HomeServices Relocation
A Berkshire Hathaway Affiliate

Employee Relocation Tax and The Road Ahead

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TruePartner®

Industry Insights from HomeServices Relocation

The Relocation Industry's Most Trusted Partner®

The Tax Cuts and Jobs Act: Sunset or Reinstate?

The Tax Cuts and Jobs Act (TCJA), enacted in 2017, brought significant changes to the U.S. tax landscape, impacting various sectors of the economy, including the relocation industry

The TCJA introduced several key changes, such as adjustments to individual and corporate tax rates, modifications to deductions, and alterations in international tax policies. These changes had significant impact on shaping relocation policy decisions and strategies.

The most significant impact on the relocation industry was the elimination of moving expense deductions. Prior to 2018, qualified household goods moving expenses were not treated as income to a relocating employee and therefore not taxable.

The Tax Cuts and Jobs Act took effect on January 1, 2018, and is scheduled to sunset in December 2025. It suspended this exclusion and now requires employers to include moving related expenses as taxable income in employees' wages. It does not matter if an employer chooses to provide a lump sum payment, a reimbursement to the employee, or make a payment directly to a moving company or relocation management company. The expenses are taxable to the employee.

Understanding the effects of the Tax Cuts and Jobs Act sunset provision in 2025 is vital for informing employee relocation programs, as changes in tax policy can significantly influence corporate decisions regarding workforce mobility, investment strategies, and talent recruitment efforts.

The sunset provision and its impact on the relocation industry

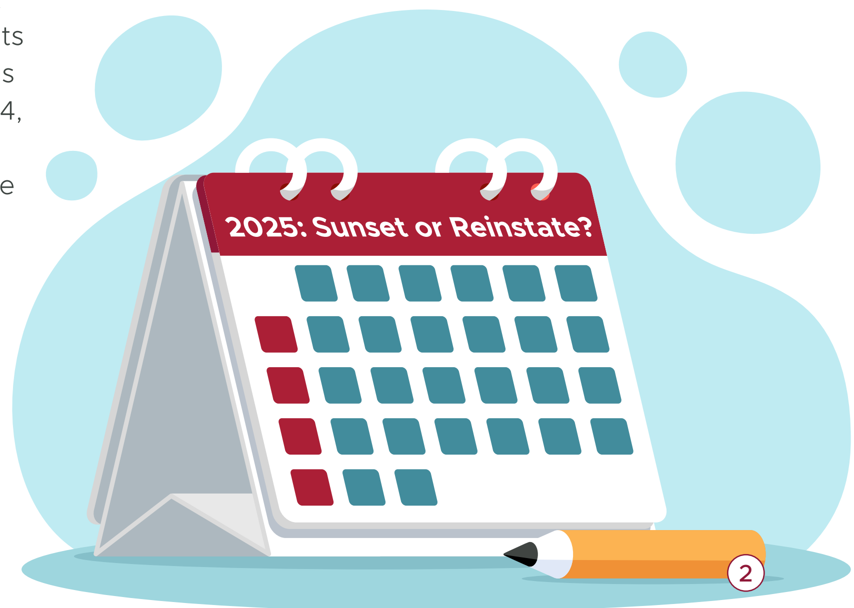
With the TCJA sunset provision looming in 2025, there is growing uncertainty about how the industry will be affected. Without Congressional action, 23 different provisions of the 2017 TCJA are set to expire after 2025, including taxable employer paid moving expenses for relocating employees. If no new laws are enacted, the taxable nature of these expenses will revert to pre-2018 status—which means paid relocation expenses would no longer be classified as ordinary income.

The Worldwide Employee Relocation Council (WERC®), the governing association for the global mobility industry, and the Moving & Storage Conference of the American Trucking Association (ATA), along with the International Association of Movers (IAM) have formed a formal effort, the *Relocation Mobility Coalition*[1] which is advocating for the reinstatement of the moving tax deduction. The Coalition seeks to collect pertinent data and provide outreach tools for the mobility industry to show support for reinstating tax deductions for relocating employees.

At this point, the road ahead is unclear. In February 2023, House Republicans reintroduced the TCJA Permanency Act which would extend the Tax Cuts and Jobs Act beyond December 2025. While it is unlikely that Congress will take any action in 2024, if the TCJA is renewed or made permanent in 2025, then employers will be required to continue including moving related expenses in their employees' wages. House Republicans oppose the renewal of the TCJA.

According to IRS guidelines, the following moving and relocation expenses are considered taxable to the employee:

- Transportation of household goods
- Packing household goods
- Storing and insuring household goods
- Driving or shipping automobiles
- Travel expenses, such as airfare, for employee and members of the household
- En route meal costs
- Groceries (up to 30 days)
- Temporary housing
- Unexpired lease settlement
- En route lodging
- Disconnecting/connecting utilities
- Pet transport
- Passport expenses
- Cultural training
- House-hunting trips



[1]https://www.worldwideerc.org/news/public-policy/werc-advocates-for-moving-tax-deduction-reinstatement

The TCJA influence on employer-sponsored relocation decisions and practices

The tax shift imposed by the TCJA has altered the dynamics of employee relocations for both employers and employees. Smaller relocation budgets, higher out-of-pocket costs for employees and a competitive job market have prompted many employers to provide a gross-up on their moving-related cost expenses to cover the additional taxes incurred by the employee. Although the gross-up calculation solves employee relocation tax issues, it creates additional administrative burdens for HR teams and additional cost for employers seeking to fill open positions or grow their company.

Gross-Up Variable	Administrative Requirement
Tax Regulation	Keeping up with constantly changing tax laws and regulations can be challenging. Tax laws vary not only between countries but also within regions or states.
Data Accuracy	Ensuring the accuracy of employee data, including salary information, tax rates, and deductions, is crucial for calculating the correct gross-up amounts.
Calculations	Calculating gross-up amounts involves intricate calculations that take into account factors such as income tax rates, withholding taxes, and social security contributions.
Compliance	Ensuring compliance with tax laws and regulations is paramount to avoid penalties and legal issues. HR teams need to stay updated on compliance requirements and ensure that all tax obligations are met for both the employer and the employee.
Reporting	HR teams may be required to generate various reports related to tax gross-up payments for internal accounting purposes or to comply with regulatory requirements.
Audit Trail	Maintaining a clear audit trail of all tax gross-up calculations and payments are important for accountability and transparency.
Cost Management	Tax gross-up payments need to be carefully managed while still ensuring that employees are fairly compensated for tax liabilities associated with their relocation.

Shortly after the TCJA took effect, Worldwide ERC® conducted a member survey regarding the number of organizations implementing relocation program/policy changes as a result of the new tax laws.[2] The survey responses suggest that the industry is adapting to changes, with most companies continuing to move employees and gross them up for taxable costs but adjusting to some extent either the number of relocations or the scope of benefits to maintain control of costs.

	POLICY CHANGE	
	YES	NO
Distance duration, or time requirements:	12%	30%
HHG shipments:	71%	21%
Duplicate housing support:	12%	25%
Mortgage assistance:	6%	25%

[2]https://www.worldwideerc.org/news/public-policy/policy-changes-resulting-from-the-tax-cuts-and-jobs-act

The role of Relocation Management Companies in managing gross-up calculations

Relocation Management Companies (RMCs) can be a great resource in ensuring your relocation policy keeps pace with market fluctuations, technology and business regulations. HomeServices Relocation helps HR departments by providing expertise and support in navigating the complexities of relocation-related tax regulations.

As relocation services have become more complex, few in-house personnel are experts on all facets. Consequently, outsourcing relocation has become critical as companies look for ways to reduce costs while maintaining a competitive edge to attract key talent.

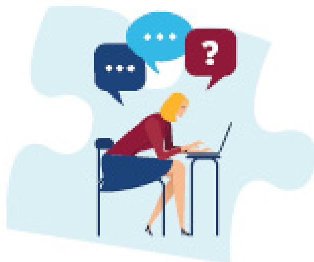
HomeServices Relocation routinely provides benchmarking and policy recommendations to our clients resulting in tangible program improvements and cost savings. We have witnessed the impact of these service enhancements and savings year after year as our recommendations were fully implemented.

Beyond the numbers: HSR's strategic approach to gross-up calculations

- Calculate tax gross-up amounts accurately, considering the employee's income tax bracket and tax laws of all locations.
- Develop relocation policies that include provisions for tax gross-up, ensuring consistency and fairness across relocations.
- Keep HR departments informed about changes in tax laws and regulations.
- Assist HR departments in estimating the cost of tax gross-up for budgeting.
- Help communicate tax-related information to employees clearly and effectively
- Maintain accurate records and reports related to tax gross-up benefits.

Gross-up strategies play a crucial role in the competition for talent by ensuring a well-managed relocation program and positive employee experience

Eliminate Administrative Burden



Control Costs

Reduce Tax Impact

Sunset: Outcomes and Challenges

If the TCJA sunsets, the tax classification for an employee's moving expenses would revert to pre-2018 rules. This means that employers would no longer need to gross-up moving costs and other relocation related expenses (costs incurred by the employee during their final trip to destination).

These outcomes and challenges highlight the implications of TCJA sunset on the relocation industry, emphasizing the need for proactive planning, policy advocacy, and strategic adaptation to navigate potential challenges and opportunities.

OUTCOMES

Increased Employee Mobility
With moving expense deductions reinstated, employees might be more willing to relocate, boosting demand for relocation services and benefiting moving companies.

Cost Management for Employers
Employers currently covering non-deductible moving expenses might see reduced relocation costs, making relocation packages more affordable, encouraging more employee transfers.

Simplified Tax Reporting
The reintroduction of moving expense deductions would simplify tax reporting for both employees and employers, reducing administrative burdens and compliance costs.

CHALLENGES

Adjustment Period
There might be a period of adjustment as employers and employees transition back to the old rules. Companies will need to update their relocation policies and communicate changes to their workforce.

Varied State Responses
While federal tax treatment would revert, state responses might vary, leading to potential discrepancies and complexities in tax reporting and compliance.

Regulatory Compliance
Post-TCJA tax reforms could introduce new compliance requirements or reporting obligations for businesses in the relocation sector, adding complexity to operations.

Reinstate: Outcomes and Challenges

If the TCJA is reinstated, the current rules will continue, where moving expenses are not deductible for most employees. Employers who wish to cover these costs must classify the expense as taxable ordinary income to the employee.

These outcomes and challenges highlight the potential implications of retaining the Tax Cuts and Jobs Act beyond 2025 on the relocation industry, highlighting the balance between stability, benefits, and potential challenges that stakeholders in the industry may face.

OUTCOMES

Higher Relocation Costs
Without moving expense deductions, employees may face higher costs. Employers might need to increase relocation allowances or offer gross-up payments, raising overall relocation costs.

Decrease in Relocations
The added financial burden on employees may reduce willingness to relocate, decreasing demand for moving services and negatively impacting the mobility industry.

Enhanced Employer Support
Employers might enhance relocation packages by offering more comprehensive assistance, covering more expenses, and providing financial planning services to offset the lack of tax deductions.

CHALLENGES

Complex Compensation Planning
Employers will need to carefully plan and structure relocation packages to remain competitive while managing costs. This may involve more complex compensation strategies and financial planning.

Employee Reluctance
Employees may be more reluctant to relocate due to the financial implications, making it harder for businesses to fill positions that require relocation. This could impact talent mobility and organizational growth.

Potential for Policy Stagnation
The absence of a sunset provision might discourage policymakers from revisiting or updating tax policies related to relocation, resulting in a lack of responsiveness to evolving industry needs.

Recognizing tax changes that affect your bottom line

A side effect of TCJA is increased awareness of how the relocation industry generates revenue. For decades it has been a common practice for a relocation management company (RMC) to, in some form or fashion, earn a "commission" or "rebate" paid by the moving company to their organization. Another tactic commonly employed is to not pass along the full discount negotiated with moving companies and other suppliers. These commissions are paid from the carrier to the RMC as rebates after the fact, with the commission amount embedded in the total invoice billed to the employer. The commission is part of the overall fee structure the client pays to the RMC for outsourcing the mobility function.

Fees paid to RMCs for services are not considered taxable income to the employee but are treated as business expenses. As a business expense, fees are not subject to gross-up, saving the employer additional tax assistance expenses. Unfortunately, with HHG expenses now taxable, the portion of the invoice which represents the fee is also now taxable, unnecessarily increasing gross-up expenses for the employer.

In 2018, HomeServices Relocation implemented invoicing process changes to reclassify commission rebates earned on taxable items as fees, affecting household goods, storage, auto shipment, temporary lodging, and family assistance. By classifying these rebates as fees, we can reduce the taxable amount imputed to the transferee, reducing gross-up expenses to the employer. Savings are projected at over $1M per year across our entire client base. We are leading the industry in this regard and first to market with advising clients of this cost-saving opportunity.

HomeServices Relocation is unique in the mobility industry in that, other than for real estate and mortgage, no revenue is received from any of our providers. This ensures that our clients get the lowest overall cost and that our clients avoid paying unnecessary gross ups due to inflated pass-through costs. Our TruePartner® pricing program ensures unbiased procurement decisions that align with relocation program goals for cost and service.

In the comparison table below, we can see that including the RMC commission amount in the gross HHG charge increases the overall expense to the employer due to the need to gross-up the entire amount.

Example Pricing

	Pre-2018 Model	2018 Model	Commission as Fee Model
HHG Transportation Charges	$10,000.00	$10,000.00	$9,400.00
Commission Amount	-	-	$600.00
HHG Total Invoice Amount-Carrier	$10,000.00	$10,000.00	$10,000.00
Gross-Up Rate	-	50%	50%
Gross-Up Amount	$0.00	$5,000.00	$4,700.00
Total Expense to Employer	**$10,000.00**	**$15,000.00**	**$14,700.00**
Rebate to RMC	**$600.00**	**$600.00**	**$600.00**

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