



WHRGlobal

EMPLOYEE RELOCATION

TAX CUTS & JOBS ACT MOBILITY UPDATE

On December 22, 2017 the President signed into law the Tax Cuts and Jobs Act, directly impacting all global mobility programs. Beginning January 1, 2018, any direct payment or reimbursement of employee moving expenses is now considered taxable to the employee. While many of these new tax regulations expire in 2025, we need to focus on the impact on relocation efforts now.

THE GOOD NEWS

Previously, employees had to pass the Time and Distance Test to qualify for any job-related moving expense deductions. The criteria of the 50-mile, 39 week, and 1-year rule is no longer applicable since it was only used to determine which expenses could be excluded. This means corporations can continue to use this criteria within their mobility programs (or create new timelines/limits) to establish their own program guidelines, with no consequence.

One of the largest components of any mobility program, the homesale benefit, has not been impacted by the new TCJA ruling. According to Rev. Rul. 2005-74, companies will still be able to pay commission and closing costs on an employee's departure home through a separate transaction, and the expenses will not be counted towards the employee's income. This includes Appraised Value, Amended Value, and the Buyer Value Option home sale programs.

In addition, the home sale capital gains exclusion remains unchanged. This exclusion indicates that if the taxpayer owns and lives in their primary residence for 2 out of 5 years, prior to the sale, they can exclude up to \$250,000 (single)/\$500,000 (married) of their capital gain.

WHAT'S CHANGED?

Under the previous tax law, employers could provide a reimbursement for an employee's moving expenses that would not be included in that employee's compensation. Alternatively, an employee paying their own moving expenses could deduct those moving expenses, even if they didn't itemize.

Classification	Former Tax Law	Tax Cuts and Jobs Act
Moving Expense Deduction <ul style="list-style-type: none">• Household Goods Move• Pet Moves• Auto Moves• Storage (30 days)• Final Move Expenses	Non-Taxable	Taxable

Today, under the TCJA, all moving expenses, whether for domestic or international moves, are considered taxable to the employee. Employers are still able to pay moving expenses on behalf of their employee; however, this expense must now be included as income to the employee.

Now that moving expenses are considered taxable, it is important that all relocating employees be aware of the new individual tax rates as well, especially if their employer is paying a moving expense reimbursement as this will now be taxable income to the employee. This could increase their taxable income, thus placing them in a higher tax bracket.

Individual Tax Rates

Former Tax Law		Tax Cuts and Jobs Act	
Tax Rate	Income	Tax Rate	Income
10%	Up to \$9,525 (Single) Up to \$19,050 (Married)	10%	Up to \$9,525 (Single) Up to \$19,050 (Married)
15%	\$9,526 to \$38,700 (Single) \$19,501 to \$77,400 (Married)	12%	\$9,526 to \$38,700 (Single) \$19,051 to \$77,400 (Married)
25%	\$38,701 to \$93,700 (Single) \$77,401 to \$156,150 (Married)	22%	\$38,701 to \$82,500 (Single) \$77,401 to \$165,000 (Married)
28%	\$93,701 to \$195,450 (Single) \$156,151 to \$237,950 (Married)	24%	\$82,501 to \$157,500 (Single) \$165,001 to \$315,000 (Married)
33%	\$195,451 to \$424,950 (Single) \$237,951 to \$424,950 (Married)	32%	\$157,501 to \$200,000 (Single) \$315,001 to \$400,000 (Married)
35%	\$424,951 to \$426,700 (Single) \$424,951 to \$480,050 (Married)	35%	\$200,001 to \$500,000 (Single) \$400,001 to \$600,000 (Married)
39.6%	\$426,701 or more (Single) \$480,051 or more (Married)	37%	\$500,001 or more (Single) \$600,001 or more (Married)

Additionally, relocating employees should be made aware of the following changes that could also impact their taxes moving forward:

Classification	Former Tax Law	Tax Cuts and Jobs Act
Personal Exemption	\$4,050	No Personal Exemption
Standard Deduction	Single: \$6,350 Married/Joint: \$12,700	Single: \$12,000 Married/Joint: \$24,000
Mortgage Interest Deduction	Taxpayer can deduct up to \$1,000,000 of interest on acquisition debt. Taxpayer can deduct up to \$100,000 of interest on home equity.	Taxpayer can deduct up to \$750,000 of interest on acquisition debt. No deduction for interest on home equity.
Alternative Minimum Tax (AMT)	Single: \$54,300 Married/Joint: \$84,500	Single: \$70,300 Married/Joint: \$109,400
State and Local Income Tax Deduction	Taxpayer can deduct state and local income tax. Taxpayer can deduct state and local sales tax instead of income tax. Taxpayer can deduct foreign income tax instead of taking the foreign tax credit. Taxpayer can deduct state, local, and foreign property tax on any real property. Taxpayer can deduct state and local property tax on other property.	No deduction on foreign property tax. Taxpayers can still deduct state and local income taxes; however, all deductions for income, sales, and property taxes cannot exceed \$10,000.
Child Tax Credit	Credit of \$1,000 per child (under age 17)	Credit of \$2,000 per child (under age 17)

HOW WILL THE TCJA IMPACT GLOBAL MOBILITY PROGRAMS?

If your relocating employee has any questions regarding the impact of TCJA, have them speak with their tax advisor right away.

The main concern for domestic and international employees with moving expense becoming taxable, will be how it domestic and international employees will experience

A relocation that costs 70,000, will place many employees into a higher tax bracket where they could potentially miss out on tax credit opportunities such as the child Tax Credit. Many company's may need gross-up benefits to not only cover the cost of the tax, but the credits they would have received as well.

Without the moving expense tax deduction, employers can expect to pay more for the cost of a relocation. However, even though the cost of mobility programs will likely increase, the overall corporate tax rate has gone down.

35%

*Former Tax Law
Corporate Tax Rate*

21%

*TCJA
Corporate Tax Rate*

With this fairly significant decrease, the amount of gross-up per move will also go down. While this will help the corporation as a whole, it is important to note that the cost of the mobility program will still increase.

NEXT STEPS

Whether you are a Global Director of Talent Mobility or a Director/Manager of HR, if you are making decisions on what comes next for your relocation program, you should be asking yourself the following questions:

- What is your current gross-up policy for relocation benefits, and how should that be updated considering this new ruling?
- Will you treat employees in the middle of their relocation with the level of support from when they accepted the role, or follow the new benefit approach?
- What program eligibility does your organization want to put in place now that the IRS rules are suspended?
- What stakeholders in your organization need to be made aware of any updates (i.e. Payroll, HR, transferring employees, etc.)?
- Do you need to change wording in your policy guides, benefit summaries, or on your HR site?
- If you offer a taxable lump sum policy with one or more tiers, will the employee be able to get direct bill of any mover costs? Do any of the lump sum amounts need to be increased to account for the additional taxes?

TAX GROSS-UP ASSISTANCE

Global mobility program directors will need to decide if moving expenses will be grossed-up moving forward, or if they will place the additional tax burden on the employee. It's important to consider the implications in not offering gross-up as this could impact your employee's decision to relocate.

Tax gross-up is an approach where an employer “marks up” an employee's gross pay. This is done to alleviate some of the tax burdens for a portion of the employee's income.

It is important that you take a look at the financial impact on your organization when giving employees tax gross-up on their moving expenses. Talk to your accounting/payroll department to find out how much was spent in prior years and use that to estimate gross-up costs and adjust your budget accordingly.

Communication is the most important step moving forward. While offering gross-up assistance will ultimately help you in acquiring and/or retaining your top talent, it is essential your employees know not only how gross-up assistance will impact their income and taxes at the end of the year, but also know how all areas of the TCJA will impact them.

For questions regarding the Tax Cuts and Jobs Act and its impact on your global mobility program, please contact WHR Global at 800-523-3318 or contactus@whrg.com