CARTUS

January 2018

The Impact of U.S. Tax Reform on Your Relocation Policies: What You Need to Know

The 2018 Tax Cuts and Jobs Act (TCJA) has had a significant impact on mobility, and the changes require corporate mobility leaders to review their policies and make appropriate changes. The good news is that home sale programs were not impacted by the TCJA.

On January 12, 2018, the U.S. Internal Revenue Service announced a reduction of the income tax withholding rates on supplemental wages as follows:

- The rate is 22% for supplemental wages paid to an individual during a calendar year that are less than or equal to $1 million. The 2017 rate was 25%.
- The rate is 37% for supplemental wages paid to an individual during a calendar year that are more than $1 million. The 2017 rate was 39.6%.

RELOCATION POLICY UPDATES

The following information is provided so you can determine next steps for updating your policy once you have met with your tax provider and your legal team.

What has changed?
There are three primary areas in your relocation policies that have been impacted:

- IRS Move Standards
- Tax Excludable Expenses
- Tax Deductible Expenses

IRS Move Standards

Prior to TCJA, the IRS move standards required: the timing of the move needing to be closely related to the start of the employee's new employment; the distance of the move included a test which allowed claiming move costs if the move was at least 50 miles further from the new work location than the old home was from the old work location; and that all expenses being claimed needing to be reasonable and necessary for the move. Furthermore, the move needed to occur within 12 months of the effective date of the transfer. Now, moving expenses are no longer excludable or deductible, so these standards no longer apply.

POLICY IMPACT: Some companies will leave the IRS move standards in their relocation policy as they are reasonable standards, but they are no longer required by law. Leaving the IRS move standards in your policy will provide consistency in your program. For instance, it would prohibit business unit management from making their own decisions on issues that could impact your relocation budget (for instance, timing of the move, or moving someone who lives only 10 miles from the work site).

In addition, you may want to consider continuing to require the completion of all relocation activities and expenses within 12 months of the effective date of transfer to ensure timely accounting and payroll submissions.

DECISION POINT: Will you leave the IRS moving standards in your policies or remove them?

Tax Excludable Expenses

All formerly tax excludable expenses will now be taxable, including:

- Household goods shipments
- First 30 days of storage (and the cost of moving goods into and out of storage)
- Final trip expenses including lodging, airfare, and mileage
- Automobile shipment
- Pet shipment

POLICY IMPACT: The household goods shipment, now taxable, will have the largest impact on the employee should a corporation decide not to tax assist (gross-up) the expense. While a number of Cartus clients are indicating that they will tax assist the payment, many are still in decision mode.

DECISION POINT: If the intent of your mobility program is to keep your employees as whole as possible, then you'll want to tax assist/gross-up these payments. However, it may substantially increase your mobility costs to tax assist, so you'll want to estimate the increase based on last year's costs and adding in an estimated gross-up percentage. The average gross-up percentage is approximately 65% (for instance, a $10,000 household goods invoice will require approximately $6,500 in gross-up costs). Tax assisting/grossing-up this payment would avoid a substantial claw-back from an employee's paycheck.

Tax Deductible Expenses

With the TCJA, the ability to deduct state and local income and property taxes (SALT), as well as state and local gross-ups, has been limited to $10,000. This may make the 2018 state and local gross-up taxable in 2018.

The mortgage interest deduction has been retained, but it is limited to a maximum debt on which interest can be deducted lowering from $1,000,000 to $750,000. The deduction on a second home remains as long as the total indebtedness is under $750,000.

POLICY IMPACT: This will impact some benefits such as duplicate housing (the real estate property tax portion). In addition, for a new home purchase, mortgage interest deductions will be limited to the interest paid on a maximum of $750,000 of debt.

DECISION POINT: Will you gross-up state and local taxes for federal tax purposes? It is not recommended to gross-up for interest because the employee may be able to deduct this expense. This can impact mortgage subsidy and points and origination fees if treated as interest. Going forward, this may be imputed income to the employee. Alternatively, you may want to consider "tax protecting" the impact of any potential interest rate deduction limitations on a case-by-case basis when requested by the employee.

PREPARING FOR THE FUTURE

Once you've made your policy decisions, your first step is to meet with your internal payroll department as well as Cartus' relocation accounting team, and be sure to consider the following:

- If you are trying to keep your mobile employees as whole as possible, your tax assistance/gross-up totals will probably increase in 2018 and going forward. If your relocation policies have not been updated lately, this is a good time to have them reviewed in search of potential cost savings areas that can help offset these increased tax costs.
- When updating your relocation policies, don't forget to also update:
  - The tax summary charts you may have within the policy document
  - All supporting document and resources
  - Any system supporting expense management
- Also, be sure to develop a communication plan to update HR, business leaders, impacted employees, and any other stakeholders in your organization who may be impacted by these changes.

Cartus has partnered with Ineo and can provide their 2018 Relocation Tax Advisor publication which provides a tactical approach to understanding the complexities associated with relocation taxability. For more information, contact your Cartus account manager, who can work with Cartus Consulting to help you evaluate the policy impacts of TCJA and your ultimate policy decisions.