

ineo

Relocation Tax Issues & Answers

Rob Giese, CRP

Vice President / Partner
Ineo Relocation Technologies



What Transferees are Asking

- **What happened to my income?**
- **Are there any special forms I have to fill out when filing my tax return?**
- **How come I owe so much this year?**
- **Why are my tax preparer's calculations different from yours?**
- **Where can I find the household goods amounts to take as a deduction?**
- **Do I have to file a return in my old state?**
- **Can I deduct the mileage for my trip to Disney on my way to Minnesota?**

Ineo Relocation Technologies

Long vs Short Term Assignments

Long Term

- Over 12 Months
- Follow Relocation Taxability Guidelines
- Defined at Beginning of Move

Short Term

- Less than 12 Months
- Business Expense
- Defined at Beginning of Move
- Can become Long Term/Taxable if not Clearly Defined Extensions

Ineo Relocation Technologies

Current Law

Qualified Move

- Distance Test
- Time Test

Intent

- Permanent Move

Non-Qualified Move

- Taxable
 - ❖ Household Goods
 - ❖ Final Move



Publication 521

Ineo Relocation Technologies

Expense Classification

Non-Reportable

- Non-Income Related
- 3rd Party Van Lines
- 3rd Party Final Moves
- Payroll Reports Amounts When Filing IRS Form 940/941

Excludable

- Non-Income Related
- Paid to EE Van Lines
- Paid to EE Final Move
- Payroll Reports on W-2, Box 12 P and IRS Form 940/941

Meals are **ALWAYS** Taxable

Ineo Relocation Technologies

Expense Classification

Deductible

- Mortgage Points
- Mortgage Interest
- MIDA / Mortgage Subsidy
- Real Estate Taxes
- ALWAYS Taxable for FICA
- Non-deductible in CT, IL, IN, MA, MI, NJ, OH, PA, WI* & WV

* A 5% credit is available

Ineo Relocation Technologies

Expense Classification

Taxable

- Storage > 30 Days
- Meals
- Househunting
- Temporary Living
- Closing Costs
- Misc. Allowance
- Other Allowances
- Lump Sums
- Unreceipted Sums
- Home Sales that don't follow ERC 11 Steps
- Tax Assistance

Payroll reports on W-2 boxes 1, 3, 5, 16 & 18

Ineo Relocation Technologies

Withholding vs Gross-up

Withholding

- Required At Time Of Payment
- Reduces Gross Payment
- All Taxes Are Due
- Specific Withholding Guidelines

Tax Assistance

- Not A Requirement
- Benefit To Employee
- Increases Net Payment
- Treated Like A Lump Sum
- No Restrictions On Calculations

Ineo Relocation Technologies

Taxes

FICA

- OASDI (Social Security)
 - ❖ 6.2%
 - ❖ Stops at \$87,900 of Income for 2004
- Medicare
 - ❖ 1.45%
 - ❖ No Cap

Ineo Relocation Technologies

Taxes

Rates

- Supplemental
 - ❖ Federal 25%
 - ❖ States Set by State
- Marginal
 - ❖ Tax Schedules
 - ❖ Marital Status
 - ❖ Taxable Income
- Flat
 - ❖ Arbitrary Rate

Ineo Relocation Technologies

Gross-up and Withholding

No Gross-up Assistance

Gross Payment	\$1,000
Withholding (25% x \$1,000)	<u>(\$ 250)</u>
Net Payment to Employee	\$ 750

Assumes an Expense of \$1,000 is Being Processed

Ineo Relocation Technologies

Gross-up and Withholding

Flat Rate Gross-up

Expense Amount	\$1,000
Tax Assistance (20% x \$1,000)	<u>\$ 200</u>
Gross Payment	\$1,200
Withholding (25% x \$1,000)	<u>(\$ 300)</u>
Net Payment to Employee	\$ 900

Ineo Relocation Technologies

Gross-up and Withholding

Inverse Rate Gross-up

Expense Amount	\$1,000
Tax Assistance (33.33% x \$1,000)	\$ 333
Gross Payment	\$1,333
Withholding (25% x \$1,333)	(\$ 333)
Net Payment to Employee	\$1,000

Works for Supplemental and Marginal Rates

Inverse Rate Formula $(1/(1 - rate))-1$

Ineo Relocation Technologies

Reporting of Taxation

Form 3903
Schedule A
Form 1040
Relocation Tax Report

a. Control number 22222		For Official Use Only OMB No. 1545-0048	
b. Employer identification number		1. Wages, tips, other compensation	2. Federal income tax withheld
c. Employer's name, address, and ZIP code		3. Social security wages	4. Social security tax withheld
d. Employer's social security number		5. Medicare wages and tips	6. Medicare tax withheld
e. Employer's first name and initial		7. Social security tips	8. Allocated tips
f. Employer's address and ZIP code		9. Advance EIC payment	10. Dependent care benefits
15. State		11. Rerouffed plans	12a. See instructions for box 12
16. State wages, tips, etc.		12. 2003	12b. <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
17. State income tax		13. Local wages, tips, etc.	13a. <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
18. Local wages, tips, etc.		14. Other	13b. <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
19. Local income tax		20. Locality name	

W-2 Wage and Tax Statement 991
 Form 991
 Copy A For Social Security Administration—Send this entire page with Form W-2 to the Social Security Administration (photocopies are not acceptable).
 2003
 Department of the Treasury—Internal Revenue Service
 For Privacy Act and Paperwork Reduction Act Notices, see separate instructions.
 Cat. No. 10730D

Ineo Relocation Technologies

Tax Law Changes: JGTRRA

Jobs & Growth Tax Relief Reconciliation Act

- Originally Slated to Begin 2010
- Federal Tax Brackets Expanded
- Supplemental Rate lowered to 25%
- Standard Deductions Increased
- Child Tax Credit increased to \$1,000
- Start to Phase out in 2005
- Phase Back in 2007 through 2010

Ineo Relocation Technologies

Tax Savings Result from JGTRRA

<u>Pre-JGTRRA</u>		<u>Post-JGTRRA</u>		<u>Tax Savings</u>	
Federal	\$12,323.90	Federal	\$10,663.15	Federal	\$ 1,660.75
State	\$ 2,232.86	State	\$ 2,150.99	State	\$ 81.87
FICA	\$ 930.00	FICA	\$ 930.00	FICA	\$ 0.00
Medicare	\$ 699.28	Medicare	\$ 673.64	Medicare	\$ 25.64
				Total	\$ 1,768.26

Total Taxable Expenses of \$40,000 used (excluding gross-up)

Ineo Relocation Technologies

Tax Law Changes: 2004

Effective January 1, 2004

- Social Security limit raised to \$87,900
- Federal mileage rate increased to 37.5¢
- Excludable mileage rate increased to 14¢ per mile
- Personal Exemptions increased to \$3,100
- Federal Supplemental rate stays at 25%
- No change in Medicare rate

Ineo Relocation Technologies

Relocation Did WHAT to My Income?

The Year-End Relocation Packet

- Explanation Letter
- Relocation Tax Report
- Tax Publication
- Listing of Expenses

Now What?



Ineo Relocation Technologies

Why Doesn't My Pay Stub Match My W-2?

Payroll Payment Advice

Employee: Transferee, Joseph
 Social Security: 555-11-2222
 Payroll Center: 942-NNNN

Gross Pay: \$4,166.67
 Net Pay: \$2,870.85

Amount	This Period	YTD
Gross Earnings	\$4,166.67	\$119,032.32
Federal Tax	\$1,041.67	\$28,858.36
CO State Tax	\$193.75	\$5,442.00
OASDI Tax	\$0.00	\$5,394.00
Medicare Tax	\$60.42	\$1,725.97
Net Amount	\$2,870.85	\$77,611.99

Form **W-2** Wage and Tax Statement 2003

Employer: ROBCO, 5000 Robco Way, Anothatown, CO 80000

Employee: Joseph D Transferee, 12000 Overbult Avenue, Newtown, CO 80202

1 Wages, tips, other compensation	\$ 118,092.80	2 Federal income tax withheld	\$ 27,993.45
3 Social security wages	\$ 87,000.00	4 Social security tax withheld	\$ 5,394.00
5 Medicare wages and tips	\$ 118,092.80	6 Medicare tax withheld	\$ 1,712.36
7 Social security tips	\$ 0.00	8 Allocated tips	\$ 0.00
9 Advance EIC payment	\$ 0.00	10 Dependent care benefits	\$ 0.00
11 Nonqualified plans	\$ 1,000.00	12 Tax-exempt interest	\$ 0.00
13 Dividend payments	\$ 0.00	14 Other	\$ 0.00
15 State income tax	\$ 5,281.00	16 Local income tax	\$ 0.00
17 State pension/IRA	\$ 0.00	18 Local pension/IRA	\$ 0.00
19 Local pension/IRA	\$ 0.00	20 Locality rate	\$ 0.00

What Forms Do I Need To File?

EMPLOYEE MOVING EXPENSE INFORMATION

Joe Transferee, 12000 Overbult Avenue, Newtown, CO 80202

Expense Incurred	To, From	To, From	To, From	Form
Transportation and Storage of Household Goods and Personal Effects	\$0.00	\$0.00	\$0.00	Form 3903
Travel and Lodging Expenses for Moving From Old to New Home	\$1,000.00	\$0.00	\$1,000.00	Form 3903
Transportation and Fuel Expenses Paid in Old Home	\$0.00	\$2,000.00	\$2,000.00	Form 3903
Leasehold Improvements	\$1,200.00	\$0.00	\$1,200.00	Form 3903
Utilities Not Treated as Moving Expenses	\$5,000.00	\$2,000.00	\$7,000.00	Form 3903
Substantial Improvements to New Home	\$1,200.00	\$0.00	\$1,200.00	Form 3903
Leasehold Improvements	\$1,200.00	\$0.00	\$1,200.00	Form 3903
Total Expenses for Moving Expenses	\$8,400.00	\$2,000.00	\$6,400.00	

FEDERAL TAX	\$2,729.55
STATE TAX	\$473.00
LOCAL/SPECIAL TAX	\$0.00
FICA (OASDI)	\$0.00
FICA (MEDICARE)	\$189.55
TOTAL	\$3,392.10

Form **3903** Moving Expenses

Joseph D & Jane D Transferee

Before you begin: See the Distance Test and Time Test in the instructions to find out if you can deduct your moving expenses.

1 Enter the amount you paid for transportation and storage of household goods and personal effects (see instructions)	1	\$ 0.00
2 Enter the amount you paid for travel and lodging expenses in moving from your old home to your new home. Do not include the cost of meals (see instructions)	2	\$ 1,000.00
3 Address 1 and 2	3	\$ 1,000.00
4 Enter the total amount your employer paid you for the expenses listed on lines 1, 2, and 3 that are not included in the wages box (line 1) of your W-2 form. This amount should be identified with code 12 on line 12 of your W-2 form	4	\$ 0.00
5 Is line 3 more than line 4?	5	
<input type="checkbox"/> No. You cannot deduct your moving expenses. If line 3 is less than line 4, subtract line 3 from line 4 and include the result on the "Wages, salaries, tips, etc." line of Form 1040.		
<input type="checkbox"/> Yes. Subtract line 4 from line 3. Enter the result here and on the "Moving expenses" line of Form 1040. This is your moving expense deduction .	5	\$ 0.00

General Instructions

A Change To Note
 For 2003, the standard mileage rate for using your vehicle to move to a new home is 14 cents a mile. Beginning in 2005, the standard mileage rate for using your vehicle to move to a new home is 15 cents a mile.

Who May Deduct Moving Expenses
 Use Form 3903 to figure your moving expense deduction for a move related to the start of work at a new principal place of work, including if the new workplace is not an employer or an employee. You must meet both of the tests explained next.

Distance Test
 Your new principal workplace must be at least 50 miles farther from your old home than your old workplace was. For example, if your old workplace was 100 miles from your old home, your new workplace must be at least 150 miles from that home. If you did not have an old workplace, your new workplace must be at least 50 miles from your old home. The distance between the two points is the distance of the move currently being deducted (Subtract new from old).

Time Test
 To see if you meet the distance test, you can use the worksheet below.

Distance Test Worksheet

1. Enter the number of miles from your old home to your new workplace 1. miles

2. Enter the number of miles from your old home to your old workplace 2. miles

3. Subtract line 2 from line 1. If zero or less, enter 0 3. miles

Is line 3 at least 50 miles?
 Yes. You meet this test.
 No. You do not meet this test. You cannot deduct your moving expenses. Do not complete Form 3903.

Deducting Moving Expenses

Form 3903 Moving Expenses

OMB No. 1545-0042

Joseph D & Jane D Transferee

555 111 2222

Before you begin: See the Distance Test and Time Test in the instructions to find out if you can deduct your moving expenses.

If you are a member of the armed forces, see the instructions to find out how to complete this form.

1	Enter the amount you paid for transportation and storage of household goods and personal effects (see instructions)	500.00
2	Enter the amount you paid for travel and lodging expenses in moving from your old home to your new home. Do not include the cost of meals (see instructions)	1,500.00
3	Add lines 1 and 2	2,000.00
4	Enter the total amount your employer paid you for the expenses listed on lines 1 and 2 that is not included in the wages box (line 1) of your W-2 form. This amount should be identified with code P in box 12 of your W-2 form	1,000.00
5	Is line 3 more than line 4?	
<input type="checkbox"/> No. You cannot deduct your moving expenses. If line 3 is less than line 4, subtract line 3 from line 4 and include the result on the "Moving expenses" line of Form 1041. This is your moving expense deduction.		
<input checked="" type="checkbox"/> Yes. Subtract line 4 from line 3. Enter the result here and on the "Moving expenses" line of Form 1041. This is your moving expense deduction.		1,000.00

General Instructions

A Change To Note
For 2002, the standard mileage rate for using your vehicle to move to a new home is 17 cents a mile. Beginning in 2003, the standard mileage rate for using your vehicle to move to a new home is 12 cents a mile.

Purpose of Form
Use Form 3903 to figure your moving expense deduction for a move related to the start of work at a new principal place of work, regardless of whether you are self-employed or an employee. But you must meet both of the tests explained here.

Who May Deduct Moving Expenses
You may deduct your moving expenses if you are a U.S. citizen or resident alien, you must pay expenses for more than one move, use a separate Form 3903 for each move, and you must meet both of the tests explained here.

Distance Test
Your new principal workplace must be at least 50 miles farther from your old home than your old workplace was. For example, if your old workplace was 2 miles from your old home, your new workplace must be at least 52 miles from that home. If you did not have an old workplace, your new workplace must be at least 50 miles from your old home. The distance between the two points is the distance of the move. Continuously traveled routes between them.

Time Test
To see if you meet the distance test, you can use the worksheet below.

Distance Test Worksheet

Members of the armed forces may not have to meet this test. For details, see the instructions on the back of this form.

1. Enter the number of miles from your old home to your new workplace

2. Enter the number of miles from your old home to your old workplace

3. Subtract line 2 from line 1. If zero or less, enter -0-

Is line 3 at least 50 miles?

Yes. You meet this test.

No. You do not meet this test. You cannot deduct your moving expenses. Do not complete Form 3903.

Don't forget additional deductions!

Non-Deductible Moving Expenses

EMPLOYEE MOVING EXPENSE INFORMATION

Joe Transferee

12345 6th Avenue, Newtown, CO 81002

Employer: Joe D Transferee

Expenses Incurred	To Exclude	To Deduct	Total Deductible
Transportation: Design of household goods and personal effects	\$0.00	\$0.00	\$0.00
Transportation: Lodging Expenses for Expenses of Moving From Old to New Home	\$10,000.00	\$0.00	\$10,000.00
Transportation: Fuel (Oil or Gas)	\$0.00	\$12,000.00	\$12,000.00
Transportation: Repairs	\$1,200.00	\$6,800.00	\$7,200.00
Transportation: Mileage (See Form 3903)	\$2,000.00	\$2,000.00	\$2,000.00
Transportation: Other Moving Expenses	\$7,200.00	\$2,200.00	\$2,200.00
Transportation: Other	\$3,800.00	\$0.00	\$3,800.00
Total Expenses for Moving Expenses	\$24,000.00	\$24,000.00	\$24,000.00

Tax Gross-Up Withheld Information

FEDERAL TAX	\$2,799.55
STATE TAX	\$473.00
TOTAL FEDERAL TAX	\$0.00
FICA (OASDI)	\$0.00
FICA (MEDICARE)	\$109.55
TOTAL	\$3,392.80

Form 3903 Moving Expenses

OMB No. 1545-0042

Joseph D & Jane D Transferee

555 111 2222

Before you begin: See the Distance Test and Time Test in the instructions to find out if you can deduct your moving expenses.

If you are a member of the armed forces, see the instructions to find out how to complete this form.

1	Enter the amount you paid for transportation and storage of household goods and personal effects (see instructions)	500.00
2	Enter the amount you paid for travel and lodging expenses in moving from your old home to your new home. Do not include the cost of meals (see instructions)	1,500.00
3	Add lines 1 and 2	2,000.00
4	Enter the total amount your employer paid you for the expenses listed on lines 1 and 2 that is not included in the wages box (line 1) of your W-2 form. This amount should be identified with code P in box 12 of your W-2 form	1,000.00
5	Is line 3 more than line 4?	
<input type="checkbox"/> No. You cannot deduct your moving expenses. If line 3 is less than line 4, subtract line 3 from line 4 and include the result on the "Moving expenses" line of Form 1041. This is your moving expense deduction.		
<input checked="" type="checkbox"/> Yes. Subtract line 4 from line 3. Enter the result here and on the "Moving expenses" line of Form 1041. This is your moving expense deduction.		1,000.00

General Instructions

A Change To Note
For 2002, the standard mileage rate for using your vehicle to move to a new home is 17 cents a mile. Beginning in 2003, the standard mileage rate for using your vehicle to move to a new home is 12 cents a mile.

Purpose of Form
Use Form 3903 to figure your moving expense deduction for a move related to the start of work at a new principal place of work, regardless of whether you are self-employed or an employee. But you must meet both of the tests explained here.

Who May Deduct Moving Expenses
You may deduct your moving expenses if you are a U.S. citizen or resident alien, you must pay expenses for more than one move, use a separate Form 3903 for each move, and you must meet both of the tests explained here.

Distance Test
Your new principal workplace must be at least 50 miles farther from your old home than your old workplace was. For example, if your old workplace was 2 miles from your old home, your new workplace must be at least 52 miles from that home. If you did not have an old workplace, your new workplace must be at least 50 miles from your old home. The distance between the two points is the distance of the move. Continuously traveled routes between them.

Time Test
To see if you meet the distance test, you can use the worksheet below.

Distance Test Worksheet

Members of the armed forces may not have to meet this test. For details, see the instructions on the back of this form.

1. Enter the number of miles from your old home to your new workplace

2. Enter the number of miles from your old home to your old workplace

3. Subtract line 2 from line 1. If zero or less, enter -0-

Is line 3 at least 50 miles?

Yes. You meet this test.

No. You do not meet this test. You cannot deduct your moving expenses. Do not complete Form 3903.

3903 Moving Expenses

Joseph D & Jane D Transferee

1	Enter the amount you paid for transportation and storage of household goods and personal effects (see instructions)	500.00
2	Enter the amount you paid for travel and lodging expenses in moving from your old home to your new home. Do not include the cost of meals (see instructions)	1,500.00
3	Add lines 1 and 2	2,000.00
4	Enter the total amount your employer paid you for the expenses listed on lines 1 and 2 that is not included in the wages box (box 1) of your W-2 form. This amount should be identified with code P in box 12 of your W-2 form	13,000.00
5	Is line 3 more than line 4?	
<input checked="" type="checkbox"/> No. You cannot deduct your moving expenses. If line 3 is less than line 4, subtract line 3 from line 4 and include the result on the "Moving expenses" line of Form 1040.		11,000.00

General Instructions

A Change To Note

Purpose of Form

Who May Deduct Moving Expenses


Distance Test Worksheet

Effect of improper data on W-2 in box 12-P

include the result on the "Wages, salaries, tips, etc." line of Form 1040

What Every Transferee Should Know

- **Income will be Inflated**
- **W-4 Adjustments**
- **Excess FICA Refund**
- **Special Shipment Costs are Refundable**
- **Moving Students from College is Deductible**
- **W-4 Filing Correctness is Responsibility of the Employee**



Ineo Relocation Technologies

State filing Issues

- **Effective Date in New State**
- **Part-Year Residents**
- **Work/Resident States**
- **Federal Tax is Deductible**
 - ❖ AL – IA – LA – MO – MT – OR – UT
- **Final Move Meals Not Taxable**
 - ❖ NJ – PA
- **No State Income Tax**
 - ❖ AK – FL – NV – NH – SD – TN – TX – WA – WY

Ineo Relocation Technologies

My Accountant Said...

- **I Didn't get Enough Gross-up**
- **Top Mistakes Accountants Can Make**
 - ❖ **Points and Interest**
 - ❖ **State and Local Tax Deductions**
 - ❖ **Non-Company Income**
 - ❖ **Grossing-up Non-Grossed-up Expenses**
 - ❖ **Excludables Reported Incorrectly**
 - ❖ **Grossing-up for Both States**
- **Company Policy is the Key**



Ineo Relocation Technologies

But I Didn't Know!

- **Non-inclusion of Spousal Income**
- **Playing the "No Government Loans" Game**
 - ❖ Who needs the money more?
 - ❖ Relocation may cause penalty situation
- **Safe Harbor Rule**
 - ❖ Penalty for Under-withholding
 - ❖ Owe \$1,000 or Less
 - ❖ Withholding is 90%+ of Total Tax
 - ❖ Withholding is 110% of Prior Year's Total Tax



Ineo Relocation Technologies

Top 7 Taxpayer Mistakes

1. **Bad Math**
2. **Forgetting Interest and Dividends**
3. **Forgetting Investment "Basis"**
4. **Getting Married**
5. **Lost Receipts**
6. **Didn't Group Deductions**
7. **Forgetting to Donate to Charity**



Ineo Relocation Technologies

