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Tax: Reducing the Cost of Employer-Reimbursed Moves

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Tax

Reducing the Cost of Employer-Reimbursed Moves

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When a company desires to relocate an executive and his/her family, it often agrees to compensate the executive for the costs connected with the move. In certain circumstances, the company will agree to compensate the executive for any tax impact of the reimbursed moving expenses. It is in these circumstances, when the employer has committed to making the executive "whole", that planning opportunities exist.

Although the tax treatment of moving expenses has been an area of some controversy and flux, the Tax Reform Act of 1969 provided some much needed clarity. TRA added Section 82 which specifically provides that an individual will include in gross income any amounts received directly, or indirectly, as a payment for, or reimbursement of, moving expenses. Section 217 was amended to permit the employee to deduct reimbursed moving expenses within certain limits. As a result of these developments, the executive who receives reimbursement of moving expenses often must include in gross income (pursuant to Section 82) more than can be deducted from gross income under Section 217. This "excess income" typically arises in two areas; pre-move house hunting and temporary lodging (deduction limited to $1,500) and expenses connected to a residence (deduction limited to $1,500 plus unused limitation above).

The most significant problem is in the area of qualified housing expenses. With the recent inflation in the housing market, it is not uncommon for commissions and other expenses of sale for an executive's house to exceed $15,000. If an employer has committed to "tax protecting" an executive, it can be an expensive undertaking.

Table 1 illustrates that a company will incur total costs of $26,500 to reimburse an executive for moving costs of $14,000 plus taxes thereon.

In true entrepreneurial fashion, someone has turned this problem into an opportunity and created a method for reducing this out-of-pocket cost. This saving is created by converting certain expenditures by the company from reimbursements of moving expense to trade or business expenses, which are not includible in gross income of the employee. This technique is discussed extensively in PLR 8244032, 8230071, 8134089 as well as others.

Under the new technique, rather than reimburse the employee for sales commissions and other transfer costs, the employer engages a relocation service. This relocation service purchases the house from the employee. The relocation service is paid a fee from the employer to cover the costs of selling the house and aiding the executive in the move. This fee is often one percent to two percent over the costs the company might normally reimburse. Although the relocation company's fee may exceed the costs which might be incurred by the company directly, the total cost of moving the executive decreases.

Table 2 shows, using the same situation, a total cost to the company of $15,750 as compared with the $26,500 under the reimbursement method.

Table 1
Company Reimburses Executive

Sales Commission Reimbursed (7% x $175,000)	$12,250
Other Closing Costs	1,750
Total Moving Costs	$14,000
Less: Amount Deductible	1,500
Amount Taxable to Executive	$12,500
Bonus Paid by Company to Cover Tax	$12,500
Less: Tax on above Bonus	6,250
Less: Tax on Moving Expense: Reimbursement Less Deductible	6,250
Net Cost of Tax to Employee After Receipt of Bonus	—0—
Total Cost of Move to Company:	
Moving Costs	$14,000
Tax Reimbursement	12,500
	$26,500

Table 2
Company Uses Relocation Service

Relocation Service Fee (9% x $175,000)	$15,750
Amount Taxable to Employee	—0—
Tax Reimbursement by Company	—0—
Total Cost to Company	$15,750

For companies that incur substantial expenses in relocating executives, these techniques can yield significant savings. The relocation service companies may also reduce some of the difficulties incurred in relocating executives by interposing a "disinterested" third party between the employer and the executive.

Caution: Since this technique has not been sanctioned in any published revenue rulings or cases, companies interested in adopting this type of policy should consider obtaining their own ruling. Ω

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LETTERS

Dear Editor:

I appreciated your column in the July issue of The Woman CPA. You made your point very effectively. I would just like to drop you a line regarding the views of a typical reader.

What The Woman CPA needs is a little *zing*. Any periodical must be responsive to its readers — it must market to its readers' interests. What is the natural constituency of The Woman CPA? If The Woman CPA wants to build leadership and appeal to the interests of their natural readership, it needs to print articles that are less technical and of more general interest to women professionals. I can read the Journal of Accountancy whenever I want to bone up on technical subjects (good reading for when I wake up at 3 a.m. and cannot get back to sleep.) I really see The Woman CPA's "market position" as a niche between Savvy magazine, Business Week, and Harvard Business Review. I want to know about things such as:

- How do I as a woman professional break into the "old boys" lunch crowd?
- How do I handle a male subordinate who wants my job and resents me?
- How do I handle a professional peer who is sabotaging me?
- How do I develop my practice? The male route of country club memberships and golf games doesn't seem right for me.
- How should I dress? Must I abide strictly by John Molloy's rules?

The Woman CPA is the voice of AWSCPA and ASWA and could be a very effective tool in building membership. The prospective member considers whether to pay dues to AWSCPA and to ASWA based on the benefit to herself not on the general principle of an obligation to support women's organizations. The Woman CPA is the principle means of delivering "benefit" to a member.

If we're going to spend dues money on producing a periodical, let's do it right! Have we considered hiring a professional editor? I don't think we can expect the kind of publication I think we need from anyone who does the job on a volunteer basis on top of a full-time job. It's expecting the impossible.

This has been a real stream-of-consciousness letter. I hope I have not offended anyone in expressing my views. We both want the same thing — to help other women professionals succeed.

Melanie Walkup, CPA
Chicago, Illinois

The **Editor** invites your comments and answers to the questions posed in the above letter.