their periodic payroll. The US is the outlier in this case and can require a remittance as early as the day following the end of a pay period.

### Year-end reporting obligations

A foreign employer has reporting obligations with respect to year-end wage statements as well as a record of employment upon cessation of employment for their Canadian employees. All countries require year-end wage statements and employer-related reporting.

In addition to the above, if an employer provides a company pension plan as part of its standard compensation package, it will need to have the plan itself reviewed to ensure a non-resident employee

can participate as the specific plan details are relevant to that determination. This could lead to increased professional services fees and the potential for requiring a different compensation item to replace the pension if it is not allowable.

A more comprehensive matrix of the jurisdictional obligations can be found in Appendix B of this report.

## 4.2 Complexity of Canada's requirements compared to peer jurisdictions

As Canadian employers are already familiar with their local payroll reporting and remittance requirements there is a perception that complying with the requirements of another jurisdiction is just too complicated. However, in comparison, Canada's requirements are often more complex. This suggests that while there is a learning curve involved with setting up international remote hiring from a payroll perspective, it is a feasible option for employers. In fact, in the case of Brazil, there is no complexity for a foreign employer of a Brazilian resident as all employer obligations fall on the employee in this situation.



Québec's separate tax regime was cited by every employer interviewed as a major impediment to having Québec-based employees if the employer didn't already operate there."

One example of Canada's complexity is how the requirement for pre-approval by the CRA in order to reduce tax withholding for spousal support deductions or foreign tax credits complicates the process. In other jurisdictions, the process to enable similar reductions to withholdings can be significantly less cumbersome. The US, for example, allows an employer to reduce withholdings based solely on the employee completing a form that payroll keeps on file and requires no pre-approval by the IRS.

Consistent with the other jurisdictions reviewed, Québec's separate tax regime was cited by every employer who participated in our study as a major impediment to having Québec-based employees if the employer didn't already operate there. Notwithstanding the fact that Québec payroll is not required unless the employer has a PE in Québec, the mere fact that Québec is more complex was an immediate perceived impediment. Employers who did operate in Québec indicated identifying and reporting certain benefits and differences from federal legislation was more time-consuming. Thus, any consideration of changing the current PoE rules to PoR is worth careful consideration.

Respondents also cited the different provincial rules around payroll taxes, such as provincial health taxes and workers' compensation regimes, as an impediment to the expansion of their employee base to provinces where they do not operate. These issues were overcome by employers who have dealt with them, but all expressed a desire for simplification.

These comments are not unlike those raised by foreign employers interested in taking advantage

of the CRA's Non-Resident Employer Certification (NREC) program. While the NREC was developed to allow the non-resident employees of a non-resident employer more flexibility to enter Canada for short periods of time by resolving some of the payroll complexity, these foreign employers often pause when they learn that they would have to register with the CRA and issue T4 slips. Similar to the feedback received from Canadian employers on the issue of expanding the geography of their workforce, these non-resident employers are taken aback by differences from what they are used to and not necessarily the actual complexity of the requirements.

All countries except Australia and the US have some kind of reporting requirement when an employee is separated from an employer. The UK requires reporting of data that is housed solely within the payroll system. India's reporting may require gathering of information outside of the payroll system; however, this requirement is determined on a case-by-case basis. Canada has more complexities than competitor countries in this respect, as the data required for their record of employment form is not based solely on what is housed in the payroll system (e.g., reason for separation from the company, nature of one-time payments). The complexities identified with this requirement were identified in our recent report *The Cost of Employer Compliance and Public Policy Implications* released in October 2020.<sup>64</sup>

64 PwC, Payroll in Focus: [The Cost of Employer Compliance and Public Policy Implications](#)

# 5. Implications for Canada's economy

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For many employers, remote and cross-border work<sup>65</sup> is here to stay, and will have lasting effects on employers and the wider economy. This section summarizes how these trends will impact employers, and what they need to do to embrace different forms of hiring. It then turns to why and how governments should better support remote and cross-border hiring by addressing existing policy challenges.

## 5.1 Economic implications for employers

### Remote and cross-border work can help to address Canada's labour shortages and skill gaps

The ability of employers' to offer flexible, remote and cross-border options is likely to be an important factor in Canada's future economic growth. Canada's skill gap is an increasing challenge—our interviews confirmed that many employers are struggling to recruit for important roles in their operations. In sectors where the competition for skill is most fierce, such as technology and professional services, employers are already adopting remote and cross-border work arrangements as a tool to attract and retain employees. Employees increasingly value the flexibility of working from anywhere, and flexible work arrangements can be a deciding factor in taking or leaving a job.

Canada's labour shortages are worsening. Canada's job vacancy rate hit a high of 4.6 per cent in August 2021 (see Figure 5.1); the highest it had been since

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From 2019 to 2028, Canada will forgo up to **\$15 billion in GDP** due to labour shortages. A **third of the occupations in shortage could be WFH-compatible**.

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the data became available in 2015.<sup>66</sup> From May to June 2021, job vacancies grew by 22 per cent, amounting to over 800,000 job openings. In line with these trends, there were 25.8 per cent or 150,300 more vacancies in the second quarter of 2021 than in the second quarter of 2019.<sup>67</sup> Statistics Canada has reported approximately 560,000 unfilled positions in the last quarter of 2019, up from less than 360,000 in 2015, suggesting growing overall challenges in hiring.<sup>68</sup>

Furthermore, Canada's skill gap is causing increasing economic costs. According to projections by Economic and Social Development Canada, Canada is projected to suffer labour shortages in 36 occupations from 2019 to 2028, amounting to a total of 138,000 open jobs, equivalent to \$15.03 billion in GDP.<sup>69</sup> According to our analysis, 51,000 of those open jobs could be WFH-compatible, amounting to

<sup>65</sup> In this report, "remote and cross-border work" refers to work arrangements that include options for WFH, as well as work across provincial and international borders.

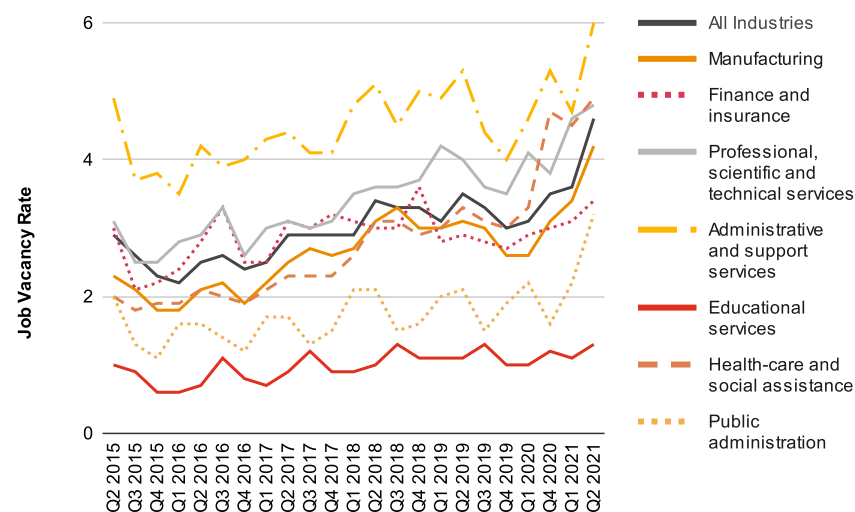
<sup>66</sup> Statistics Canada, [Job vacancies, second quarter 2021](#)

<sup>67</sup> Ibid.

<sup>68</sup> Statistics Canada, [Job vacancies, fourth quarter 2020](#).

<sup>69</sup> Based on average GDP per employee in 2017 of \$108,940.

**Figure 5.1: Canada's Job Vacancy Rate by North American Industry Classification System (NAICS), Q2 2015 - Q2 2021**



Source: PwC Analysis based on Statistics Canada data.

Note: Data is not available for Q2 and Q3 in 2020. NAICS definitions are not a direct match with the sector definitions used throughout this report.

\$5.34 billion in GDP. We believe that this skill gap could be even greater because of the acceleration in demand for digital skills due to the pandemic, and the increasing trend of international employers hiring Canadian employees.

As detailed in this report, flexible or hybrid models (which involve some days WFH and some days WFO) are currently the most popular setups and often viewed as an employee perk that can help with attraction and retention. Flexible or fully remote WFH arrangements allow employees to live further from the office or even in a different province or country. These setups open up a wider pool of potential employees, increasing the ability of employers to fill roles. These arrangements may also lead to better matches between employer and employee because both parties have more options, leading to increased productivity.

### Canada's employers may be less prepared for international remote hiring than peers

Canadian employers that are facing skill shortages are likely to be at a competitive disadvantage if they do not consider remote and cross-border employment options. The fact that international employers are increasingly looking to hire employees in Canada in competitive sectors exacerbates this trend.

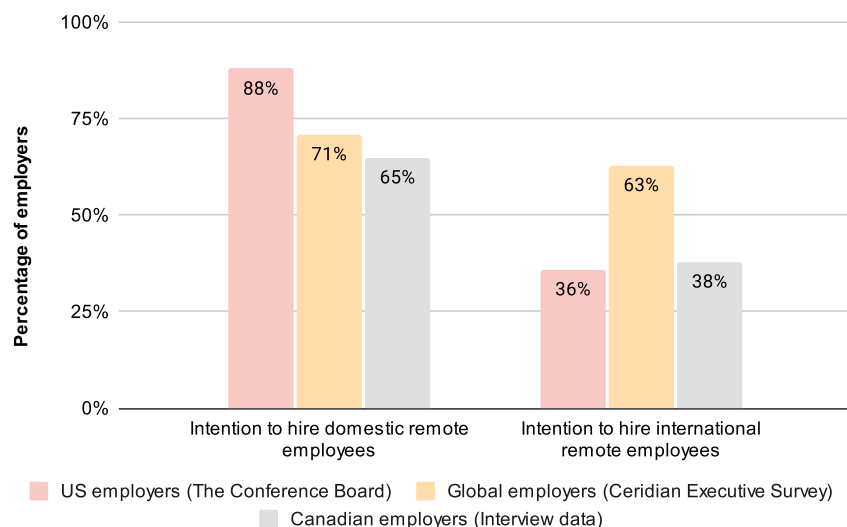
Although data is limited on employer plans for remote and cross-border hiring, some evidence suggests that Canadian employers may be more reluctant to pursue those arrangements than their peers in other countries. A survey of executives in seven countries found that 71 per cent intend to hire more remote employees in the next two years and 63 per cent plan to hire outside of the country,<sup>70</sup> while a US-based survey of executives found that 88 per cent are willing to hire remote employees and 36 per cent would be willing to hire 100 per cent remote employees to work from anywhere.<sup>71</sup> Comparable survey data is not available for Canada, but employers we interviewed were somewhat less open to remote international employment than the above survey results suggest: 38 per cent were willing to hire 100 per cent remote employees to work from anywhere. Employers interviewed were more open to interprovincial employment, with 65 per cent open to this arrangement. In evaluating this data, it is important to keep in mind that the wording of the question and the context may influence results.

Evidence from our interviews suggests that an increase in international remote hiring is already affecting access to talent for Canadian employers in two competitive sectors, law and technology,

<sup>70</sup> Ceridian, *2021-2022 Executive Survey: Winning the new war for talent*.

<sup>71</sup> The Conference Board, *Survey: Companies 3 Times More Willing to Hire Remote Workers Anywhere in US or World*.

**Figure 5.1: Canada's Job Vacancy Rate by North American Industry Classification System (NAICS), Q2 2015 - Q2 2021**



which have seen an uptick in US employers hiring Canadian employees. In law, a large volume of corporate deals and initial public offerings has increased demand for corporate lawyers, and US law firms have begun recruiting aggressively in Canada. According to anecdotal reports, US law firms are offering salaries that are double or more than what employees would earn in Canada. This trend creates a shortage of talent for Canadian law firms, although some believe the trend will be short-lived.<sup>72</sup> In the technology sector, US employers are also looking to hire employees in Canada, sometimes as an alternative to Canadians moving to the US for work. Similar to law, US-based employers typically offer significantly higher salaries, putting pressure on Canadian employers to compete.<sup>73</sup> These examples are indicative of the types of roles that will be most affected, likely those where labour is extremely competitive and foreign employers can afford to pay significantly higher salaries.

### **Employers will need to address payroll, organizational and cultural barriers**

Moving toward remote and cross-border work will be critical for Canadian employers facing skill shortages. Section 3 summarizes the payroll issues

that employers need to consider in implementing remote and cross-border employment. However, payroll considerations are not the only challenge. Through our interviews, we identified organizational and cultural barriers to different hiring arrangements.

Based on our interviews and secondary research, employers representing large companies have a stronger capability to manage international hiring than small and medium-sized enterprises (SMEs).<sup>74</sup> Large employers have bigger payroll teams, which enables greater ease in adapting to business opportunities that cause payroll complexities (such as top employees wanting to move to another country). Additionally, larger companies often have greater financial ability to work with external global mobility and tax specialists, enabling them to outsource complex issues that arise. These enabling factors combined can push larger companies one step ahead of SMEs in terms of hiring and meeting employee requests. On the other end, interviewees representing SMEs are more concerned about how greater company mobility will impact payroll, and as a result they are more resistant to international hiring.

Employer culture can also play a role in openness to remote and cross-border hiring. Employers placing a

<sup>72</sup> The Globe and Mail, [Wall Street looks north for legal talent amid surge of deals, IPOs](#).

<sup>73</sup> The Globe and Mail, [Look for a reverse 'brain drain' as more remote workers choose to stay home or return from the U.S.](#)

<sup>74</sup> SMHR, [Technology Can Help Prevent Tax Withholding Miscues Tied to Remote Work](#).

strong emphasis on WFO, even for roles that can be done remotely, were often motivated by a desire to maintain company culture and in-person interactions. We also found that companies that are still heavily reliant on paper-based workflow management systems tend to prefer WFO.

### **Payroll functions play a critical role**

As indicated above, Canadian employers appear more risk averse than their foreign competitors, especially those in the US when it comes to hiring across domestic and international borders. We are of the view that the risks and opportunity costs of not engaging in remote and cross-border hiring may in many cases far outweigh the risks and costs of the additional administrative burden. In fact, in our interviews we found that many employers who do not currently hire internationally stated that the risks, costs and administration burden (from a payroll perspective) were one of the main reasons for not branching out. On the other hand, those who have experience with remote international work were able to adjust after an initial learning curve. This suggests that while there is complexity associated with running payroll in a new country, the obstacles can be overcome.

In this context, it is critical for employers to elevate the role of payroll departments to be a central part of hiring strategies, because they will play an important part in implementing remote and cross-border employment. Payroll professionals we interviewed noted that executives often misunderstand the compliance implications of different work arrangements. Although the rationale for pursuing different work arrangements should be driven by business and hiring needs, payroll should be involved early in the strategic decision-making process so that payroll compliance implications are understood. A significant barrier to employers considering international remote hiring is a lack of knowledge of what is required for implementation and a fear of potential risks. Payroll departments are well-positioned to help employers understand the requirements and the risks, along with personnel from corporate tax, HR and legal counsel as required.



While running payroll in a new country is complex, the obstacles can be overcome."

There is also scope for payroll to proactively educate employees about their responsibilities. For example, several interviewees had stories about employees moving out of the province or the country without informing their employer, creating compliance and even legal risks for the employer.

## **5.2 Implications for government**

### **Government policy impedes remote and cross-border employment**

Remote and cross-border employment can be an important factor in future economic growth. For roles that can be done remotely, these work arrangements can promote more fairness in the labour market by reducing employment barriers; for example, for those with disabilities and those balancing care responsibilities. It can also make a positive contribution to the fight against climate change by reducing commute time and traffic congestion. Therefore, governments should seek to remove impediments to remote and cross-border work arrangements. Employers are seeing the benefits of these work arrangements, but payroll and compliance issues can deter them from pursuing them, and in some cases can lead to non-compliance.

This study has identified policy challenges facing employers pursuing remote and cross-border work. It is beyond the scope of this study to assess the costs and benefits of changing these policies. However, given the importance of remote and cross-border hiring to address the skill gap, governments should give consideration to how these policy challenges

can be addressed. Section 6 of this study provides further details on what governments should consider.

### **Foreign hiring of Canadians has potential benefits like reversing “brain drain”**

Some of the challenges highlighted above refer to the ease of foreign employers in hiring Canadian employees. For the economy as a whole, there are advantages and disadvantages to foreign employers hiring employees in Canada, and the net effect is unclear. There could be advantages in reversing “brain drain” and keeping high-income earners in Canada because Canadians may prefer to live in Canada while working for a foreign employer compared to relocating out of the country. In this situation, remote hiring may bring significant cost savings to the foreign employer. Currently, foreign employers hiring a Canadian employee often choose to relocate that hire to the country of the employer. In this situation, the employer usually incurs the cost of the employee’s relocation as well as having to pay a competitive local wage (which may be higher). For such an employer, learning to navigate the Canadian payroll environment could be much more cost-effective than covering relocation costs and higher wages over and over again for each new Canadian employee. Therefore, this arrangement may increase the incentive to keep Canadian employees in Canada.

From a government perspective, it is desirable to have these employees living in Canada: this arrangement maintains an income tax base in Canada, may have positive spillover effects through professional communities, and maintains skilled employees in Canada that Canadian employers could hire in the future. In this situation, it may be in the interest of governments to reduce impediments to foreign employers remotely hiring Canadian employees.

However, foreign hiring of Canadians can negatively affect Canadian employers. As noted earlier, in a globally competitive market, Canadian employers may struggle to compete with international employers on salaries, whether they are hiring in Canada or

globally. In particular, employers we spoke with in lower-cost parts of Canada were concerned with their ability to compete on salary. However, challenges with payroll administration are not likely to meaningfully deter foreign hiring of Canadians, which is already underway in competitive sectors. In sum, the benefits of facilitating the hiring of Canadian employees by foreign employers are likely to outweigh the costs, but further research is required in this area.

# 6. Takeaways for employers and governments

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This section lays out the key takeaways for employers and governments to consider in advancing remote and cross-border work<sup>75</sup> in Canada. Our interviews and secondary research have shown that despite the many benefits of these work arrangements, some employers are still reluctant to pursue them. One of the drivers for this is a lack of knowledge of how to approach payroll and compliance for different arrangements. The takeaways below provide primary steps for employers to consider in implementing remote and cross-border work.

As described throughout the report, governments can better support remote and cross-border work by addressing policy challenges currently involved in these arrangements. In this section, we highlight potential areas for future actions on this issue.

## 6.1 Considerations for employers

Employers across Canada are changing their ways of working. As detailed in the report, there are a host of payroll-related challenges that can discourage employers from exploring remote and cross-border work. Below, we provide takeaways for employers considering these work arrangements, based on considerations raised in our interviews, and by PwC's employment tax and global payroll specialists. More detail on each consideration is available in Section 3 of this report.



**For employers considering flexible, hybrid, and remote arrangements**

### 1. To capitalize on the benefits of new ways of working, employers should:

- gather information about employees' preferences on where and how to work;
- consider current and projected hiring challenges and skill shortages;
- determine where talented potential candidates with in-demand skills are located;
- evaluate the benefits, costs and risks of different work models (e.g., firm expenditures, ability to maintain work culture). For instance, employers should assess the cost of the learning curve related to a new payroll jurisdiction compared to the cost of relocation and potentially higher wages. This is relevant for both foreign employers hiring Canadians and Canadian employers hiring foreign employees; and
- learn and test new technologies that can address payroll challenges.

### 2. Consider the payroll implications of business decisions

Employers need to give significant consideration to the payroll requirements for each work model, and involve payroll teams early in the decision-making process. Evidence from interviews suggests

<sup>75</sup> In this report, "remote and cross-border work" refers to work arrangements that include options for WFH, as well as work across provincial and international borders.

that a lack of consultation with an organization's payroll group can lead to significant and costly ramifications for employers and employees. Some payroll professionals interviewed noted that they were not sufficiently consulted by decision-makers, with the result that payroll departments were left scrambling to implement new arrangements, or in some cases were not able to ensure compliance. In our interviews, payroll professionals highlighted that educating employees on how mobility can cause business risks could be a part of the solution. For instance, many employees are unaware of the risks that arise from working remotely from a different province or country.

### 3. Identify and value taxable benefits

Employers should evaluate how work arrangements affect their taxable benefits. If an employer changes their work model, for instance, from full-time WFO to a hybrid arrangement, it could affect employee compensation and benefits. The number of days that an employee is in the office could affect how taxable benefits like home internet, transit pass and parking should be distributed.



**For employers with  
interprovincial mobility**

### 4. Identify work location

For any situation where employees are WFH some days, employers should consider how to track where employees are working. This is particularly important for employees that work in multiple provinces/territories or countries. Among interviewees, 81 per cent did not have a system in place for tracking the location of employees for the period they would be working remotely in the hybrid arrangement. Some employers were in the process of working with their HR information systems and PSSPs to assist with tracking, while others will rely on manual tracking by managers. The lack of an efficient mechanism to track an employee's whereabouts is the greatest concern expressed by most employers—without that capability, they are challenged to meet the heavily regulated payroll requirements currently in place.

### 5. Determine Province of Employment

Employers of employees in remote, hybrid and flexible arrangements should pay extra attention to PoE requirements. PoE complications can arise when an employer transitions from full-time WFO to a hybrid or flexible work arrangement or if an employee works in one province and lives in another.

### 6. Determine workers' compensation premiums

Enabling employees to work in multiple provinces can lead to employers having to remit workers compensation premiums in multiple provinces. Careful consideration should be given to ensure that the premiums are being allocated appropriately based on time spent in each province.



**For employers with global  
mobility**

### 7. Consider Permanent Establishment triggers and other corporate tax implications

Employers with employees in more than one province or country need to be aware of corporate tax obligations in instances where they do not have a PE or a fixed place of business in the location where an employee is working. In our interviews, concerns about creating a PE were among the top deterrents to international remote hiring, because this scenario can be very costly for employers. However, in many jurisdictions it is possible to have remote workers without creating a PE.

## 6.2 Considerations for governments

Existing policy challenges can be a deterrent to employers pursuing remote and cross-border work. Certainly, the obligation to identify work location has added a burden for employers that many of our interviewees do not have the manpower or technology to address. The issues highlighted below, all tied to work location, were raised by employers we interviewed as creating additional compliance burdens for remote and interprovincial hiring. In light of growing employer interest in these work

arrangements, governments should consider how they interact with policy.

### **1. Review T2200 requirements in the WFH context**

Our interview respondents expressed a strong desire for a permanently simplified version of the T2200, similar to the T2200S that was implemented for the 2020 taxation year, to be available for employees who WFH. Although the T2200S was introduced in response to WFH requirements due to lockdowns, the same issue will be faced by any employees who WFH in the future. These changes would reduce confusion and the administrative burden for employers, employees and the government.

### **2. Evaluate aligning Province of Employment with Province of Residence**

Where employees work through a combination of WFH in one province or territory and WFO in another, employers reported being confused about how to determine PoE. The majority of our interviewees expressed a desire to have the PoE aligned with employees' PoR. They believe that this change would reduce administrative burden and create certainty for employees, who sometimes struggle with personal income taxes when rates are different between their PoE and PoR.

Governments should evaluate the ramifications of this complex issue, which are beyond the scope of this report. For example, a move to switch from PoE to PoR would generate the need for many current employers to establish a Québec payroll account and facilitate remittances and contributions where they currently are not required and on a different tax base, as Québec has its own taxation and social services legislation. This may be an impediment to hiring Québec-based employees for organizations that do not currently have a PE in Québec.

### **3. Consider the mismatch in employment standards and workers' compensation**

Similar to the PoE issue described above, employers face additional challenges with employment standards and workers' compensation when the location of work is no longer the same as the location of the employer's office.

The majority of our interviewees expressed a strong desire for a consistent set of employment standards across Canada. Employment standards are under provincial jurisdiction, and any changes would require extensive coordination and agreement. We also acknowledge that some standards, such as minimum wage, may not be suitable for standardization across jurisdictions.

With respect to workers' compensation, employers interviewed sought clarity around their obligations when employees were WFH or working out of the province. For example, if an employee is injured while working at home, or while on vacation in another province, requirements are not clear. In these situations, we found that many employers are unsure of their obligations and concerned about being non-compliant.

### **4. Consider foreign employers' ability to hire Canadian employees**

As discussed in this report, governments may wish to enable remote hiring of Canadian employees by foreign employers, for example to help reverse the impacts of "brain drain" by keeping employees of foreign employers physically in Canada. Our jurisdictional review identified areas where requirements for employees in Canada are stricter than those for employees in peer countries. These areas are:

- requirement for government approval for reduction in withholdings due to an anticipated foreign tax credit;
- lack of clear guidance on whether CPP and EI are required for an employee of a foreign employer working in Canada;
- relatively higher burden in supplying a record of employment in the case of termination; and
- lack of an online registration system for foreign employers.

Where governments wish to facilitate the remote hiring of Canadian employees by foreign employers, they should review whether these impediments can be addressed.

# Appendix A: Limitations

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**Receipt of new information:** PwC reserves the right at its discretion to withdraw or revise this report should we receive additional information or be made aware of facts existing at the date of the report that were not known to us when we prepared this report. The findings are as of September 2021 and PwC is under no obligation to advise any person of any change or matter brought to its attention after such date that would affect our findings.

**Reliance on third party data/information:** We relied upon the completeness, accuracy and fair presentation of all the information, data, advice, opinion or representations obtained from third parties, public sources and the Association, which is detailed in the Introduction section (collectively, the Information). We have not conducted any audit or review of the Information, nor have we sought external verification of the Information. We accept no responsibility or liability for any losses occasioned by any party as a result of our reliance on the financial and non-financial information that was provided to us or found in the public domain.

**Use limitations:** This report has been prepared solely for the use and benefit of, and pursuant to a client relationship exclusively with the Association. We understand that the Association may share our report with third parties. The Association can release this report to third parties only in its entirety and any commentary or interpretation in relation to this report that the Association intends to release to the public either requires PwC's written consent or has to be clearly identified as the Association's own interpretation of the report or the Association is required to add a link to the full report. PwC accepts no duty of care, obligation or liability, if any, suffered by the Association or any third party as a result of an interpretation made by the Association of this report.

Further, no other person or entity shall place any reliance upon the accuracy or completeness of the statements made herein. In no event shall PwC have any liability for damages, costs or losses suffered by reason of any reliance upon the contents of this report by the Association or any other person.

**This report and related analysis must be considered as a whole:** Selecting only portions of the analysis or the factors considered by us, without considering all factors and analysis together, could create a misleading view of our findings. The preparation of our analysis is a complex process and is not necessarily susceptible to partial analysis or summary description. Any attempt to do so could lead to undue emphasis on any particular factor or analysis.

We note that significant deviations from the above listed major assumptions may result in a significant change to our analysis.

# Appendix B: Detailed payroll complexity by jurisdiction

The table below provides additional detail on the content of Table 4.1 in the body of the report.

	Canada	Australia	US	UK	Brazil	India
Registration required	Y (sub national requirements)	Y (sub national requirements)	Y (sub national requirements)	Y	N	Y
Online registration an option?	N	Y	Y	Y	n/a	Y
Timing	4-6 weeks	6-10 weeks	3 days to 6 weeks	6 weeks	n/a	6-8 weeks
Basis of withholding	100% of wages paid	100% of wages paid	100% of wages paid	100% of wages paid	Employee is obligated to make tax payments monthly on 100% of earnings	100% of wages paid
Income tax remittances	Y	Y	Y	Y	n/a	Y
Social security remittances	Y	Y	Y	Y	n/a	Y
Remittance requirements	4 times/month, 2 times/month, monthly or quarterly	6-7 days after a payday, monthly or quarterly	Semi-weekly or monthly. If liability exceeds 100,000USD on any pay period, deposit required next day	Monthly	n/a	Monthly
Payment options	Electronic funds transfer (wire transfer, online banking, debit/credit card)	International remittance details are usually available for payment of liabilities from overseas	Required to submit electronically using federal EFTPS system or Same Day Wire in certain instances	Electronic funds transfer	n/a	Indian exchange controls are regulated and must be followed. Pre-approval from the Reserve Bank of India might be required and may include a regulatory review
Penalties for non-compliance with withholding/remitting (all plus interest)	Penalty range 3-20% Interest compounds daily from date remittance is due	Penalties for the failure to withhold and remit PAYG can be up to 100% of the tax not remitted	Failure to deposit penalties: 2%-15% of liability Failure to file penalties: 5%-25%. Failure to pay: 0.5%-25% Accuracy related penalties: 20% for failure to report all tax due	Penalty for failure to pay on time: 1-14%	n/a (individual required to make instalments)	Penalties range from 100-100,000 INR depending on the failure Failure to remit taxes withheld: Imprisonment ranging from 3 months to 7 years (with fine)

	Canada	Australia	US	UK	Brazil	India
Penalties for noncompliance with year-end reporting	\$100-\$7,500	2,200AUD-550,000AUD	\$270/form each for failure to file and failure to issue	100GBP-400GBP	n/a	Late fee of INR 100/day until filed
Record of Employment	Y - differs	N	N	Y - payroll info only	n/a	Y - info may differ from payroll
International remote work arrangements - ability to reduce tax withholdings on account of tax due in work location	N - need application	Y	Y	N - need application	n/a	Potentially. Case-by-case basis



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