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by Tony Santiago

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In this installment of Tax Pulse, Santiago explores the new remote work environment and the challenges it presents to the corporate tax industry.

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Fueled by the COVID-19 pandemic, the abrupt adoption of remote work brought unprecedented changes to the workplace. As companies navigated the challenges of the crisis, they made accommodations for their workforce. As a result, the percentage of employed Americans exclusively working from home surged from just 4 percent in 2019 to a notable 54 percent in 2020.[1]

U.S. corporate tax departments also made accommodations, and both newly hired and existing employees found themselves negotiating arrangements under duress. The transition to remote work was particularly challenging for the corporate tax industry, which had never (effectively) operated remotely before the pandemic.

Amid this pressure, workplace policies became more flexible, driven by the urgent need for tax functions to keep operations running smoothly while also adhering to numerous time constraints. However, in this environment, employers and employees tended to interpret the flexibility in their favor.

This compounded the problem, particularly for those in key tax roles.

The Pareto principle, also known as the 80/20 rule, suggests that roughly 80 percent of results come from 20 percent of causes or efforts. In the context of a tax function, Pareto's law implies that approximately 20 percent of the department's employees produce around 80 percent of the results or output. These individuals — almost always hired as future leaders — would be considered the department's top performers and often fill the most critical positions.

When hiring for pivotal tax positions, employers interpreted the pandemic-fueled situation as an opportunity for employees to work from home, with minimal need for physical presence in the office. Meanwhile, candidates in key roles perceived the message as a directive to get the job done — regardless of location. Consequently, various arrangements emerged, with some working from home and others relocating to more favorable environments, such as second homes in warmer climates.

Four years later, it's crucial to address potential unseen challenges arising from these adaptations for critical hires. Going forward, it's essential to proactively identify and resolve any misalignments between remote employees targeted for key management roles and executive leadership.

Delayed Moves and Undefined Timelines

The concept of delayed moves — in which employees are allowed to stay in their current location temporarily, with the expectation of a future relocation — introduces a two-dimensional challenge. Employees and employers may interpret these agreements differently, leading to misaligned expectations.

[1] Emma Goldberg, "Here's What We Do and Don't Know About the Effects of Remote Work," *The New York Times*, Oct. 10, 2023.

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Executive Leadership Perspective

During the pandemic, even the top brass were vague and unclear. This compounded the problem, particularly for the top 20 percent earmarked for tax leadership positions.

At the time, both boards of directors and those at the top corporate level were fine with changing the rules for the moment, but there were no guarantees. What was best for the shareholders was to get the work done.

Now, that "whatever it takes" flexibility is gone. Executive leadership and boards of directors are affecting many previous arrangements between these critical hires and the tax department during the crisis by switching to hybrid models or otherwise modifying existing policy.

Tax Leadership Perspective

When COVID hit, companies needed to make the concessions necessary to keep things moving forward, and more often than not, things were left vague. Not surprisingly, short-term perspectives were prevalent during the pandemic, and striving to simply get through the next quarter or year was the norm.

From tax leaders' perspectives, they had to get the work done on time, which meant accommodating as needed to hire or retain people. Under these circumstances and duress, the issues were rarely explored and defined.

Tax leaders and CFOs also generally avoided discussing what would happen once the pandemic was over. So when it came to relocation issues, no one tried to push for clarification in writing: Candidates accepted positions with the understanding that eventual relocation was negotiable, while employers anticipated a more definitive move within a specified time frame.

Since then, tax leadership has evolved such that key roles — all succession planning positions, as well as some subject matter expert or similar roles depending on the organization — are no longer feasible in a fully remote scenario.

Employee Perspective

During the pandemic, the opportunities for potential candidates were enticing. Many tax professionals were no longer bound by geography for the first time; opportunities that were previously out of reach became available, and they pursued them. While relocation may have been discussed, the future was a moving target.

Delayed relocations happened across all industries, but the impact on the tax profession is most notable with those in critical roles — the 20 percent of people who will have 80 percent of the impact on the tax department. Sometimes these geographical challenges included key tax employees who were allowed to work somewhere else during the international health crisis.

From an employee's perspective, the logic was, "If I've got to work from home, why does it have to be down the block? Why can't it be anywhere?" This, coupled with the hope that remote work was here to stay, led some tax professionals to make these relocations permanent. After moving to be closer to family, enjoy a lower cost of living, or experience better weather, these individuals figured that since they were already relocating, why not buy instead of rent?

Whether a new hire anticipating an eventual move, or a long-term employee who relocated mid-pandemic assuming remote work was here to stay, most were comforted by the logic that: "If this doesn't work out, someone else will hire me [for a similar remote role]."

Impacts of Remote Arrangements With Key Tax Roles

As we weed through these scenarios post-COVID, there are two clear sides: the company's commitments to the candidate and the candidate's commitments to the company.

For example, some tax professionals took jobs that would require relocation in two or three years. When posed with this probability, their spouses said, "Well, we'll see." But the employer understood that the candidate would definitively move at that time.

During the pandemic, many candidates hoped that things could remain remote. At the same time, many tax leaders dreamed that employees would become so enamored of the company that they would ultimately move to the region. Sometimes life simply got in the way.

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Recently, I became aware of a situation in which a talented tax professional agreed to relocate from one coast to the other while their spouse was going through a major medical situation. The spouse, while in the hospital, was asked if they'd move in a few years. While they may have verbally agreed, the spouse had other things on their plate.

In the meantime, the candidate was asked, "Are you sure you're going to be OK with flying back and forth every week?" The candidate answered, "I believe I can" — which the employer heard as "I can."

Nearly two years have passed, and the situation has unraveled from both parties' perspectives. Despite the employer's familiarity with the candidate's abilities, the demanding travel schedule led to performance issues and strained relationships.

Conversely, the candidate was overwhelmed by the workload, which hindered the flexibility they hoped for. Despite a preexisting friendship and mutual respect, the situation ultimately disintegrated amid unmet expectations and unforeseen challenges.

It's important to remember that most modern-day dilemmas were born out of difficult circumstances caused by the pandemic. The good news is that we got the work done under those challenging scenarios, but some of it has come at a price.

As an industry, we made accommodations to get the work out the door, but no one wanted to put these things in writing. In the aftermath, we now have some assumptions that were made. We have misunderstandings, a lack of clarity, and a shortage of detail because none of it was defined in a contract.

Failure of high-level, critical hires to fulfill commitments or relocate as agreed upon can disrupt productivity and incur significant costs. Similarly, tax professionals encountering delayed arrangements may face disrupted career paths if employer commitments do not materialize, particularly affecting top performers earmarked for leadership roles.

Succession planning is the tax profession's most significantly affected area because *we have not been able to figure out how to develop tax leaders remotely*. You can poach someone from another organization and bring them in at the top, but that individual has already been developed (in person) by someone else. We simply haven't created effective leaders from a distance.

Assessing the Impact

Where U.S. corporate tax departments are concerned, it's fair to say that the remote work experiment has failed on some levels. From my observations, I believe that most of the tax profession will soon use some sort of hybrid model.

With quickly changing tax laws and complex corporate tax departments, fully remote arrangements create too much risk. Fully remote arrangements for critical succession planning roles normally create too much risk. As a result, we are seeing more companies recognize that those identified as potential heads of tax — those in line to eventually hold No. 1 or No. 2 roles, in particular — need to be prepared in person, in the office.

Further, when things unravel with special arrangements with those chosen for leadership roles, it can have a lot of unintended consequences. In our recruiting work, we have seen companies lose talented tax professionals who they wouldn't have lost if they had promoted people internally. It sends a message when you bring in someone from outside and give them special exceptions.

As a tax leader, when these special arrangements fall apart, this can damage succession planning and cause upper management to question one's judgment.

The tax profession's existing demographic time bubble and the acceleration of boomer retirements under COVID-19 have further shrunk the tax talent pool. And though we were not developing millennials for leadership while they were sitting at home on Teams or Zoom meetings, we're now asking them to step up even earlier in their career than the Gen Xers or boomers ever did.

Realistically, it is important to note that this is not a one-sided issue. These arrangements can go off track because the company changes its work policy, or even because the candidate's personal situation changes during the transition period.

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Communication Is Key

The solution is to identify and prepare for these potential risks early on. Heads of tax must start by assessing their tax department and identifying where some of the risks lie, particularly concerning their top 20 percent performers. These conversations can be difficult, but if you don't have them, the next discussion might be with TaxSearch after someone in a critical position has left unexpectedly.

On the flip side, tax professionals in remote leadership or succession planning roles need to ask themselves some hard questions: "Am I building on solid ground for the rest of my career? Is there a balance between my aspirations and obligations and my career?" These individuals must also define what matters to them professionally.

Most importantly, both parties need to be honest with each other about their needs. It's all about communication. Open conversations about relocation expectations, in-person office requirements, and the company's long-term vision are essential to avoid misunderstandings that could jeopardize the success of both the tax department and these critical hires.

Starting these conversations and addressing potential issues with key players in your succession plan is no different than if you were hiring a person externally: "Here's what we're expecting. Is this in line with what you can deliver? If not, we need to make a new plan."

Moreover, it's important to confront any issues as soon as possible. For example, should the company's executive leadership team decide to institute a three-day in-office hybrid schedule, a blanket email may not be sufficient. Rather, the tax leader must clarify these updated expectations with key employees in leadership roles as soon as possible, not only outlining the new terms but also facilitating a candid conversation about the candidate's ability to meet those demands.

Tax professionals in future leadership roles should anticipate that the employer will initiate these discussions, but also be prepared to take the initiative if that doesn't happen. Neither party should be in the business of creating surprises. So if you are in a key succession planning role and learn that your work arrangement does not align with company expectations, it's important to speak up. While not necessarily easy, it's imperative to have these adult conversations any time relevant policy changes arise, particularly where critical employees are concerned.

As these discussions occur, some individuals may move out of leadership roles and into stand-alone tax positions. Some might have the opportunity to move into other areas of finance that better align with their geographic location preferences and personal needs and wants.

However, if you can't find a mutually agreeable path, making a fair transition plan is best so that everyone can move forward with their lives. Regardless of the outcome, it's better to have these conversations now than address the inevitable fallout that ignoring these misalignments will create for both parties down the road. ■

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