

Tax challenges of home office regime following the COVID-19 pandemic

Jana Kubicová

University of Economics in Bratislava, Slovakia

jana.kubicova@euba.sk

Abstract: Covid-19 pandemic has made it necessary to move work from employers' workplaces to home offices. The employee works from home using digital technologies. However, the Home Office scheme is accompanied by significant employee costs, covered by private employees' funds. Among them for example cost of electricity, water, sewers, the cost of suitable workplace equipment and its amortization, costs of quite free space, cost to cover speedy internet. On the other hand, the employers receive work from the employees, but the cost of the working environment and resources they save significantly. The Home Office regime will remain in place after the pandemic, so it is time to consider a financial solution to the cost of home office staff – for example, in the form of tax instruments.

Keywords: DIGITALIZATION, MEASUREMENT, EFFECTS OF REMOTE WORK, EMPLOYEES EXPENDITURES, TAX DEDUCTIBLE ITEM

1. Introduction and review of literature

From March 2020, every aspect of our lives is exposed to a new situation – the COVID-19 pandemic. Technologies, including information technology and digitalisation, are importantly helping to combat the pandemic. According to Fournier, "the digital economy is an area of economics that is engaged in studying the cost of intangible goods traded over the internet." (Fournier, 2013) One of the first definitions of digitalisation was authored in 2001 by Mesenbourg and Atrostic who state the digital economy has three primis - supporting infrastructure, electronic business processes (how business is conducted), and electronic commerce transactions (selling goods and services online). They add that reliance on computer networks, and the benefits they can provide, is the "bottom line" difference between electronic and other kinds of business. (Mesenbourg & Atrostic, 2001) According Muggah, Rohozinski and Goldin „COVID-19 is accelerating the shift towards digitalisation, ... and the digital economy is growing faster than the real economy. Depending on how it is defined, its total value could be 11.5 trillion USD, or 15% of global GDP. Researchers believe this could rise to as high as 37 trillion USD, or 26% of GDP, by 2040.“(Muggah R. R., 2020)

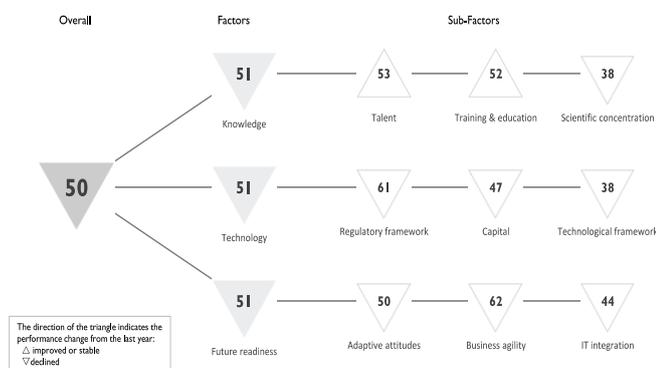


Figure 1 IMD World Digital Competitiveness Ranking (WDCR) – Slovak republic, overall performance (2020)

Source: (IMD World Competitiveness Center, 2020, p. 144)

A number of indicators are used to measure and compare countries' readiness in the field of digitalisation internationally. Among them, for example *IMD World Digital Competitiveness Ranking (WDCR)* which was created by *IMD World Competitiveness Centre*, the fourth edition of the ranking report of 63 countries was issued in 2020. WDCR measures countries' ability and readiness to adopt digital technologies leading to their economic and social transformation. The ranking of countries depends on three factors: knowledge, technology and future readiness. (IMD World Competitiveness Center, 2020, s. 3). According to the results of *IMD World Digital Competitiveness Ranking (WDCR)*, the Slovak Republic ranked 50th out of 63 countries, down from 47 in 2019. (IMD World Competitiveness Center, 2020) What is the state of digitalization in the Slovak

Republic according to the three assessed factors and their subfactors is shown in Figure 1.

In February 2021, the European Parliament and the Council adopted the Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (RRF) while the scope of application of the mechanism covers six pillars, including digital transformation. On the basis of the RRF European Union Member States have developed recovery and resilience plans. To track digitalization in the European Union, the Digital Economy and Society Index (DESI) is applied. The structure of DESI 2021 is built on four dimensions, while each dimension measures several sub-indices, they are (sub-indices are in brackets): Human Capital – digital skills (at least basic digital skills, ICT Specialists, Female ICT Specialists), Connectivity (gigabit for everyone i.e. fixed very high capacity network coverage, 5G coverage), Integration of Information Technology (SMEs with a basic level of digital intensity, AI, cloud, big data), and Digital Public Services (digital public services for citizens, digital public services for businesses). (European Commission, 2021, s. 14) Four dimensions of DESI reflect intervention fields set by the RRF. Namely, dimension Human Capital is equivalent to intervention field 3 (Human Capital) of the RRF, dimension Connectivity is the equivalent to intervention field 1 (Connectivity), dimension Integration of Information technology is the equivalent to intervention fields 5 (Digitalisation of businesses) and 6 (Investment in digital capacities and deployment of advanced technologies), and dimension Digital Public Services is the equivalent to intervention field 4 (e-government, digital public services and local digital ecosystems) of the RRF.

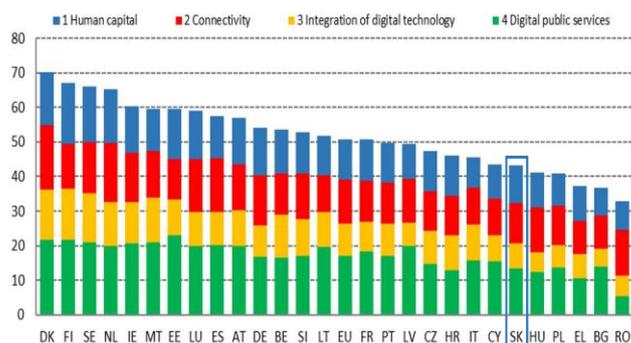


Figure 2 European Union DESI – overall position of the Slovak Republic

Source: (European Commission, 2021, p. 3)

The EIB Investment Survey confirmed that most firms surveyed believe that COVID-19 will lead to further acceleration of the use of digital technologies. (Ficarra, Rückert, Virginie, & Weis, 2021), (EIB, 2020a) The current state of digitalization in the Slovak Republic, as assessed by DESI, is shown in Figure Figure 2. Slovakia has a score of 22 in DESI 2021 among the 27 Member States of the European Union which means that the situation of

digitalization is below the European Union average overall and in four DESI 2021 dimensions.

The need for a digital transformation in the European Union is accentuated by the European Investment Bank, which developed a type of composite index - *EIBIS Corporate Digitalisation Index*. The index measures the degree of adoption of digitalization in the EU and the US, which, like previous indices, is composed of several elements, they are digital intensity, digital infrastructure, investment in software and data, investment in organisational and business process improvements, the use of a strategic monitoring system, and the digital outlook, with purpose to summarise indicators on digitalization. (EIB, 2021, s. 6) According to *EIBIS Corporate Digitalisation Index*, the Slovak Republic belongs to the moderate states, as illustrated in the Figure 3.

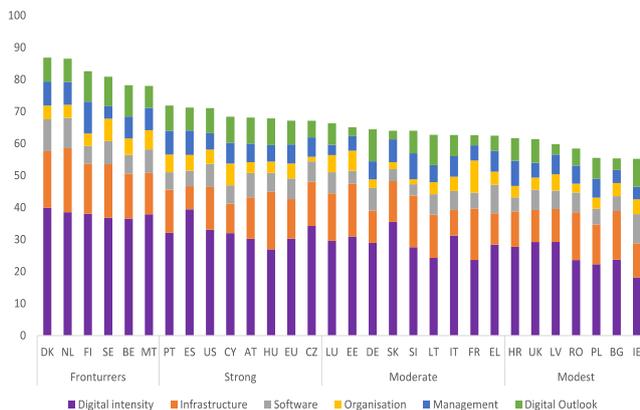


Figure 3 EIBIS Corporate Digitalization Index, by country
Source: (EIB, 2021, p. 7)

During the COVID-19 pandemic, it was digitalization that made it possible to continue to work for employees with the reduced mobility necessitated by the pandemic. It has enabled employees to continue working by giving them the opportunity to work remotely - online, thanks to information technology, the internet and digitalization. A questionnaire survey conducted in the Czech Republic found that "home office work use increased significantly compared to the situation before the pandemic. The most significant increase was in the state administration. More than 80% of government executives confirmed the increase, with more than 60% of respondents reporting this in municipalities and nonprofits." (Ministry of Labour and Social Affairs, Czech rep, 2021). In addition, both employers and employees say that they wish to keep their home office work after the COVID-19 pandemic. For example, in an opinion poll commissioned by EON and made by YouGov, "71 percent of respondents who work from home said they would like to continue this way of working in the future. This number is higher compared to the beginning of the pandemic, or a survey last May, when only 58 percent of respondents said so." A similar survey by YouGov made in the UK showed that they "five want to work from home full time after the pandemic." (YouGov, 2021)

This paper aims to examine the regime for remote work, in particular the Home Office regime, its legal definition and impact it has on household or individual expenditures that are required to cover superfluous costs of households or individuals rooted in it. The rest of the paper is structured as follows. Next section provides review of different concepts of remote work and a legal definition of home office work regime in the Slovak republic. Section three is first mapping non-financial effects of remote work, then financial effects of remote work.

2. The different concepts of remote work

In different countries of the world, different labels and definitions are used for remote work, among the most famous there are remote work, telework, work at home, home-based work – see Figure 4. Sullivan defines out-of-employers' premises work and he

set general and project-specific definition of remote work, while in the second case he emphasizes two decisive factors, transportation impact on remote work and one of the most fundamental elements - the use of ICTs. (Sullivan, 2003, p. 3-4) ILO together with Eurofoundation state that there are two key dimensions of telework/ICT-mobile work (T/ICTM) – workplace/mobility and intensity of use of ICT. Based on this, the following categories of out-of-employers' premises work are listed: 1) regular home-based telework, 2) high mobile T/ICTM, 3) occasional T/ICTM, 4) always at employer's premises (ILO; Eurofound, 2017, p. 14)

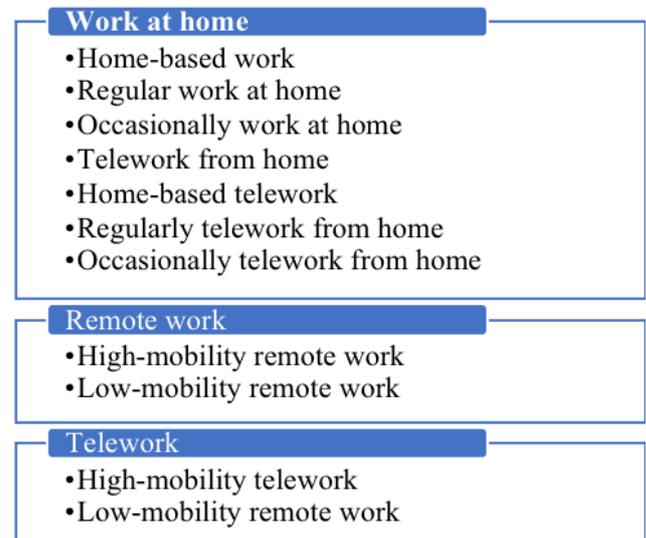


Figure 4 The different concepts of remote work
Source: author's own processing based on (ILO, 2020)

In the Slovak Republic, it was in connection with the intensive use of work in the home office mode that the Labour Code No 311/2001 Coll. of Laws was amended on 1 March 2020. In the case of work outside employers' premises, regular home-based telework, teleworking and, in addition, irregular work from home (home office) are distinguished.

- **Regular home-based telework** is regulated in §52(1) to (4) of the Labour Code and its essential feature is that it is carried out from outside the workplace regularly, not just occasionally.
- **Teleworking** (high mobile/ICTM) is also set in the Labour Code. In its features it is very similar to homework, especially in that outside the employer's workplace it is carried out regularly, not just occasionally. The difference is that electronic data transmission takes place.
- **Home office**, (occasional T/ICTM) is regulated in the Section 54(5) of the Labour Code, but its positive legal definition is not provided. On the contrary, it is defined only negatively compared to regular home-based telework and teleworking, namely what is not considered to be regular home-based telework and teleworking even though it is also carried out from an out-of-work premises of employers agreed in the employment contract, usually from home. An essential feature of the Home Office is that outside the employer's workplace it is carried out only occasionally or only in an emergency situation.

3. Effects of remote work

3.1 Non-financial effects

Out-of-employers' premises work convey new effects and challenges of work, not known before. Wheatley, Hardill and Buglass indicate effects and challenges of out-of-employers' premises. Among them there are: career advancements, gender dynamics, mental health, physical remote work environments,

remote team management, remote work, resilient operations, virtual collaboration and teams, work redesign, work, family, and identity, work-life balance, worker well-being (Wheatley, Hardill, & Buglass, 2021). ILO and Eurofound list several groups of effects of T/ICTM work which require both research and the adoption of appropriate regulations: first group, working time: working hours and working time organization (it includes effects of T/ICTM on work duration, effects of T/ICTM on working time organization, effects of T/ICTM on working time autonomy), second group, individual and organizational performance (it includes working time flexibility and work-life balance as a means of improving individual and organizational performance, effects of T/ICTM on work-life balance including its gender dimension), third group, impact of T/ICTM in occupational health and well-being (it includes autonomy and intensity of work, ergonomics, risk isolation, risk of the blurring of the boundary between paid work and personal life – see Figure 5,), and right to be disconnected.

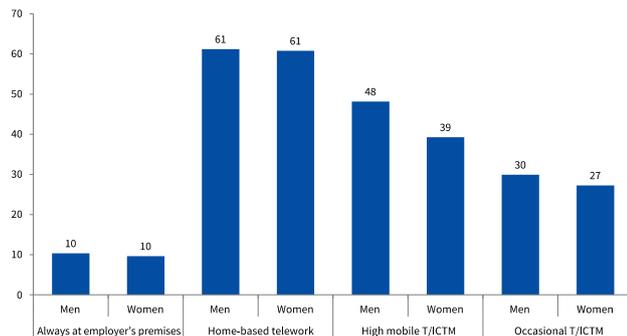


Figure 5 Employees reporting working in their free time to meet work demands daily and several times a week by type of T/ICTM and gender, EU28 (%)

Source: (ILO; Eurofound, 2017, p. 30), (Eurofound, 2021)

Empirical literature covers several effects of remote work; however, it does not cover financial consequences of out-of-employees' premises work.

3.2 Financial effects of remote work and Classification of employee unpaid costs accompanying home office work mode

The Home Office differs from regular home-based teleworking and teleworking by three characters. Firstly, it is the *occasional* work from home or work from home just and only in an *emergency* situation. Secondly, from a legal point of view, Home Office differs from regular home-based teleworking and teleworking by the agreed place of work, of which it is a compulsory and essential particular of the employment contract, otherwise employment contract would be legally invalid. In the case of occasional work from home (home office) in the employment contract, the main place of work shall indicate the place of employment in employers' premises. Only occasionally, or in emergency situations, and in agreement with the employer, can the employee also carry out work from home, if the nature of the work permits. Nevertheless, the employer must allow employee access to the workplace, employer must provide employee with the technical means necessary for the performance of work, he must protect personal data during electronic data transmission, respect employees' the right to disconnect outside working hours, must prevent the isolation of the employee, enable him/her to educate. Thirdly, unlike regular home-based teleworking or teleworking, where an employee occasionally or in an emergency situation performs work not at the place of work specified in the employment contract, but from home, **the employer is not obliged to reimburse the employee for his home office costs.**

While for the first two categories, i.e., domestic work and teleworking, the employer is obliged to reimburse the employee for the costs associated with the employee working at home, in the case of home office work, which is only occasional work from home in the event of an emergency, the employer is obliged to reimburse the

employee for the costs incurred by the performance of work from home.

The third type of remote work, occasional home office work, started to be used at the time of the COVID-19 pandemic. The COVID-19 pandemic has required home office work in many professions where possible.

In this section, we aim to systematically display and summarize the costs of employees who have been working from home for 23 months during the COVID-19 pandemic, i. e. it is no longer about fulfilling the condition of occasional work, on the contrary, employees work long-term and regularly from home.

The costs of staff working in the Home Office during a pandemic can be classified into several groups.

- **Firstly**, the electricity consumption associated with the use of technical security, mainly computers.
- **Secondly**, the cost of connecting a private household to a high-performance Internet, as the performance of work in the Home Office is carried out online in the emergency situation of the COVID-19 pandemic, which requires high data consumption and a sufficiently fast internet, both telecommunications companies charge a higher monthly amount.
- A **third** group of costs of an employee working during the COVID-19 pandemic in home office mode is increased water and sewerage consumption as employee stays at home during the whole day.
- The **fourth** group of home office staff costs are the cost of heat in the apartment and especially the room where the work is carried out during working hours, since, unlike doing work in the workplace, it can no longer regulate daily heat consumption by dampening the heating during its absence.
- The **fifth** group of costs of a home office employee is linked to the need to carry out work from the place where the employee resides, i.e., from an apartment or house which is his own property or he just rents it, and in doing so he can secure an **undisturbed** space reserved for 8.5 hours a day to perform work.
- The **sixth** group of costs is the cost of the equipment with suitable furniture and its wear and tear by frequent use.

Conclusion

As has already been said, work from home which is occasional or during an emergency (Home Office) does not impose an obligation on the employer to reimburse the employee for the costs incurred by the employee in connection with the performance of work from home. **Furthermore, we state and arguments** in favor of specific preferential tax treatment of wages and salaries of employees who have been working long-term from home. Namely, the proposal is to implement a new tax-deductible item applicable when determining tax base of personal income tax from wages and salaries for employees who have been ordered to work from home due to an emergency situation (COVID-19 pandemic). The following are arguments that justify the proposal:

Firstly, employees of state administrations, ministries and other central government bodies, employees of public administrations and self-governing bodies, as well as university teachers have been performing work home office mode for already 21 months. It is quite clear that the work from home in Home Office mode, has lost one of the essential elements of its legal definition - namely, working from home during a pandemic situation is no longer of an occasional nature, on the contrary, it is regular, and has been changed to a 'new normal'.

Secondly, employers have ordered work from home and do not reimburse the costs of Home Office employees, arguing that in employment contracts with employees signed before the outbreak,

the employer's workplace is listed as the place of work. However, in this case the form over content is preferred.

Thirdly, employers enjoy significant savings during the long term and regularly home office mode – less electricity consumption associated with light and non-connection of computers, printers, less water consumption and sewerage, lower demands on furniture equipment and wear and tear.

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