



Relocation Home Sale Programs

The Tax Cuts and Jobs Act passed on December 22, 2017, eliminating tax-protected status for many relocation-related benefits. Thankfully, tax-protected home sale programs were not affected. A properly designed and executed home sale program can save an employer hundreds of thousands of dollars annually by negating taxable reimbursements to employees.

How does it work?

Home sale programs eliminate the need for tax assistance (gross-up) by avoiding taxable reimbursements of commissions and other home sale closing costs. The home sale program creates two separate transactions: one where the transferee sells their home to a relocation management company (RMC), and the other where the RMC sells the home to an outside buyer.

With the right plan in place, the first transaction takes place without incurring commissions or other closing costs—the end result is that such costs are not taxable to the employee. All commissions and closing costs are incurred during the second transaction, which are classified as an ordinary business expense to the employer, thus avoiding the need for costly gross-up.

How much can I save?

Using a home value of \$300,000 for example, an employer can save over \$15,000 per home sale—which can really add up over the life of your program.

Example: Typical Home Sale Costs

Sale Price	\$ 300,000	
Commission	6%	
Closing Costs	2%	
Tax Gross-Up Percentage		55.40%

No Homesale Program

Commission	\$ 18,000	
Closing Costs	\$ 6,000	
Total Expenses	\$ 24,000	
Total Taxable Income to EE	\$ 24,000	
Estimated Tax Assistance	\$ 13,296	35.6%
Total Company Expense	\$ 37,296	

BVO Homesale Program

Commission	\$ 18,000	
Closing Costs	\$ 6,000	
Total Expenses	\$ 24,000	
Total Taxable Income to EE	\$ 0	
Estimated Tax Assistance	\$ 0	0.0%
Total Company Expense	\$ 24,000	

Total Savings

Company Savings per Home	\$ 13,296
Annual Homes Reimbursed	20
Total Company Savings	\$ 265,920

Buyer-Value Option (BVO)

The most common type of tax-protected home sale program is the buyer-value option, or BVO. The BVO provides a corporation all the tax savings with limited risk. In a BVO, the employee markets their home supported by an RMC and a qualified real estate broker. An independent, third-party buyer is identified during the marketing period, at which point the RMC buys the home from the transferee at the price offered by the third-party buyer. The listing agreement between the transferee and the broker includes an exclusion clause, effectively eliminating commission. Once the RMC has purchased the transferee's home, a sales contract is executed with the original third-party buyer, and the home is sold to them. Commissions and closing costs paid become business expenses to the employer. Ideally, there should not be a gain or loss on the price of the home.

Guaranteed Buyout, Appraised Value Option (GBO, AVO)

The Guaranteed Buyout Appraised Value Option—also known as GBO or AVO—is another tax-

protected home sale program. What sets GBO programs apart from BVO programs is that the initial marketing period is shorter—typically just 90 days. Over the course of this three-month period, the RMC arranges for property inspections and appraisals.

If a buyer is not found during the marketing period, the RMC buys the house from the transferee at a price equal to the average of two appraisals. Using this program your employee can get to their new work location quickly—and with limited loss of productivity.

Fixed Fee = Risk Free

Employer home sale programs are usually handled on a cost-plus basis, where the employer assumes all costs and risk. If your organization has a low tolerance for risk, HomeServices Relocation (HSR) offers a fixed fee option. Employers are charged a fixed percentage of the home's value for HSR to handle the transaction, and any costs incurred outside of the fixed fee become HSR's responsibility.

The 11 Key Elements of Tax Protection

No matter if you're pursuing a BVO or a GBO program, it's critical that each one is properly constructed and executed so your tax savings are not jeopardized in an IRS audit. We recommend you work with an RMC like HomeServices Relocation, who is well-versed in the intricacies of this kind of home taxation and will ensure that the 11 Key Elements set forth by Worldwide ERC are followed to the letter so your tax savings are protected.