Proposed Tax Reform and the Impact it Might Have on Mobility Pros

On November 2, 2017, the House Ways and Means Committee released details on the proposed U.S. tax reform bill entitled the **Tax Cut and Jobs Act**. Of particular interest to the mobility industry are the proposed elimination of tax deductions related to moving expenses, as well as the exclusion for employer-paid moving expenses. Should the legislation ultimately pass, it would likely mean that employers have to provide additional gross up expenses.

According to a Worldwide ERC press release on the topic, David Oltman of Ineo, LLC, a technology, tax, and financial services company serving the global mobility industry, explains that the proposed legislation could affect corporate mobility programs and the employees/recruits they serve by impacting five types of currently deductible expenses as follows:

- Household Goods (HHG) – 2017 Excludable/2018 Taxable
- Final Move Non-Meal – 2017 Excludable/2018 Taxable
- Duplicate Housing Interest and Taxes – 2017 Deductible/2018 Potentially Taxable
- Mortgage Points – 2017 Deductible/2018 Potentially Taxable
- Loan Origination Fees – 2017 Deductible/2018 Potentially Taxable

Oltman further advised, "Those seeking clarification in the proposed tax law about the repeal of moving expense deductions will see that it covers excludable moving expenses as well." Specific sections of the proposed Tax Cuts and Jobs Act would repeal Internal Revenue Code provisions permitting the deduction of moving expenses and the exclusion of deductible moving expenses from employee wages.

How do these proposed changes to the tax law impact employers? In a word, significantly. As an example cited by Oltman, consider that many companies use a common practice of cutting off expense submission during the calendar months of November and December each year, in order to permit their accounting and payroll systems time to reconcile the relocation accounting data provided by third party tax service providers and relocation companies. Typically, those expenses that are submitted after the company's cut-off date will simply be added to the company's first payroll cycle in the next calendar year. That would mean that an employee reported one of the above five expense categories on a 2018 W-2 but the underlying expense was actually incurred in 2017. The end result could be that, as a result of the company's internal accounting procedures, the employee/transferee could potentially be put in a position where he ends up having to pay additional taxes.

Companies may want to examine their practice of grossing up household goods and final move expenses, and to consider the effects that will flow from the addition of that additional taxable income to a transferee's W-2. With household goods and moving expenses potentially becoming taxable to employees in 2018, companies should consider revisiting their corporate mobility policies, their tax assistance policies and, of course, their budget allocations as they plan for an increase in gross-up costs. Oltman estimates, "[m]ost companies who move

employees might expect to see their average gross-up costs increase approximately $9,000 per move, or an approximate 60 percent increase from last year."

There was a mark-up session planned for the proposed tax reform bill the week of November 6, 2017, and we'll continue to track the progression of this proposed legislation and report on it for you.