Understanding U.S. domestic relocation taxability

Congratulations on your relocation! Ahhh taxes — the best part, right? You might not agree, but it is worth taking some time to better understand how the IRS views the costs associated with supporting your relocation within the U.S. To help you understand the impact of your relocation benefits on your personal taxes, we'll explore:

- the taxability of your relocation benefits
- how to accurately account for expenses at year end

If you have specific questions about your personal tax situation, please consult a qualified tax professional who can help you determine the tax impact of your relocation benefits and ensure proper federal and state tax filing. Cool? Alright, let's dig in!

First things first: Did the Tax Cuts and Jobs Act affect relocation?

Glad you asked — the answer is most definitely. As of Jan. 1, 2018, the IRS no longer allows moving expense exclusions and deductions. What does that mean for you? Previously, some moving expenses were tax excludable if you met certain distance and time requirements. Well, those qualifiers are no longer relevant because your moving expenses — such as a household goods shipment, final move transportation and your first 30 days of storage — are now no longer eligible for a tax deduction. Another change that may impact relocation? The state and local tax deduction is now capped at $10,000.

If you've relocated in the past, a lot has changed. The table below breaks down U.S. tax law before and after this round of reform. The Tax Cuts and Jobs Act remains in effect through 2025, at which point these changes expire and we revert to the previous tax rules.

<table>
<tr><th colspan="4">Tax law prior to 2018</th></tr>
<tr><th colspan="2">Taxable</th><th colspan="2">Non-Taxable</th></tr>
<tr><th>Reimbursed through company</th><th>Not reimbursed through company</th><th>Reimbursed through company</th><th>Not reimbursed through company</th></tr>
<tr><td>Submit expense report to your employer or relocation company, no deduction taken on tax return, gross-up may be provided.
Payment appears as taxable income on W-2.</td><td>Employee is responsible for expense.
No impact on your W-2.</td><td>Submit expense report to your employer or relocation company, no deduction taken on tax return.
Reimbursement amount will appear in Box 12 "P" on your W-2.</td><td>Expense may be deducted on your tax return using Moving Expense Form 3903.
No impact on your W-2.</td></tr>
<tr><th colspan="4">Tax law as of Jan. 1, 2018</th></tr>
<tr><th colspan="4">All moving expenses are taxable</th></tr>
<tr><th colspan="2">Reimbursed through company</th><th colspan="2">Not reimbursed through company</th></tr>
<tr><td colspan="2">Submit expense report to your employer or relocation company, no deduction taken on tax return, gross-up may be provided.
Payment appears as taxable income on your W-2.</td><td colspan="2">Employee is responsible for expense.
No impact on your W-2.</td></tr>
</table>

What does this mean for *my* taxes?

All relocation expenses that are paid by your company are considered taxable income. This means these expenses will be reported to the IRS by your company's payroll department and will be captured on your W-2.

This additional income may place you in a higher tax bracket, so it's recommended that you work with a qualified tax professional to file your taxes. We'll talk about how your company may offer assistance (gross-up) with this additional tax liability in a little bit.

What are some common relocation expenses?

Most any expense paid for by your company or reimbursed to you will be viewed as taxable income by the IRS. Therefore, the following list of typical relocation expenses is not exhaustive, but it is a good starting point:

- Support for household goods shipping and storage
- Pre-move home finding trip
- Tips for movers
- Temporary lodging
- Support for final move trip (transportation, lodging, meals)
- Lease termination penalties/fees
- Vehicle shipment
- New state documents (vehicle registration, driver's license, etc.)
- Pet shipment
- Spouse's employment assistance
- Lump sum or miscellaneous allowance payments
- Return trips home
- Home sale closing cost reimbursement
- Home purchase closing costs*
- Tax assistance

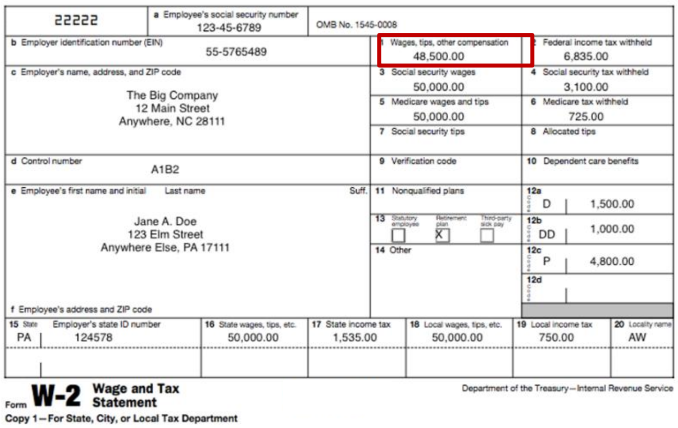
**There are some expenses related to home purchasing that can be deducted (see page 4)*

What if my expenses were paid directly to a third-party vendor (i.e. moving company, travel agency or temporary lodging provider)?

In the eyes of the IRS, it doesn't matter. Payments do not need to be made directly to you. Payments made directly to third-party vendors on your behalf also must be reported as taxable income on your W-2.

What if I received a lump sum to use for my relocation expenses?

Lump sum payments (and miscellaneous allowances) can be used to cover your relocation expenses as you see fit. The *entire payment* is reported as taxable income on your W-2.


22222
a Employee's social security number 123-45-6789
OMB No. 1545-0008
b Employer identification number (EIN) 55-5765489
1 Wages, tips, other compensation 48,500.00
2 Federal income tax withheld 6,835.00
c Employer's name, address, and ZIP code
The Big Company
12 Main Street
Anywhere, NC 28111
3 Social security wages 50,000.00
4 Social security tax withheld 3,100.00
5 Medicare wages and tips 50,000.00
6 Medicare tax withheld 725.00
7 Social security tips
8 Allocated tips
d Control number A1B2
9 Verification code
10 Dependent care benefits
e Employee's first name and initial Last name Suff.
Jane A. Doe
123 Elm Street
Anywhere Else, PA 17111
f Employee's address and ZIP code
11 Nonqualified plans
12a Code D 1,500.00
13 Statutory employee [ ] Retirement plan [X] Third-party sick pay [ ]
12b Code DD 1,000.00
14 Other
12c Code P 4,800.00
12d Code

15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name
PA	124578	50,000.00	1,535.00	50,000.00	750.00	AW

Form **W-2 Wage and Tax Statement**
Department of the Treasury—Internal Revenue Service
Copy 1—For State, City, or Local Tax Department

Moving expense reimbursements are included in your gross income and are reported in all wage boxes, including Box 1.

What is "gross-up?"

Because relocation expenses are viewed as income and taxable by law, paying the taxes on that income is required. Technically, your employer must either withhold wages through payroll to cover the taxes you owe on the relocation benefits (like they do on your paycheck) or they must contribute money toward your tax burden. If they choose to help you with covering the taxes owed, we call that contribution "gross-up." The decision to offer you this form of tax assistance — and the method your company uses to calculate the gross-up payment if assistance is offered — is at the discretion of your employer as an additional benefit. Check your specific relocation package for details.

It's important to note that the gross-up payment is not a direct payment to you. It is processed through payroll by your company and paid directly to the IRS. Be aware that the payment is *also considered taxable income*, so if you receive gross-up, you may still have some tax liability as your company's gross-up contribution may not cover your entire tax burden.

A few additional considerations to keep in mind when filing your taxes

State taxes

You may need to prepare a partial-year tax return for the departure and destination states.

Donations

Don't forget that you may be eligible to deduct donations made during the move process! If you donated cars, furniture or any other household items, they may be eligible to be deducted at year end.

Tax brackets

It's not uncommon for relocating employees to move to a higher tax bracket due to payment of relocation expenses. This increases the potential for underpayment of taxes.

I received benefits for selling my home — are these taxable?

You may have received one of these two home sale benefits as part of your relocation policy:

Buyer Value Option or Amended Value Option

The Buyer Value Option (BVO) and Amended Value Option (AVO) programs are considered a "non-event" by the IRS. Payments of customary closing costs (commissions, title, legal and recording fees) are *not considered personal income* and are not reported on your W-2.

Direct reimbursement of home sale closing costs

Reimbursement of home sale closing costs (commissions, title, legal and recording fees) *is considered taxable income* by the IRS. Payments received for closing costs will need to be included as taxable income on your W-2.

Capital loss incurred on the sale of a home is not tax deductible. *(Capital loss is defined as the amount lost if the sale price is lower than the original purchase price)*

Capital gain over $500,000 if married or $250,000 if single may be considered taxable income. *(Capital gain is defined as the amount gained if you sell the home for higher than the original purchase price)*

I received benefits for purchasing a home — are these taxable?

Reimbursement of home purchase closing costs (commissions, title, legal and recording fees) is *considered taxable income* by the IRS. Payments received for closing costs will be included as taxable income on your W-2. One notable change in the new tax law was that the mortgage interest deduction was reduced to $750,000 from $1 million for mortgages originating on or after Dec. 15, 2017.

Some expenses related to buying a home *are deductible on Federal Form Schedule "A."* These include:

Points and loan origination fees

If you were reimbursed for loan origination fees or points, this reimbursement is included in your taxable wages. You may deduct the points as home mortgage interest on Federal Itemized Deductions Schedule A.

Duplicate carrying charges

Mortgage interest can be deducted for a primary or second home.

Real estate taxes

See the new IRS limitations that became effective as of Jan. 1, 2018. Check out the "Tax Tips – Real Estate" page on the IRS website for more details.

Mortgage pre-payment penalties

If you pay off your mortgage earlier than the term you've agreed to, you may have to pay your mortgage lender a fee.

I've made my move — now what do I do for taxes?

As the U.S. tax filing deadline approaches, make sure you have an accurate understanding of the costs that your company has covered for your relocation. You will need to wait for the W-2 that you'll receive from your company for the current tax year before you'll be able to start filing your taxes.

It is also possible that relocation expenses may be reimbursed to you or paid on your behalf in such a way that it impacts two tax filing seasons. The above information is for general information only and is not presented as tax advice. Please consult with your tax advisor prior to making decisions and taking any action.