RELOCATION COORDINATES INTERNATIONAL

Tax Cuts and Jobs Act :

Mobility Industry 2018 Summer Tax Update

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Tax Cuts and Jobs Act (TCJA) | Effects on the Mobile Industry for the 2018 Tax Year

The most significant implication to the mobility industry from the Tax Cuts and Jobs Act (TCJA) is the impact on moving expenses. Moving expenses which were previously excluded from reporting as taxable wages, if they met certain IRS criteria, are now considered taxable. This means that the excludable reimbursement of moving expenses to the employee or payment to a third party provider on behalf of the employee will be now be included in the employee's federal taxable wages as of January 1, 2018. Furthermore, the criteria for determining whether the expense could be considered qualified and non-taxable under the old tax law prior to 2018 (50 mile rule and employee must work a minimum of 39 weeks in the 12 months following the physical move), no longer applies.

The qualified moving expenses which are now taxable include:

- Shipment of household goods (including autos and pets)
- 1st 30 days of storage
- Final move expenses

Companies need to decide which tax treatment to apply to these expenses since they are now taxable. The mobility industry's best and most common practice is to gross up the expense. There are two primary gross up methods for consideration. The Flat Method, the least expensive option, tax protects the expense only which means the employee will be subject to the taxes associated with the gross up amount. The second and more expensive option is the Inverse Method which tax protects both the expense as well as the gross up amount.

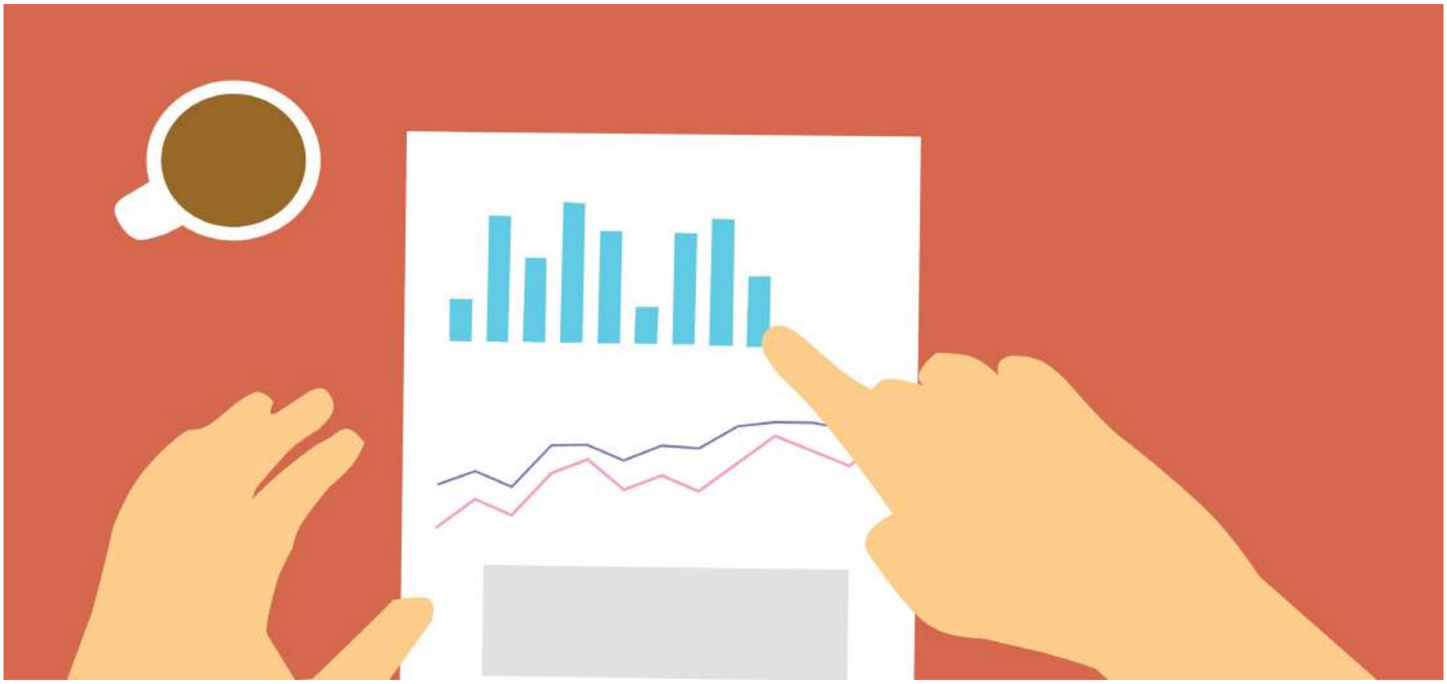
Depending on which method is utilized, and whether state taxes apply, gross up costs can add approximately 40% to 65% in additional cost to the organization.

If the company chooses to forgo grossing up the expense, taxes must be withheld from the employee's expense reimbursement. In situations where a third party invoice is direct billed to the company for services rendered on the employee's behalf, the applicable taxes must be withheld from the employee's future paycheck.

While all relocation expenses are now taxable, the IRS still permits companies to deduct relocation costs as a business expense, so employers may pay more, but they will continue to reap the tax benefits.

State Tax Implications

There are nine states that do not impose state personal income tax which means the moving expenses for these states are only subject to federal taxes. The states that fall into this category are Alaska, Florida, New Hampshire, Nevada, South Dakota, Tennessee, Texas, Washington and Wyoming.



In addition, there are 15 states as of July 2018 that have chosen not to conform to the present federal tax laws. This means that the moving expenses in these States are not considered taxable and it is allowable for a moving expense deduction or exclusion to occur.

These states include Arkansas, Arizona, California, Hawaii, Iowa, Kentucky, Massachusetts, Maine, Minnesota, New York, New Jersey, Pennsylvania, South Carolina, Vermont and Virginia.

The states who have chosen not to conform with federal tax law have created some challenges for companies whose payroll systems may not have the capacity to apply non-conforming states' tax decisions for these expenses when computing tax withholdings or gross up amounts. This may result in over withholding or grossing up expenses which is unavoidable.

If the company is treating moving expenses as taxable for both federal and state purposes in all situations, we suggest performing a yearend "true-up" process in order to report reimbursed moving expenses in accordance with the differing state laws – manual adjustments may occur, but this process could save the company significant tax costs.

International Relocations

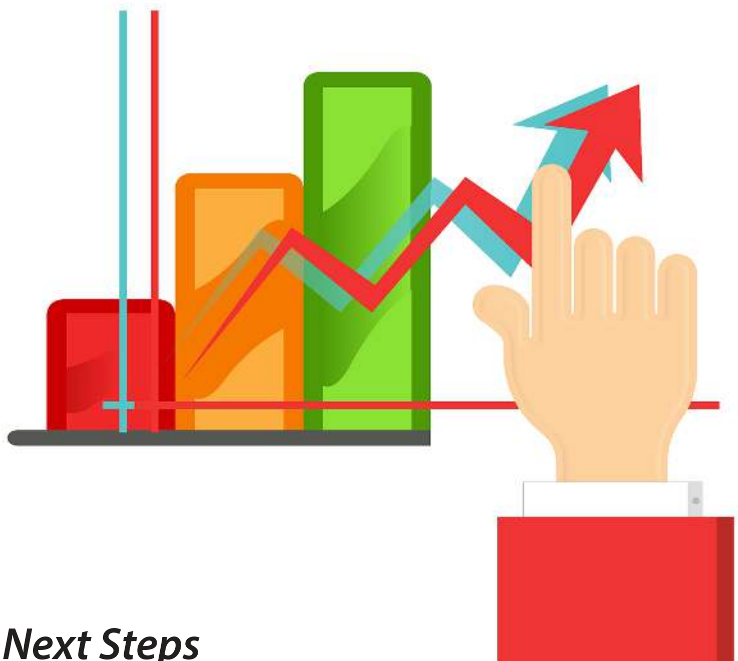
The Tax Cuts and Jobs Act also affects international assignments that involve the U.S. as either the host or home country. The elimination of the moving expense deduction will increase corporate gross up costs or require employees to absorb the financial impact through tax withholding on their expense reimbursement or paycheck for expenses which are direct billed. Since long-term assignments typically involve the shipment of household goods, the new law will likely present a double hit. First at the beginning of the assignment and then again upon repatriation.

For employees whose assignments were initiated prior to 2018, we recommend that companies review and update their costs estimates and accruals which were prepared under the prior tax law regulations.

Another example of how the new tax law may impact corporate assignment costs is when companies choose to tax equalize assignee benefits and utilize a hypothetical tax deduction. This increased costs is due to the inverse relationship between the hypothetical tax rate and the assignment expenditures.

High Cost of Living Areas and Executive Relocations

Employees moving to areas that have a high cost of living as well as executives who intend to purchase expensive homes will face two challenges. First, mortgage interest is deductible up to $750,000. This threshold is down from the previous amount of $1,000,000. Second, previously uncapped state, local and property tax deductions are now capped with a combined limit of $10,000. These deduction limitations may create a deterrent for employment candidates willing to accept the relocation as well as a financial burden for those who choose to accept the offer to move.



Next Steps

It is our recommendation that employment candidates clearly understand the impact the Tax Cuts and Jobs Act may have on their relocation benefits as well as the possibility that additional gross up costs may push them into a higher overall tax bracket. Relocation policies should clearly define how moving expenses will be handled.

In an attempt to make the relocation as simple as possible to communicate and ensure there are no misunderstandings regarding tax treatment, companies may wish to consider lowering the benefit amount and grossing up expenses versus offering a higher amount and withholding taxes. It is our experience that the first option is viewed more positively resulting in a better employee experience.