

# PAYROLL COMPLIANCE WITH U.S. EMPLOYEE RELOCATION PROGRAMS



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## PRESENTERS

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## AGENDA

- Taxable Relocation Benefits
- Eligibility
- Home Sale Programs
- Lump Sum Programs
- Business Travelers
- Taxes
- Collaboration for Compliance
- Mobility Trends
- Resources (handout)



## TAXABLE RELOCATION BENEFITS

Employer paid benefits (directly to and on their behalf) must be added to the employee's gross income on the W-2, **excluding**:

- shipment of household goods, personal cars, boats and pets
- 30 days of storage and insurance
- travel to new location



## EXAMPLES OF COMMON NON-TAXABLE EXPENSES (MOVEMENT OF HOUSEHOLD GOODS)

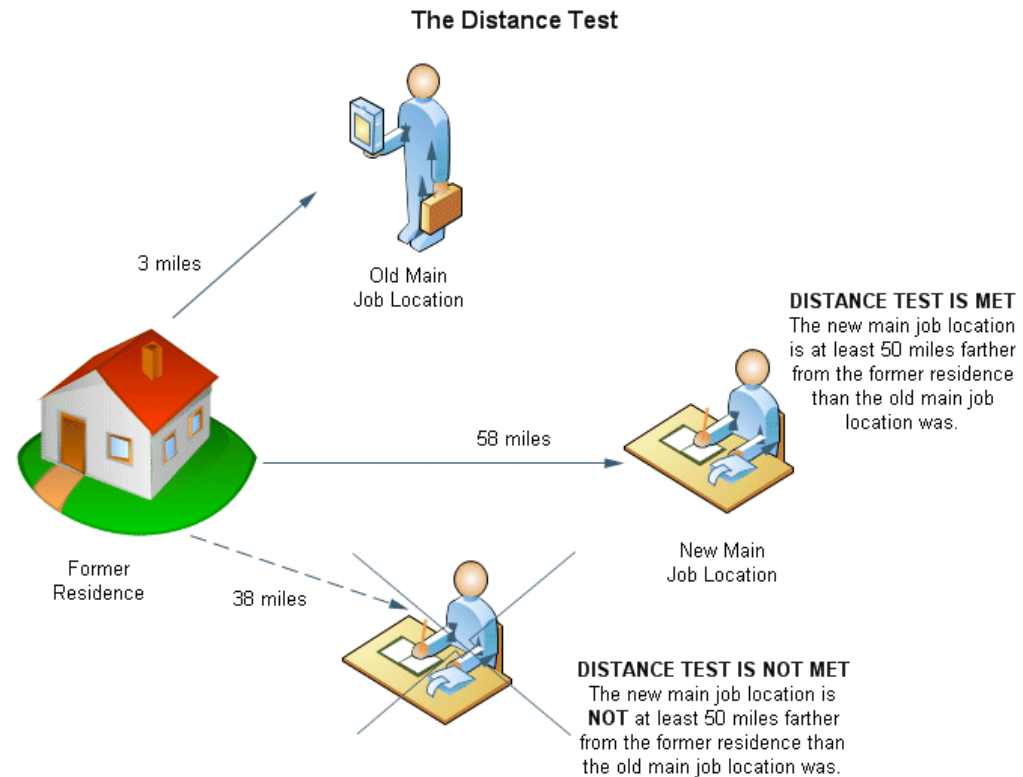
- Shipment of household goods
- Moving personal vehicles
- Connecting/disconnecting appliances
- Shipping a boat
- Disassembling/reassembling a swing set
- Shipping your pets
- Self haul truck plus gas, oil, tolls and parking
- Boxes and tape used for the move
- Storing and insuring your household goods for 30 days

WHAT ARE THE TWO RULES THAT MUST BE MET IN ACCORDANCE WITH THE IRS IN ORDER TO BE ELIGIBLE TO DEDUCT RELOCATION EXPENSES (WITHIN ONE YEAR)?



- A. salary and location
- B. time and distance tests
- C. homeowner and family size

# ANSWER



- **Time:** Employee must work full-time for 39 weeks during first 12 months immediately following relocation to new work location.
- **Distance:** New main job location is at least 50 miles farther from former home than old main job location was from former home.

## HOME SALE PROGRAMS



Very simply stated, must be done in **two separate transactions** with some risk (inventory) on the company in order for this benefit to be non-taxable.

Programs managed by relocation management companies (outsourced) are generally in compliance.

WHAT IS THE CURRENT OPTIONAL (*IN LIEU OF ACTUAL RECEIPTS*) STANDARD MOVING MILEAGE RATE PER THE IRS?

1. 51 cents
2. 23.5 cents
3. 19 cents
4. 55.5 cents



# ANSWER

Effective July 1<sup>st</sup>, rate is **23.5 cents** / mile, which was an increase from 19 cents.



*The IRS has not yet issued the 2012 mileage rates.*

## LUMP SUM PROGRAMS



- All bonuses and lump sums payments are fully taxable per the IRS, plus the added costs of any tax support provided by the company.
- Easier to administer, but costly due to taxes
- Non-taxable solutions

PER THE IRS, EMPLOYEE BUSINESS EXPENSES ARE CONSIDERED A NON-TAXABLE BUSINESS TRAVELER FOR TRIPS LESS THAN HOW LONG?

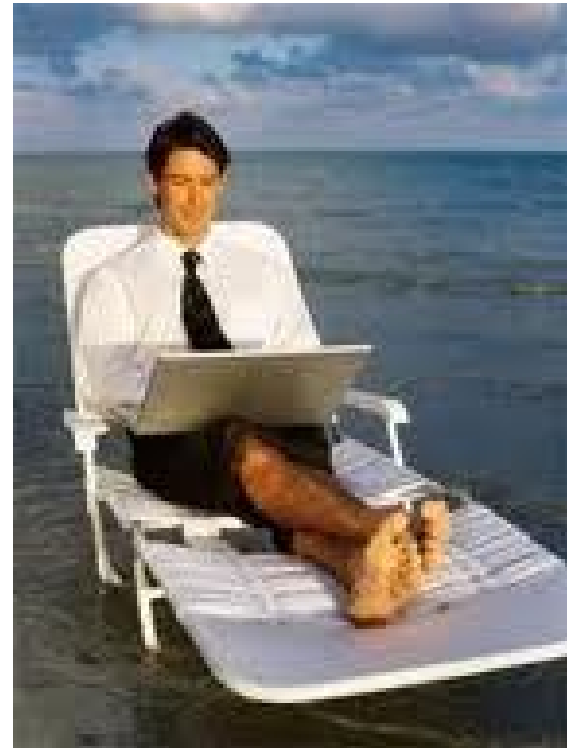
1. 30 days
2. 60 days
3. 90 days
4. One year



## ANSWER

**One year .....**

*However, at the point in time when the intent of the trip is expected to be longer than one year, all expenses incurred going forward are taxable to the employee and applicable state returns are required.*



## TAX GROSS-UP (INVERSE METHOD)



- Provides a closer **approximation** of the true tax liability (tax on tax).
  - ❑ Formula: Expense amount / (1 - tax rate) = gross
    - Expense amount = \$10,000
    - Tax rate = 28% (\$2,800)
    - $\$10,000 / (1 - .28) = \$12,800$
    - EE net payment = \$10,000

## TAX ASSISTANCE (SIMPLE GROSS-UP)

Another option companies use to assist employee's with the tax burden with a flat rate. However, this method does not always compensate the employee in full for the taxes incurred on reimbursed expenses:

Example:

- 28% FIT
- 4% SIT (if applicable)

## TRUE-UP METHOD

- Best method for ensuring the relocating employee is not under or over compensated.
- This process is commonly performed by a CPA or relocation management company.
- A gross up calculation is performed at the time the expense occurs and again at year-end prior to reporting wages on the employees W-2.

# COLLABORATION FOR COMPLIANCE



- Collaboration is key (HR, Payroll, Finance, Tax)
- Solutions for collecting taxable items
  - Vendors to provide a report of taxable relocation expenses paid to or on behalf of employees
  - A/P to extract data from expense management system with relocation expenses
    - Set-up specific GL codes for taxable relocation benefits
    - Global Mobility should approve all relocation expenses
- Payroll must be notified of the effective of the new work state for each employee
- Non-taxable (excludable) relocation benefits paid directly to the employee must be included on the applicable employee W2, box 12, Code P.

# RELOCATION TRENDS

- **Incent to Rent**
- Lump Sum Options
- Creative Commuting
- **Local/State Tax Compliance**
  - CA
  - NY (Port Authority)



## RESOURCES (HANDOUT)

- WW ERC:
  - Tax Concepts in Relocation – An Outline of the Basics
    - <http://www.worldwideerc.org/gov-relations/us-tax-legal-resources/tax-legal-concepts/Pages/tax-relocation-tax-concepts-employer-expenses.aspx>
- IRS:
  - Pub 521 Moving Expenses:  
[http://www.irs.gov/publications/p521/ar02.html#en\\_US\\_2010\\_publink1000203444](http://www.irs.gov/publications/p521/ar02.html#en_US_2010_publink1000203444)
  - Rev Ruling 2005-74 and 72-339:
    - [http://www.irs.gov/irb/2005-51\\_IRB/ar07.html](http://www.irs.gov/irb/2005-51_IRB/ar07.html)
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