

2018 Tax Reform

What Corporate Mobility,
HR Pros, & Senior Executives
Need to Know



2018 Tax Reform: What Corporate Mobility, HR Pros, and Senior Executives Need to Know

In the most significant tax changes in the U.S. in the last 30 years, the Tax Cuts and Jobs Act recently signed into law by the President enacted major changes to the U.S. tax code impacting both corporations and individuals. This resource is prepared based on information supplied by Worldwide ERC in conjunction with KPMG tax experts as an overview of the changes that were effective beginning January 1, 2018. This overview is intended as a guide to assist corporate mobility, HR pros, finance teams, and senior executives navigate internal policy changes, in the modification of budget allocations, and development of internal communications to help employees understand the impact tax reform will have on them. Note the tax reform is effective January 1, 2018 and reported on tax returns filed in 2019.

The Tax Cuts and Jobs Act ushered in changes to the U.S. tax code that are of particular interest to corporate mobility and HR professionals including:

- Changes in employee tax rates and brackets
- New supplemental withholding rates
- Loss of both federal and state Moving Expense Deduction
- Limitations on other deductions
- Changes to state and local tax deductions

These topics are covered here in outline form and intended to serve as general informational guidelines. Please consult with your corporate tax professionals before modifying corporate relocation policies.

Tax Reform Impact on Corporate Mobility Policies and Budgets

In spite of significant lobbying effort by the industry, the revised tax code eliminated entirely the moving expense deduction. This is expected to have a significant impact on corporate mobility programs, resulting in increased gross-up charges for employers, and increased budget allocations.

Worldwide ERC and KPMG caution it is possible that employers might experience an increase in challenges by transferees on gross-up amounts.

The good news for corporate mobility teams is that relocation home sale programs are not affected by

the new law and properly designed and administered home sale programs will continue to be nontaxable to transferees. Pursuant to Revised Rule 2005-74, costs incurred from the sale of a home will also not be taxable to an employee.

On another positive note, policy administration of corporate mobility programs will be significantly easier with the elimination of 50-mile, 39-week, and 1-year rules. Let's take a look at some of the individual components of the new tax code and the impact to employees and transferees.

Tax Reform and Your Employees

Employee Tax Brackets

The final tax bill retained seven individual tax brackets, however, reduced tax rates are reflected, and the income level for the top tax bracket has been significantly raised. The final 2018 tax brackets and rates are below:

Marginal Tax Rate	Single	Married Filing Jointly	Head of Household	Married Filing Separately
10%	\$0-\$9,525	\$0-\$19,050	\$0-\$13,600	\$0-\$9,525
12%	\$9,525-\$38,700	\$19,050-\$77,400	\$13,600-\$51,800	\$9,525-\$38,700
22%	\$38,700-\$82,500	\$77,400-\$165,000	\$51,800-\$82,500	\$38,700-\$82,500
24%	\$82,500-\$157,500	\$165,000-\$315,000	\$82,500-\$157,500	\$82,500-\$157,500
32%	\$157,500-\$200,000	\$315,000-\$400,000	\$157,500-\$200,000	\$157,500-\$200,000
35%	\$200,000-\$500,000	\$400,000-\$600,000	\$200,000-\$500,000	\$200,000-\$300,000
37%	Over \$500,000	Over \$600,000	Over \$500,000	Over \$300,000

DATA SOURCE: JOINT EXPLANATORY STATEMENT OF THE COMMITTEE OF CONFERENCE.

For comparison purposes, below are the 2018 tax brackets that were set to take effect under the previous law and no longer applicable:

Marginal Tax Rate	Single	Married Filing Jointly	Head of Household	Married Filing Separately
10%	\$0-\$9,525	\$0-\$19,050	\$0-\$13,600	\$0-\$9,525
15%	\$9,525-\$38,700	\$19,050-\$77,400	\$13,600-\$51,800	\$9,525-\$38,700
25%	\$38,700-\$82,500	\$77,400-\$156,150	\$51,850-\$133,850	\$38,700-\$78,075
28%	\$93,700-\$195,450	\$156,150-\$237,950	\$133,850-\$216,700	\$78,075-\$118,975
33%	\$195,450-\$424,950	\$237,950-\$424,950	\$216,700-\$424,950	\$118,975-\$212,475
35%	\$424,950-\$426,700	\$424,950-\$480,050	\$424,950-\$453,350	\$212,475-\$240,025
39.6%	Over \$426,700	Over \$480,050	Over \$453,350	Over \$240,025

DATA SOURCE: IRS.

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With regard to updated income tax withholding tables for 2018 and the supplemental withholding rates, note the IRS released an updated table and provided supplemental withholding advice. The new supplemental withholding rate for 2018 will be 22%, not 28% as has been predicted. The rate for supplemental wages is being lowered to 37% for employees earning in excess of \$1 Million per year.

This is good news for the mobility industry and in line with what analysts from Worldwide ERC originally suggested. Here is an excerpt from the IRS release on this matter, which is also linked here:

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The new law makes a number of changes for 2018 that affect individual taxpayers. The new tables reflect the increase in the standard deduction, repeal of personal exemptions and changes in tax rates and brackets.

For people with simpler tax situations, the new tables are designed to produce the correct amount of tax withholding. The revisions are also aimed at avoiding over- and under-withholding of tax as much as possible.

To help people determine their withholding, the IRS is revising the withholding tax calculator on IRS.gov. The IRS anticipates this calculator should be available by the end of February. Taxpayers are encouraged to use the calculator to adjust their withholding once it is released.

The IRS is also working on revising the Form W-4. Form W-4 and the revised calculator will reflect additional changes in the new law, such as changes in available itemized deductions, increases in the child tax credit, the new dependent credit and repeal of dependent exemptions.

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Reference Link:

<https://www.irs.gov/newsroom/updated-2018-withholding-tables-now-available-taxpayers-could-see-paycheck-changes-by-february>

New Standard Deduction

The tax reform act adopts a new, higher standard deduction, but also eliminates the personal exemption. This, combined with family size and the elimination of many itemized deductions could potentially have a tax impact on new hires and transferees. The chart on the right illustrates the previous standard deduction with the new standard.

Tax Filing Status	Previous Standard Deduction (Set to take effect in 2018)	New Standard Deduction
Single	\$6,500	\$12,000
Married Filing Jointly	\$13,000	\$24,000
Married Filing Separately	\$6,500	\$12,000
Head of Household	\$9,350	\$18,000

DATA SOURCE: IRS AND TAX CUTS AND JOBS ACT.

Standard Deduction and Personal Exemptions

Personal exemptions have been suspended until 2026. Because itemized deductions will now have additional limitations, more people are expected to claim standard deductions.

That benefit is being doubled, but it could be offset by the loss of personal exemptions, which is a flat amount allowed to be deducted by each taxpayer and dependent.

This may be made up by the enhanced child and dependent tax credit, depending on family size.

Child Tax Credit

Many companies compensate transferees if the addition of taxable relocation causes the loss of child tax credits due to phase-out. This was not much of a problem under the old law, as most transferees were already over the phase-out limit. For many taxpayers, the larger child tax credit will compensate for loss of personal exemptions—that depends on total adjusted gross income and family size.

Under the new law, the phase-out is much higher (\$400,00 MFJ / \$200,000 Single/MFS) but for some median income employees there is a possibility of loss of Child Tax Credit.

Tax Filing Status	Old Phase-Out Threshold	New Phase-Out Threshold
Married Filing Jointly	\$110,000	\$400,000
Individuals	\$75,000	\$200,000

DATA SOURCE: TAX CUTS AND JOBS ACT.

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Factors impacting the phase-out threshold include the loss of the moving expense deduction, which can trigger an increase in additional taxable relocation costs.

Example:

Single parent with 2 children, pre-transfer Adjusted Gross Income (AGI) of \$180,000. Taxable relocation of \$70,000 increases AGI to \$250,000. Transferee loses \$4,500 in child/dependent credits due to relocation.

Prior Law	Tax Cuts and Jobs Act
A Credit of \$1,000 is allowed for each dependent child under age 17	Increases the credit to \$2,000 per child with \$1,400 refundable
The credit is phased out for those with adjusted gross income of \$110,000/MJF, \$75,000/Single or MFS	Raises income limit phase-out to \$400,000/MFJ, \$200,000/Single or MFS
	SSN required for each qualifying dependent
	Adds a \$500 nonrefundable credit for other dependents

Other Credits, Deductions, or Instances That Could Impact Employees/Taxpayers

While not likely to impact corporate mobility programs, note there are other breaks available to taxpayers under the new tax code, including a nonrefundable credit for caring for elderly relatives, the retention of Child and Dependent Care Credit, which allows the deduction of qualified child care expenses of as much as \$1,050 for one child under 13 or \$2,100 for two children. Individuals can also shelter up to \$5,000 of income in a dependent care flexible spending account (FSA) on a pre-tax basis to help with childcare costs.

In addition, education tax breaks remain unchanged, including the Lifetime Learning Credit and the Student Loan Interest Deduction of up to \$2,500 and educator expense of \$250 and above. The bill also significantly expands the available use of funds saved in a 529 college savings plan to include K-12 private school education or tutoring.

Other changes to the tax code worth noting include the repeal of alimony as a deduction beginning in 2019 (applicable to divorce or separation agreements executed after 12/31/2018). The charitable contribution limit increased to 60 percent of adjusted gross income instead of 50 percent for cash contributions. The medical expense deduction lowers the threshold for deduction from 10 percent of AGI to 7.5 percent of AGI for 2017-2018 only. All miscellaneous deductions are suspended as is casualty loss unless related to federally-declared disasters.

While some of the above other credits, deductions, or special circumstances might not have a direct impact on corporate mobility programs, employers might consider recommending employees seek tax consultation in light of these changes, especially those considering relocation.

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Alternative Minimum Tax

As we move into a review of the Alternative Minimum Tax (AMT), note that the elimination of the moving expense deduction could have a significant impact on transferees as it relates to designation of eligibility for AMT taxation.

The Alternative Minimum Tax originated to ensure that high-income earners paid their fair share of taxes. Under the former tax code, high-income earners calculated taxes twice—once using the standard system and again using the AMT calculations, paying whichever was higher. retained in the Tax Cuts and Jobs Act, but with higher exemption amounts. The tax reform bill permanently adjusts the AMT amounts to account for inflation, which was omitted from the former tax code. The below illustrates the changes:

Tax Filing Status	2017 AMT Exemption Amount	2018 AMT Exemption Amount
Single or Head of Household	\$54,300	\$70,300
Married Filing Jointly	\$84,500	\$109,400
Married Filing Separately	\$42,250	\$54,700

DATA SOURCE: TAX CUTS AND JOBS ACT.

In addition, the income at which exemptions begin to phase out rises from \$150,000 to \$1 Million (Married) \$112,500 to \$500,000 (Single/MFS).

Rates remain at 26 percent and 28 percent, and the inflation adjustment uses Chained Consumer Price Index for all Urban Consumers (Chained CPI), which is a way to index spending and taxes, including Social Security benefits, to the rate of inflation or the rise in prices over time. The effect is that tax bracket thresholds will rise more slowly, along with other eligibility limits for credits and deductions, more accurately impacting taxpayers.

Alternative Minimum Tax Considerations for Employers

What are the AMT considerations for employers? The AMT calculation does not allow the State and Local Tax (SALT) deduction and it is likely the higher standard deduction won't result in transferees avoiding AMT designation. With the disallowance of the SALT deduction and the adoption of a maximum deduction of \$10,000 for personal property and real estate taxes, for transferees moving to states or areas with high property taxes (i.e. California, New York, New Jersey, etc.), this might be a point of consideration.

Also note that the higher standard deduction will not help transferees avoid AMT, which can be higher with moving expenses added to employee income. Higher exemption amounts will offset this to some extent, but lower rates often push some taxpayers into AMT. This is especially true for highly compensated employees.

Some transferees will either become, or remain affected by, AMT. If gross-ups for those transferees are based on AMT, the gross-up amount will be higher.

Capital Gains and Investment Income

Under the new tax code, the net investment income tax of 3.8 percent on unearned income stays the same, as does the 0 percent additional employee Medicare tax for high-income employees.

For long-term capital gain the current rate has not changed from 0 percent for those in the 10 percent to 15 percent tax brackets, and for those in the 15 percent to 20 percent brackets, rates also stay the same, but will be adjusted for inflation after 2017. The 3.8 percent net investment income tax remains the same.



The Long-term Capital Gain and Qualified Dividend Rate

The new tax code sets long-term capital gain and qualified dividend rate for taxable income up to \$77,200 for married filing jointly or \$38,600 for Single/MFS is at 0 percent.

The long-term capital gain and qualified dividend rate for taxable income up to \$77,201 to \$479,000 for MFJ and \$38,601 to \$425,800 for single filing is at 15 percent.

The long-term capital gain and qualified dividend rate for taxable income up to \$479,001 and over for married filing jointly or \$425,801 and over for single filing is at 20 percent.

Exclusion of Gain on Sale of Residence

As mentioned earlier, the Tax Cuts and Jobs Act retained the Exclusion of Capital Gain on Sale of Residence. This includes the ability to exclude up to \$500,000 of gain (Married Filing Jointly) or \$250,000 (Single/MFS). The specifics are as follows:

- Ownership and use requirement is two out of the preceding five years.
- This benefit is available once every two years.
- There is no phase-out of this exclusion.

Mortgages and Relocation Loans

Mortgage Subsidy Programs

Mortgage subsidy programs could be affected by lower loan limits. If all or part of subsidy interest is not deductible by a transferee, then there is the potential for added gross-up.

The lower limitation could also affect a transferee who hasn't yet disposed of prior home. The interest on both homes is limited to a total debt of \$750,000.

Mortgage points and origination fees are treated as interest remain deductible, there is no gross-up necessary.

Some transferees with large mortgages and home equity debt will lose deductions. This could lead to an income increase and potentially require additional gross-up.

Relocation Bridge Loans

Relocation bridge loans will be treated as home equity debt. If they are interest-bearing, the interest is no longer deductible and could potentially require additional gross-up.

If relocation loans are interest-free, this may call into question existing relocation exemption from below-market interest rules, which depends on the assumption that any interest would be deductible.

Relocation Home Loans

Relocation home loans are subject to the lower limit. They could also become subject to below-market rules.

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Lump Sums

The Effect on Lump Sums

Under the Tax Cuts and Jobs Act, with the exclusion of the moving expense deduction, it is no longer necessary to account separately for Household Goods and final moving costs and exclude these costs from a transferee's income. Worldwide ERC and KPMG predicts that the use of lump sums to handle relocation expenses is likely to increase.

State and Local Tax Deduction

The Effect on State and Local Tax Deduction

While businesses may continue to deduct state and local taxes (SALT) in full, individuals may not. In addition to elimination of the foreign property tax, the new tax code specifies the individual deduction for state and local income taxes (or sales tax in lieu of income tax) and property taxes together cannot exceed \$10,000 (\$5,000 for married filing separate return). This may impact transferees considering a move to high-tax jurisdictions and could hinder the ability of HR teams to recruit top talent. This could cause higher tax implications for some transferees and might require higher gross-ups.

The Impact on Global Mobility Programs



Global Mobility Program Impact

According to Worldwide ERC, changes to the individual income tax rates and tax deductions will likely affect the overall cost of international assignments. The impact on a global mobility program will depend on the program's assignee population. Tax equalization policies generally reference hypothetical itemized deductions and personal exemptions. These policies will need to be reviewed and hypothetical withholding adjusted as necessary. In addition, the suspension of personal exemptions may require more nonresident aliens (short-term visitors) to file U.S. tax returns.

Lower rates could result in the U.S. outbound assignments becoming more expensive, as the U.S. hypothetical tax offset would be lower.

Lower rates could conversely result in U.S. inbound assignments becoming less expensive, as the actual U.S. tax cost for an employer would be lower. In addition, arrival and departure year taxes may be higher as the result of fewer itemized deductions.

The suspension of the moving expense deduction could increase the costs of both inbound and outbound assignments.

It is recommended that cost projections and accruals for global assignment costs be adjusted, policies be updated, and clearly communicated to all stakeholders.

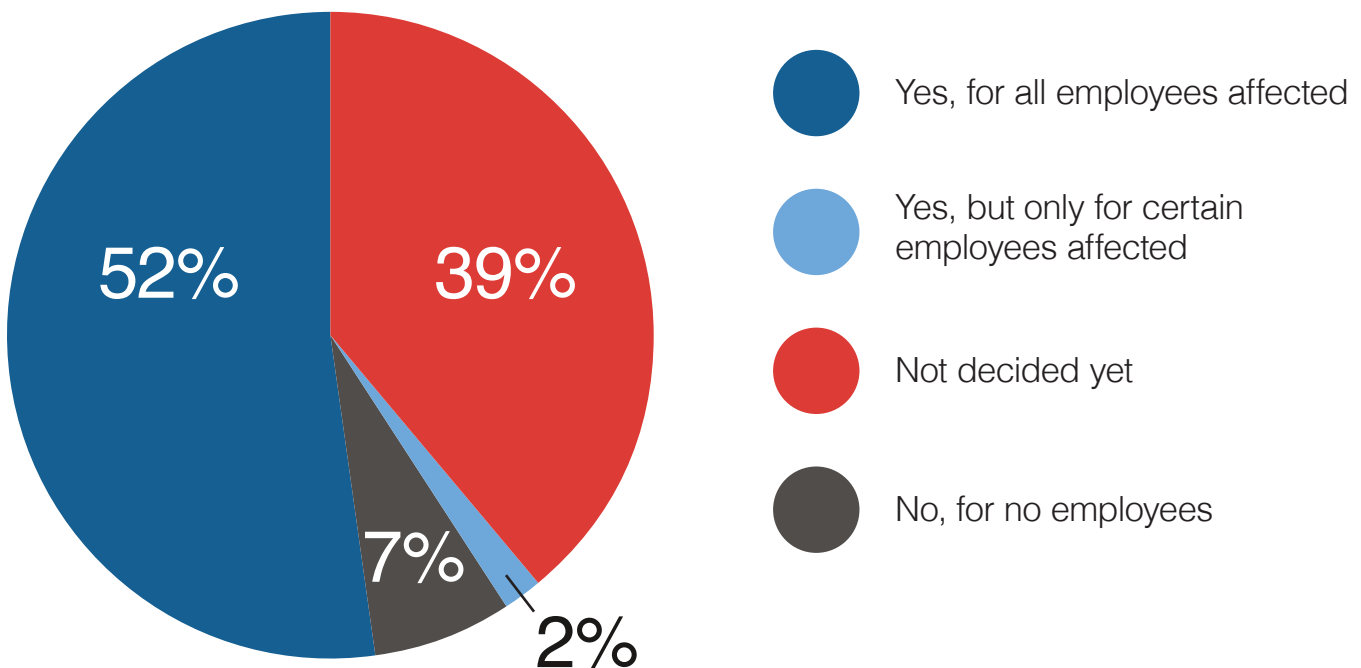
What Your Peers in Corporate Mobility Say

In a recent webinar hosted by Worldwide ERC and KPMG, the audience was polled on their response to the following question:

In the coming year, if your company pays for or reimburses the shipping of employees' household goods, do you intend to gross-up the payment?

Note that the only webinar attendees who responded to this poll question were HR/Corporate Mobility pros, so as to not skew results. Results are from 643 respondents who met this criteria.

Here is a graph representing their answers to that question:



Summary

Tax reform brings a significant impact to corporate mobility programs and global corporate mobility. The time is now to revisit existing corporate mobility policies, develop modified budgets to accommodate changes as a result of tax law changes, and develop a comprehensive communication plan for transferees and new hires. Hopefully the information presented here will help you accomplish that.

Resources:

Worldwide ERC and KPMG, Webinar — U.S. Tax Reform & Mobility:
What You Need to Know, January 9 2018

The Motley Fool, [Your Complete Guide to the 2018 Tax Changes](#)

The Internal Revenue Service

