

Tax Reform Could Increase Employer Relocation Costs

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The costs associated with employee relocation reimbursements may increase as a result of the Tax Cuts and Jobs Act (“Act”). This change affects both for-profit and nonprofit employers. The Act suspends the moving expense deduction for tax years beginning after December 31, 2017, and before January 1, 2026, except for certain moves pursuant to a military order. Reimbursements from employers for qualified moving expenses can no longer be excluded from the employee’s taxable income and will be treated as wages when paid and reported on Form W-2. This means that an employer will include the amount paid either to or on behalf of an employee as imputed wages. The employer will need to withhold taxes from the imputed amount which will reduce the employee’s net pay for that pay period. Additionally, the employer will be subject to additional matching costs, such as the employer’s match on FICA. This will result in the employee receiving less and the employer paying more for what had been a straight “dollar for dollar” reimbursement. As a practical matter, some employers may spread imputed wages over more than one payroll period, as long as in the same tax year, to lessen the impact on the employee’s net pay. Employers should review their relocation policies to ensure they are consistent with these changes.

Although moving expense reimbursements are now treated the same as taxable wages, some employers may choose to pay the employee a signing bonus or increase the employee’s wages as a means to cover moving costs. Other employers will still either reimburse employees for the cost of relocating or pay such expenses directly to account for or justify the various components of an employee’s compensation.

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