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#relosolutions

So, why don’t you have a BVO Program?

Here we are, almost 20 years into the 21st century and you still don’t offer a BVO program for your employees. Why not? As a refresher, the BVO or Buyer-Value-Option program offers employers a methodology to alleviate the burden of home selling expenses for their relocating homeowners. Assuming a $300,000 home, selling expenses can run $24,000 on average. A real expense for transferees and often the largest single expense they consider when pondering the relocation question.

Tax free benefit

Through a BVO program, employers can take advantage of the last tax free benefit available under current IRS regulations. The BVO program is simple in theory, after a buyer is found through normal marketing efforts, break the sale transaction into two transactions.

1. Employee sells their home to a Relocation Management Company (RMC) at the price offered by the third-party buyer. This sale is without commission and avoids most closing costs
2. RMC sells to the third-party buyer. All selling costs are incurred on the second sale.

The beauty of the BVO process is there are no expenses incurred on the first sale. No expenses to the employee, no reimbursement required. No reimbursement, no income and no taxes to gross-up. Assuming a 50% gross-up rate, the BVO program will save the employer $12,000 in the example above.

If companies can save so much on their home sale programs, why are some still not offering a BVO?

Home Sale benefits are too expensive?

If this is your company’s rationale for staying out of the BVO game, there is not much I can do to help you. In cases with limited budgets, excluding home sale benefits is one way to keep costs down. Tightening labor markets and increase reluctance to move may have you thinking twice about this one. Is your recruiting percentage where you want it to be? Are you retaining employees who need to be transferred? Or are they jumping ship?

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In some cases, employers have addressed the cost issue by limiting home sale benefit categories or capping overall dollars allowed. This is potentially the worst possible approach. Once the employee is required to bear even a dollar of the home sale expense, any reimbursements made after that is taxable. Remember, the tax-free nature of the BVO program results from having two transactions, in which no expenses are incurred on the first transaction. If you are reimbursing the employee for costs, that means expenses were incurred by the employee and reimbursements are therefore taxable. For example, the program may allow for reimbursement of commissions only, with the intention of saving the costs of reimbursing other transfer costs. Assuming 6% commission, this approach would cost the employer $18,000 for commissions, and then another $9,000 for gross-up or $27,000 total. That's $3,000 MORE than if the employer handled all expenses through a BVO program. To add insult to injury, the extra money goes to Uncle Sam, not your valued associate.

If you are wanting to cap overall expenses, consider making the BVO home sale benefit the first amount taken out of the cap. Since it is tax free, your dollars go a lot further. For example, $24,000 spent on household goods, temp lodging, etc. really costs you $36,000 after gross-up while $24,000 spend on BVO benefits ultimately costs … $24,000.

BVO's are too risky?

Some employers still cling to the belief that BVO programs are risky. They remember that one "fall-out" horror story where a property ended up in inventory and incurred thousands of dollars more in carry costs and loss-on-sale. While fall-outs are a risk with any BVO program, it is a risk that is easily quantified and understood. Historically, fall-out rates run about 2%. That is, for every one-hundred BVO home sales, two will not close with the original third-party buyer. At that point, the RMC owns the home and must work to find a new buyer. Additional costs will be incurred. But the impact of those additional costs can be quantified and when compared to overall BVO program savings, is still well worth it.

Let's go through an example, assuming our $300,000 home from above. Normally, BVO costs on that home would be $24,000 (and a tax savings of $12,000). What additional costs are incurred if it falls out? First, are carry costs. Recurring expenses like: cost of funds, property taxes, insurance, utilities, maintenance and lawn and pool care all comprise carry costs. These costs run about .5% of the home's value each month, or $1.500/month in our example. Because of these costs, it is important to avoid carrying the home for a long period of time. The RMC may need to lower the asking price to get a quick sale, let's assume a 5% or $15,000 reduction. If it takes another 90 days to sell the home, the fall incurs additional costs totaling $19,500, eating up all of the $12,000 savings and then some. But you'll notice that if we sell a second home in our BVO program, we've now saved $24,000 and we are back in the black. That means in order for the fall-out risk to outweigh our BVO savings, the fall-out rate would have to

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be more than 50%! Not only unlikely, but unprecedented. Even in 2008/2009, some of the worst years on record, industry fall-out rates only went to 3%. And in good markets like we have today, the rate is even less. HSR's fall-out rate for the last 12 months is less than 1%.

We are not in the home ownership business, even 2% is too much of a risk?

The good news about this argument is that if you work with the right RMC, you can avoid all risk and still get some of the advantages of a BVO program. Some RMC's (like HSR) offer "fixed-fee" home sale programs. For slightly higher selling costs, the RMC will take on all costs and risks of sale. You still get most of the savings, provide your employee with an awesome benefit and get professional management of your home sale program.

So what are you waiting for?

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