

# The Impact of an Increasing Remote Workforce: Solving for Multi-State Compliance

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**Multi-state compliance wasn't a common term before 2020 unless you were a global or national organization. Now, it's a trending topic for many employers and human resource teams, and every business should understand what it is.**

**Multi-state compliance means your business is legally compliant in each state and city where your employees live or work.** The reasons you might have workers in multiple locations:

- You have a worksite located in another state—businesses that border state lines encounter this scenario.
- You have more than one location for your business (i.e. you've expanded your business into other states).
- You have a geographically diverse workforce—or remote workers in other states.



**More employers need to be aware of multi-state compliance today than in the past because of remote work.** The growth of remote work has many businesses hiring employees in other states or letting their employees move to another state. And why not! Remote work provides many benefits:



You can more easily recruit and create a diverse workforce



Remote work often results in time savings that translate to increased productivity and higher performance



Employees can live and work where they want—leading to better retention rates and employee satisfaction



You can lower your business costs by not having to lease an office space

One major drawback of remote work is the burden it places on employers to be multi-state compliant. Some businesses have opened the door to a fully distributed workforce without considering the implications. But multi-state compliance is complicated.

# THE IMPACT OF MULTI-STATE COMPLIANCE

Employers are aware they have many legal obligations. But your legal obligations can more than double the second you allow one worker to live in another state. If a business is not well-versed in employment laws for each location they do business—they leave their company open to risk.

That's because labor law has changed more in the past 10 years than in the previous 50.<sup>1</sup> Laws and regulations can change at the federal, state, and local levels. So as your business or workers expand into new regions, you could unknowingly face compliance issues.

For example, if an employee lives in a different state than their employer, the employer still has a legal obligation to that employee. Should something happen where that worker decides to pursue legal action, and the business is not in compliance in that state, the employee will likely win their case.

The consequences of not being multi-state compliant can be severe depending on the state. You could deal with taxes, fees, and penalties, ranging from **\$1,000 to \$10,000**



Some states can even ban you from doing business in their region until you're in good standing. In California, a customer or employee who finds you're not compliant with the state can result in voided customer contracts. But there are more than just legal risks associated with having workers in other states.

## The challenges of a geographically diverse workforce, beyond compliance:

### Offering Benefits

Offering benefits becomes more difficult with workers in multiple states. Each state has different requirements for paid leave, insurance, time off, and other benefits. Additionally, health insurance premiums are already high, but when you look for regional or national coverage, your options become more limited. So finding and providing cost-effective benefits for workers in every state isn't always possible. But that doesn't mean that you're remote employees don't want or need them.

### Pay Strategy

One of the perks of remote work is employees can live somewhere affordable while maintaining their salary. However, since remote work has grown, this has created a problem in pay equity.

<sup>1</sup> Entrepreneurs' Organization. "Two Crucial HR Trends to Watch in 2020." Entrepreneur. Jan. 7, 2020.

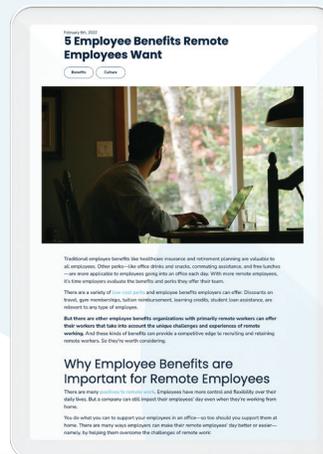
Geographic-based pay or cost of living adjustments are two solutions to the pay equity problem. 67% of employees expect their compensation to reflect their location.<sup>2</sup> So if an employee lives in a more urban, expensive setting—they'd expect a higher salary to maintain their standard of living. But not necessarily vice versa, making a multi-state pay strategy potentially more costly for employers.

### Maintaining the Company Culture:

Remote work is still fairly new and many organizations are struggling to define and maintain their company culture—even when they go from an in-person organization to a hybrid or fully remote one. Having workers in various states can create a disconnect among employees. Some time zones and cities will already have their own way of working. As a result, companies and HR teams have to find new ways to build trust and establish a company culture virtually.

## 5 Employee Benefits Remote Employees Want

Read Now



Even with all the challenges of having a fully distributed workforce, many companies know it's the future of work. So despite everything we've shared, if you can handle multi-state compliance—it will be worth it. Here is how to get started.

## 4 STEPS TO GET MULTI-STATE COMPLIANT

1

**Identify the states where you have workers.** Some workers fail to notify their employers when they've moved. But this can create an unknown compliance issue for the business. An updated list of employee addresses is the first step to identify states where compliance is required. Regularly updating employee information is also essential for payroll and tax purposes.



## 2

**Get registered as a business in the states where you have workers or are doing business.** Employers are subject to other states' registration or foreign qualification requirements when they do business or have workers there—even if they are a virtual company. Being registered in each state is critical for tax compliance. Depending on your type of business, you may need to acquire licenses in those locations as well.



## 3

**Determine what employment laws and regulations you are subject to in each state.** Pay special attention to areas that have a higher risk (i.e. penalties) if you're not in compliance, such as:



- **Taxation:** Taxes, withholding, record-keeping requirements, and payroll processing logistics all come into play with remote work. Employers are subject to state and local tax requirements in each jurisdiction they have employees.
- **Benefits:** Each state has differences in leave laws, workers' compensation requirements, and disability and unemployment insurance. Particularly with workers' comp and unemployment insurance, states generally require the employer to register and pay the premiums for the employee through that state's program.
- **Wage and Hour Laws:** If you pay workers hourly, minimum wage requirements and overtime laws also vary by state, city, and municipality and change frequently.
- **Discrimination Laws:** State laws meant to prevent discrimination in hiring, pay, and firing can vary vastly by state. With the increase in the number of claims filed related to discrimination, this area is increasingly critical for multi-state compliance.



# 4

## Address multi-state compliance in your HR practices, policies, and handbook.

This is the most critical step in getting multi-state compliant. If you do not acknowledge how you're adhering to employment laws and regulations in your practices and policies—you may not be fully compliant.



Depending on how many states you have to comply with, multi-state compliance can be a challenging process. Your policies may be complicated and extensive to account for each law and regulation. Employees should be made aware of these policies and practices through an updated employee handbook.

Don't forget to keep your culture in mind. It may be best to comply with the laws and regulations in the most stringent state you have workers or do business. Otherwise, if you're only meeting the bare minimum, some employees in other states will feel they are being treated differently. From an equity perspective, this can cause employee morale and retention issues and create cultural differences across the organization.

## PROTIP: Two Strategies to Consider Before Implementing a Multi-State Worker Strategy

The steps to get multi-state compliant can quickly become overwhelming. Here are two ways to limit some of the work and reduce the burden of multi-state compliance:



**Allow workers to live anywhere in your state, but require they stay in state lines.** Maybe the task of getting multi-state compliant isn't worth it, but you don't want to sacrifice the benefits of remote work. Allowing remote work within your state is a better alternative—especially if you're in a state like Colorado. In Colorado, employment laws and regulations already vary heavily by city or municipality.



**Only allow workers to live in certain states.** Jobs that require travel within a geographic region often take this approach to reduce the cost of cross-country travel. But it's also a way to limit the total number of states you have to be compliant in. And some states have agreements with others that result in relaxed regulations for employers. Just make sure to specify allowed locations in your policies and job descriptions.

If you already have workers in multiple states or the approaches above don't make sense for your organization, **you can easily manage your multi-state compliance with Obsidian HR.**

# GET MULTI-STATE COMPLIANT WITH OBSIDIAN HR

The question to allow workers in other states or not is simple when you partner with Obsidian HR. As a licensed and accredited professional employer organization (PEO), working with us makes it easy to overcome the challenges of multi-state compliance.

## We take care of your payroll and taxes.

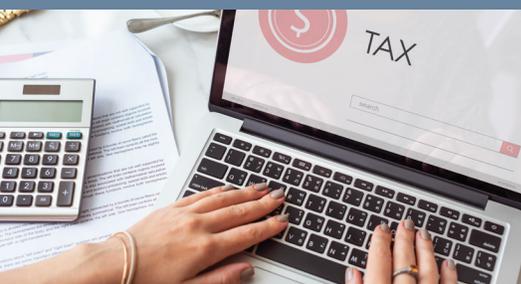
Obsidian HR is a PEO, which means we can register as a business and get coverage in multiple states. This coverage is then extended to most of our clients. In other words, without Obsidian HR, businesses have to register and are personally liable in each state they have workers. When you partner with Obsidian HR, you're covered in most states through our relationship. As a result, payroll and tax compliance are easily manageable when you work with us.

- We record, file, and share your forms with you (Form W-3, W-2, 1099s, 941, 940, 1096, and SUTA and state withholding forms are taken care of quarterly and annually)
- Paystubs and W-2 forms are available electronically for you and your employees for ease and convenience through our payroll platform
- Our platform also tracks time off, attendance, and can create customized reports to make it easier to conduct payroll audits and update employee records

## We provide access to large group health insurance plans that offer national benefits coverage to your employees.

On the open market, finding plans that are accessible and affordable to employees in multiple states is difficult. The plans we offer aren't typically available to small to medium-sized businesses, or if they are, the premiums aren't realistic. As a result, when you partner with us you can provide quality benefits to all your employees—no matter their location.

- We make the appropriate deductions in payroll, monthly reconciliations, and file and distribute necessary forms and required notices
- Enrollment and benefit options are handled by our team of benefits specialists
- We make sure your business is complying with regulations such as ERISA, ACA, COBRA, and other state-required benefit continuation laws



**We will help you navigate evolving employment laws and regulations.** Our office is headquartered in one of the most stringent employer states—Colorado. As a result, we are familiar with the complex nature of employment law. Our experts can keep you informed of changes and be a resource for how to get compliant. They can:

- Answer questions
- Advise on best practices
- Keep you alert to regulatory changes
- Help you strategize and plan
- Conduct regular reviews and audits of your policies and procedures, or help you create them from the ground up



*Allowing your workers to live in other states is a challenge and an opportunity. To be competitive in today's job market, letting employees live where they choose can help you attract top talent. But you'll have to carefully consider the tradeoffs and plan for how to manage your multi-state compliance. Obsidian HR can help.*

**Get Started**



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**Follow us for more! We're constantly sharing information on how to be compliant with changing laws and regulations, hiring and retaining employees, and developing your HR policies and procedures.**

