

Task 4.4

The COVID-19 pandemic, work from home, 'bogus' self-employment, and tax competition in the EU

Leader: IBS; Contributor: LISER

1. Task description

We will study if the unprecedented increase in work from home (WFH) during the COVID-19 pandemic translates into a long-term shift towards WFH, and if it triggers reallocation of labour demand towards remote workers who live in countries with lower taxes and/or social security contributions. We will also assess if countries engage in a race-to-the bottom competition trying to lure WFH jobs with lower taxes and social security contributions and assess risks and potential consequences of such phenomena.

2. Background / Setting

The COVID-19 pandemic has contributed to an unprecedented increase in work from home, enabling work from anywhere. This development has given rise to professionals who combine remote working with travelling, termed digital nomads. Perceived as high earners, such workers have been an object of international competition aimed at attracting remote workers to bolster local economies, particularly those stricken by the COVID-19 pandemic (OECD, 2022). Incentives include digital nomad visa schemes, accompanied by income tax and social security contributions breaks. The increase in teleworking has also been conducive to the growth of self-employment. There has been observed an increase in freelancing enabled by the possibility of delivering professional services using internet labour platforms or ICT equipment. The solo-employed freelancers tend to appreciate a high level of autonomy and mobility. Such a preference can also align smoothly with the digital nomad lifestyle.

Governments attracting digital nomads may engage in a race to the bottom, resulting in negative social effects (Aggraval and Stirk, 2022). Furthermore, the influx of remote workers may have a negative impact on the local housing market. The expansion of property rentals using such services as Airbnb may increase prices, making housing unaffordable to local residents. Furthermore, the expansion of self-employment may impact the availability of standard, protected employment in sectors traditionally dominated by safe jobs. Moreover, self-employment may also serve as an avoidance of labour costs. Formally self-employed

persons may be hired to perform the same work as regular full-time employees, which constitutes bogus self-employed.

3. State-of-the-art

Theoretical studies indicate that migrations and working from home alter the optimal tax policies to be pursued by the governments (Agrawal and Brueckner, 2022). In particular, the possibility of levying different taxes on natives and migrants may result in very attractive schemes for immigrants (Guerreiro et al., 2020).

Indeed, European countries have started to compete for high-income migrants. Estonia was the first EU country to provide a visa programme for digital nomads in June 2020. Since then, subsequent European countries have been introducing the scheme, making up 11 EU countries with fully implemented digital nomad work permits as of February 2023, with another two countries (Greece and Italy) being set to start fully operating the scheme soon in 2023. Tax incentives are important ingredients of these schemes, with some countries fully exempting digital nomads from income taxes.

Evidence from the decade preceding the COVID-19 pandemic shows that tax incentives may be effective in attracting high-income migrants (Bassetto and Ipedico, 2023; Timm et al., 2022). So far, there is no evidence on the effectiveness of tax incentives in the post-Covid era. However, given the sharp growth of workers who declare to make a permanent move to remote working (Eurofound, 2022), this topic is going to be researched intensively in the coming years.

4. Advancement compared to the state of the art

We will contribute to the literature by providing post-COVID evidence on the migration of professionals who can work remotely. We will also investigate the rise of self-employment and the extent of bogus self-employment among these workers. We will assess the role of tax incentives and other incentives provided by governments. Our research will take a European perspective, providing findings for all EU member states.

5. Research to be done

First, we will analyse whether the introduction of special incentives for digital nomads resulted in noticeable inflows of high-income migrants. Second, we will examine whether the labour force of native professionals shrank noticeably in any of the EU countries. Third, we will investigate whether an increase in working from home is associated with an increase in self-employment. For this task, we will use European survey data collected in EU-LFS and EWCS.

6. Methodology

We will use descriptive statistical analysis to identify the trends in the share of remote workers and self-employed workers across the EU.

We will conduct desk research on tax incentives addressed to remote workers across the EU, as well as data on digital nomad visa holders.

We will use regression analysis to detect the impact of the remote work possibilities on migrations and self-employment.

7. Data sources

- EU-LFS: European Union Labour Force Survey
- EWCS: European Working Condition Survey

References

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