

# 2009

## *Relocation* *Tax Issues & Answers*

The logo for Ineo, featuring the word "ineo" in a lowercase, sans-serif font with a white swoosh underneath the letters "i" and "n".

# RELOCATION

## Tax Issues & Answers

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### *Congratulations!*

*You've just accepted a new position with your employer and are relocating. This is a busy and exciting time for you and your family. Suddenly, there are many decisions to be made and important details to look after, including the physical logistics of your move, the possible sale and purchase of your home, and the adjustment of your family to the new location. One major detail that may be overlooked is the tax consequence of the move.*

*Often, relocated employees are surprised to learn that the IRS considers many relocation expenses as taxable income for you, creating an additional tax liability. Federal, FICA, State and Local taxes may all be affected.*

*The entire tax process can be overwhelming and relocation may only add to that complexity. This booklet is designed to assist you in identifying implications of the moving process that may affect your financial situation and assist you and/or your tax accountant in the preparation of your income tax returns.*

*To understand all of this, let's first review the basics of relocation.*

Certainly any relocation of an employee (transferee) is considered a move. However, a move must meet certain IRS guidelines before the moving expenses can be deducted by the transferee. All expense reimbursements are taxable to the employee for moves that don't meet these IRS guidelines. The IRS does not require corporations to pay the additional taxes on moving expense reimbursements at all, whether paid directly to the transferee or on the transferee's behalf.

Your employer may offer a number of relocation programs to assist you and your relocating family throughout your move. Some of the more common programs that companies may offer are:

- ▶ Shipping of personal and household goods and storage of those goods
- ▶ House hunting trips/temporary living quarters
- ▶ Closing costs on your home
- ▶ Tax assistance
- ▶ Spousal assistance
- ▶ Other non-specific relocation related payments

Consult your company's relocation policy for a listing of your specific benefits.

### ■ Temporary Assignments

A temporary assignment is defined by the IRS as one where the tax home does not change. Therefore, if the intent of the assignment is to return to your original location within one year (365 days), the assignment is not considered a permanent move. In these cases, all of your expenses related to travel, meals and lodging are considered business expenses by the IRS. These related expenses will not appear as income to you. The IRS considers any assignment that exceeds one year a permanent move.

If, however, your family joins you during your temporary assignment, their expenses are treated differently than yours. Reimbursements for any of their expenses will be considered income to you.

## Meet the Bailey Family

Before delving into the finer points of the relocation process, let's first get to know our relocating family, the Baileys. Throughout this book we will use the Bailey's relocation to illustrate the principles presented.

George Bailey is on the fast track at PepperBar, LTD and is based in the Denver corporate headquarters. The company has offered George an opportunity to oversee PepperBar's Central division in Chicago, which he accepted. George's annual salary for his new position will be \$120,000.

Mary Bailey is a sales executive for Thinc Corporation. She works mainly from her home and is on the road most of the workweek. Mary's sales region encompasses both Chicago and Denver and her company likes the idea of having a Midwest representative. However, Thinc is not offering Mary any relocation benefits. Her annual salary and commission are \$75,000 combined.

George and Mary have two sons. Their oldest, Jeff, is a 19-year-old college student. Jeff is currently attending school in Wyoming but moved with his family and is transferring to Northwestern in the fall. Andy, their youngest son, is 10 years old.

The Baileys had the following moving expenses:

Reimbursed by PepperBar, LTD	
▶ Shipment of household goods	\$17,000
▶ Trip en route to new location	\$ 1,500
▶ Home Finding Trips	\$ 2,500
▶ Temporary Living	\$ 7,500
▶ CO Home Sale (Third Party Buyout)	\$25,500
▶ Miscellaneous Allowance	\$ 5,000
▶ IL Home Purchase Mortgage Points	\$ 8,000
▶ IL Home Purchase Closing Costs	\$ 4,000
▶ Tax Assistance	\$ 6,767
Out-of-Pocket Expenses	
▶ Shipment of Jeff's goods from college	\$ 3,000
▶ Shipment of a personal car	\$ 1,000
▶ Additional 30 days temporary living	\$ 3,750
▶ Carpeting & Drapes for IL home	\$18,000

It's important to know whether some of these expenses were reimbursed directly to the Baileys or if they were paid to a third party service provider. Certain tax benefits are available to taxpayers depending on who received payment. This is discussed further in the [Reimbursed Relocation Expenses](#) section of this book.

The Bailey's expenses were paid out as follows:

Reimbursed by PepperBar, LTD	Paid To
▶ Shipment of household goods	Van Lines A
▶ Trip en route to new location	George Bailey
▶ Home Finding Trips	George Bailey
▶ Temporary Living	Apt. Finders
▶ CO Home Sale (Company Buyout)	Homesale Co.
▶ Miscellaneous Allowance	George Bailey
▶ IL Home Purchase Mortgage Points	Mortgage Co.
▶ IL Home Purchase Closing Costs	Mortgage Co.
▶ Tax Assistance	Tax Authority
Out-of-Pocket Expenses	
▶ Shipment of Jeff's goods from college	Van Lines B
▶ Shipment of a personal car	Car Shipper
▶ Additional 30 days temporary living	Apt. Finders
▶ Carpeting & Drapes for IL home	Joe Decorator

In addition, the Bailey's would have had normal itemized deductions without being relocated. To that extent, we will assume the following:

▶ Normal Itemized Deductions	\$21,325
▶ Additional Relocation Deductions	\$ 8,817

Throughout this book are illustrations of tax law principles using the Bailey's information. You may want to refer back to these three tables to assist in recognizing the impact relocation may have on your personal situation.

The examples can be identified easily by looking for this graphic.



## Federal Income Tax

To understand the tax consequences of a move, some basic knowledge of Federal and State income tax is necessary. There are six variables that can impact a tax calculation:

- ▶ Filing status
- ▶ Gross Income
- ▶ Adjustments to income
- ▶ Deductions
- ▶ Exemptions
- ▶ Credits

### Filing Status

The filing status is used to determine your tax bracket, standard deduction and threshold amounts for the phase-out of itemized deductions and personal exemptions.

There are five filing statuses from which to choose, depending on your personal situation:

- ▶ Single
- ▶ Married, Filing Jointly
- ▶ Married, Filing Separately
- ▶ Head of Household
- ▶ Qualifying Widow(er) with Dependent Child

### Gross Income

Gross Income is the total of all income subject to tax. Gross Income includes:

- ▶ Salaries and wages
- ▶ Interest
- ▶ Dividends
- ▶ Gains on sale of property
- ▶ S corporation, trust and partnership income
- ▶ Alimony received
- ▶ State income tax refund – 1099G (if you itemized in the prior year)

### Adjusted Gross Income (AGI)

Adjusted Gross Income, or AGI, is Gross Income minus “adjustments”. Adjustments are deductions that can be used to reduce taxable income even if you do not itemize your deductions.

These include:

- ▶ Contributions to individual retirement accounts (IRAs)
- ▶ Student loan interest, tuition and fees
- ▶ Alimony paid
- ▶ Unreimbursed household goods and final trip moving expenses (IRS Publication 521 Moving Expenses)

### Itemized and Standard Deductions

You are entitled to deduct from your gross income the greater of your total itemized deductions or the standard deduction. The amount of the standard deduction will depend on your filing status. Itemized deductions are entered on Schedule A (of form 1040) and include:

- ▶ Medical expenses exceeding 7.5% of AGI
- ▶ Real estate taxes
- ▶ State and local income taxes
- ▶ Home mortgage interest
- ▶ Gifts to charity
- ▶ Casualty and theft losses (exceeding \$100 per incident, then 10% of AGI when totaled)
- ▶ Miscellaneous expenses which exceed 2% of AGI when totaled:
  - Investment interest and expenses
  - Employee business expenses
  - Tax return preparation fee

If the total itemized deduction is less than the standard deduction, then the standard deduction is used. The 2009 standard deduction allowed for each filing status is as follows:

#### 2009 Standard Deduction Amounts

▶ Single	\$5,700
▶ Married, filing Jointly	\$11,400
▶ Married, filing Separately	\$5,700
▶ Head of Household	\$8,350

### Limits on Itemized Deductions

For 2009, itemized deductions are reduced (phased out) by 3% of AGI over \$166,800 (\$83,400 for married persons filing separately). The reduction is limited to 80% of itemized deductions and for 2009 the reduction is lowered by 67%.



#### Itemized Deduction Phase Out

2009 Bailey Family AGI (with relocation)	\$228,767
2009 Itemized Deductions	\$ 30,142

#### Phase Out Calculation

$(\$228,767 - \$166,800) * 3% * 1/3$	\$ 613
Revised Deduction $(\$30,142 - \$613)$	\$ 29,529

## ■ Renters

In most cases someone who rents a house or an apartment will not have a deduction for mortgage interest or real estate taxes. Since these are the two primary deductions, there are usually not enough other allowable deductions to put an individual over the standard amount. As a result, most renters will use the standard deduction rather than the actual itemized deductions.

## ■ Personal Exemptions

You may deduct your personal exemptions from AGI. The number of personal exemptions depends on your filing status and the number of dependents claimed. One exemption is allowed for you, one for your spouse (if a joint return is filed) and one for each dependent.

▶ 2009 Personal Exemption Amount \$3,650

To qualify as a dependent, all five of the following “tests” must be met:

### Five Tests to Determine Dependent Status

1. **Relationship Test** - A relative or full-time member of the household
2. **Resident Test** - A citizen or resident of the United States or a resident of Canada or Mexico
3. **Joint Return Test** - Will not file a joint return with another person
4. **Income Test** - Have less than \$3,000 in gross income for the year unless they are a child under the age of 19 or a full-time student under the age of 24.
5. **Support Test** - Must receive over half of their support from you

Members of your household meeting these five criteria are considered deductible exemptions and help reduce your taxable income.

### Exemption Calculation

▶ Bailey Family Allowable Exemptions \$14,600  
(4 family members \* \$3,650)

## ■ Phase-out of Personal Exemptions

In 2009, exemptions are phased out for high-income taxpayers. This applies when the AGI exceeds a threshold amount. The threshold amount depends on your filing status.

### 2009 Exemption Phase Out

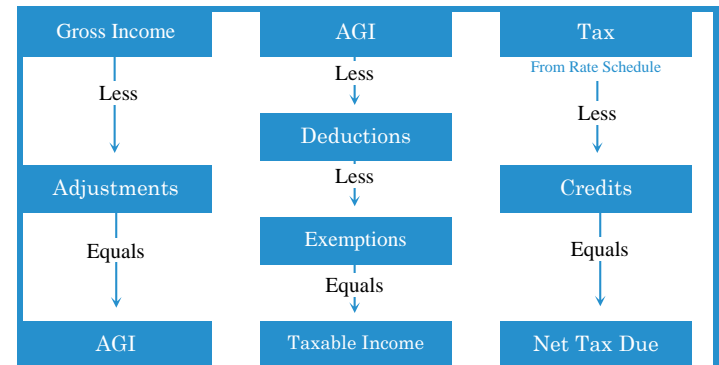
▶ Single	\$166,800
▶ Married, filing Jointly	\$250,200
▶ Married, filing Separately	\$125,100
▶ Head of Household	\$208,500

The threshold amounts are indexed to inflation and are adjusted annually. The amount of the exemption is reduced by 2% for each \$2,500 over the threshold amount (\$1,250 for married/Separate). This formula would be:  $(\{AGI - \text{Threshold}\} \div \$2,500 \text{ round up}) * 2\%$ . For 2009, the reduction is lowered by 2/3. Our Bailey family would take an exemption deduction of \$14,600 based on the following calculation:

### Exemption Phase Out Calculation

- ▶  $\$228,767 - \$250,200 = \langle \$21,433 \rangle$  (Under threshold)
- ▶  $\$0 \div \$2,500 \text{ (round up)} * 2\% = 0\%$
- ▶  $\$14,600 * 0\% = \$0$  (NO Phaseout)

Once the gross income, adjustments, itemized deductions and personal exemptions have been determined, the taxable income and tax due can be calculated as:



## Current Tax Tables

Once your taxable income has been figured, tax rates are applied to determine the total amount of tax owed. For 2009, the following Federal rates apply.

Single			Married Filing Joint		
\$ 0	- \$ 8,350	10%	\$ 0	- \$ 16,700	10%
8,351	- 33,950	15%	16,701	- 67,900	15%
33,951	- 82,250	25%	67,901	- 137,050	25%
82,251	- 171,550	28%	137,051	- 208,850	28%
171,551	- 372,950	33%	208,851	- 372,950	33%
372,951	+	35%	372,951	+	35%

Married Filing Separate			Head of Household		
\$ 0	- \$ 8,350	10%	\$ 0	- \$ 11,950	10%
8,351	- 33,950	15%	11,951	- 45,500	15%
33,951	- 68,525	25%	45,501	- 117,450	25%
68,526	- 104,425	28%	117,451	- 190,200	28%
104,426	- 186,475	33%	190,201	- 372,950	33%
186,476	+	35%	372,951	+	35%

It's important to understand that *your entire income is not taxed at the highest bracket you reach* based on your AGI amount. Instead, your income is taxed at the rate in the above table until it exceeds the maximum income for that rate and then is taxed at the next higher rate. The Baileys' income tax would be calculated as follows:

Income Tax Calculation			
▶	The Baileys' gross family wage		\$228,767
▶	Adjustments (discussed on pages 14 & 15)	\$ 4,000	
▶	Itemized Deductions	\$ 28,902	
▶	Personal Exemptions	\$ 14,600	
▶	Taxable Income	\$181,266	
	\$ 16,700	@ 10%	\$ 1,670
	\$ 51,200	@ 15%	\$ 7,680
	\$ 69,150	@ 25%	\$ 17,288
	\$ <u>44,216</u>	@ 28%	\$ <u>12,380</u>
	\$ 181,266 (taxable income)	Tax Due	\$ 39,018


## State Income Tax and Other Taxes

Each state has a different method of calculating income tax. The first step in calculating the state income tax is to determine the states in which income was earned. Salary and wages are considered earned in the state where the service was performed. The second step is to determine the resident state. This is the state or states in which you lived during the calendar year. The final step is to determine whether the income was earned while you were a resident or a nonresident, the net effect being a maximum tax rate for your resident state.

If income is earned in a state where you are not a resident, you still pay tax to the resident state on all income. You also pay tax to the nonresident state where the income was earned. Because this income is taxed twice, you are entitled to a credit in the resident state for income tax paid to the nonresident state.

Connecticut residents working in New York must pay tax to both New York and Connecticut on income earned in New York. However, a credit (reduction in tax) in Connecticut is given for taxes paid in New York.

If you move during the year, you are considered a part-year resident in each state that you lived in during that year. A part-year resident is taxed as a resident except that a part-year resident allocates the income and deductions to the states. The method of allocation is dictated by each state. A part-year resident pays tax only on the income earned while a resident of that state.

 The Baileys moved from Colorado to Illinois and must pay Colorado state income tax on the income earned while living in Colorado. Illinois tax would be due on the income earned while working in Illinois.

In addition to state income taxes, you may also be required to pay local income taxes, depending on where you live.

Finally, FICA taxes need to be considered. FICA is withheld by your employer and consists of two parts. The first is OASDI (Old Age Survivor Disability Insurance) or Social Security, which, for 2009, is taxed at 6.2% on income up to \$106,800. The second is Medicare, which is taxed at 1.45% on all income without any limit.

## ■ Special State Taxes

State taxes are calculated in a variety of ways. Some follow the Federal calculations while others conduct a calculation unique to that state. Below is a chart of special states and how you may be affected when relocating to or from those states.

### Section 1.01 Unique State Calculations

#### *Schedule-A Itemized Deductions Are Not Allowed*

CT – IL – IN – LA – MA – MI – NJ – OH – PA – WV – WI

- ▶ Wisconsin allows a 5% credit only

#### *Federal Tax Is Deductible*

AL – IA – LA – MO – MT – OR

- ▶ Missouri allows a maximum of \$5,000 (\$10,000 for taxpayers filing a joint return)
- ▶ Montana allows a maximum of \$5,000 (\$10,000 for taxpayers filing a joint return)
- ▶ Oregon allows a maximum of \$2,800 for Married filing Separate; \$5,600 for all others

#### *Final Move Meals Are Not Taxed*

PA – allows 100% deduction

NJ – allows 100% exclusion

#### *No State Income Tax*

AK – FL – NV – NH – SD – TN – TX – WA – WY

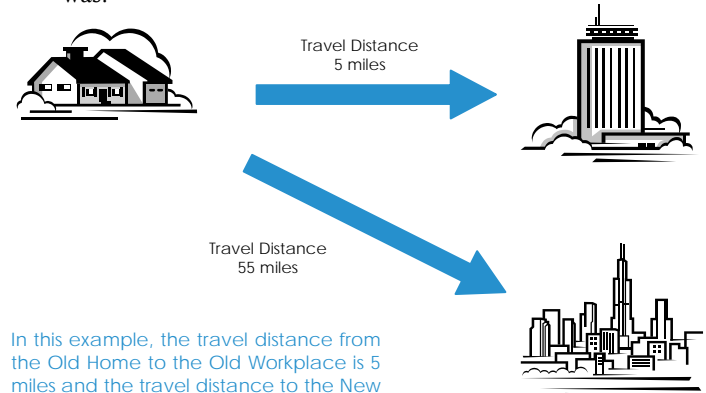
Completing a part-year state tax return can be complicated. You may wish to seek professional assistance from a tax preparer experienced and knowledgeable in multi-state tax returns.

## IRS Deductibility Guidelines

Internal Revenue Code Section 217 allows a deduction (or an exclusion from income if paid by the employer) for certain types of moving expenses. To qualify for the deduction, two requirements must be met:

### Test #1 – Distance

Your new primary place of work must be at least 50 miles farther from your former residence than the old work location was.



In this example, the travel distance from the Old Home to the Old Workplace is 5 miles and the travel distance to the New Workplace is 55 miles.  $55 - 5 = 50$ .

*This is a qualified move.*

### Test #2 - Time

You must work full-time for 39 weeks during the first 12-month period after arriving in the vicinity of your new job. The time test will not apply in the event of your death, disability, involuntary separation or transfer for the benefit of your employer.

The moving-expense deduction may be taken even if the time test is not met by the due date for filing your tax returns if you expect to meet the time test by the end of the next year. If the deduction is taken and the time test is not met in the next year, the tax return for the year in which the deduction was taken must be amended.

If both the time and distance tests are met, IRS Code Section 217 allows a deduction for reasonable moving expenses. The items that are deductible and the amount of the deduction depend on when the expense is incurred. An expense is incurred at the time a service is performed. For example, a van line expense is incurred when the goods are delivered.

The IRS also has another “time” guideline for deducting qualified moving expenses. This is referred to as **Closely Related In Time**.

You can generally consider moving expenses incurred within 1 year from the date you first reported to work at the new location as closely related in time to the start of work. It is not necessary that you arrange to work before moving to a new location, as long as you actually go to work in that location.

If you do not move within 1 year of the date you begin work, you ordinarily cannot deduct the expenses unless you can show that circumstances existed that prevented the move within that time.

**Example**

Your family moved more than a year after you started work at a new location. You delayed the move for 18 months to allow your child to complete high school. You can deduct your moving expenses.

## Excludable (Reimbursed) Moving Expenses

Some expenses are considered “excluded” from being taxed as income. They fall into two categories:

1. **Transportation and Storage of Household Goods and Personal Effects.** Expenses related to the movement of goods are 100% excluded from income and include:
  - ▶ Packing and crating
  - ▶ Transporting goods and personal effects
  - ▶ Insurance and connecting/disconnecting utilities
  - ▶ In-transit storage up to 30 consecutive days
2. **Expenses Incurred While Moving from the Old Home to the New Home.** The expenses that may be excluded from your income for traveling to the new home include the cost of transportation and lodging. If your own car is used to travel to the new residence during your final trip, 24¢ per mile is excluded from your income for transportation. Travel expenses are valid only up to the date of arrival. You may also include lodging in the area of your former residence within one day after your home becomes uninhabitable. En route or final trip expenses that are **not** excludable include:
  - ▶ Meals while enroute to the new location
  - ▶ Living expenses (meals and lodging) incurred more than 1 day after the former residence is no longer suitable for occupancy
  - ▶ Temporary living expenses in the area following the date of arrival
  - ▶ Trips for buying and selling property
  - ▶ Trips to the former residence pending the move of family

Excludable expenses noted above and reimbursed directly to you will appear on your W-2 but not as income. Instead, these amounts appear in box 12 with a “P” code. This is important since that number must be entered on IRS form 3903 when filing your tax returns.

These same excludable expenses, when paid directly to a service provider or third party on your behalf, should not be shown on your W-2 form.

<u>Expense</u>	<u>Company Pays To</u>	<u>Appears on W-2 Box 12 P?</u>
Shipment of Household Goods	Van Line	N
Final Travel to New Location	Employee	Y

## Reimbursed Relocation Expenses

All moving expense reimbursements are summarized on the Relocation Tax Report or RTR (IRS form 4782 was eliminated in 1998), which is provided by your employer (see page 20). The information from the RTR is, in turn, used to fill out form 3903 (see page 21). Form 3903 is then used to calculate any moving expense deductions that you can claim when filing your tax returns.

The tax consequence itself depends on whether the expense was excludable or taxable. All reimbursements for **taxable** moving expenses, whether paid directly to you or on your behalf by your employer, are included in your gross income and are reflected in boxes 1, 3, 5, 16 and 18 of your W-2. Expenses in the **excludable** category that are reimbursed by the employer are not included in your taxable wages, so a deduction on IRS 1040 Schedule A is not allowed. The excludable expense reimbursements made to the employee are included in Box 12 on your W-2 form and designated with a “P” code (see page 22). For un-reimbursed household goods or final move expenses (deductible), you are allowed to take the deduction as an adjustment to your gross income. Deductible expense payments made directly to the vendors are not reported on the W-2.

Following is how the Baileys’ expenses stack up:

Reimbursed by PepperBar, LTD	Paid To	W2	IRS Form
▶ Shipment of household goods	Van Lines A	None	None
▶ Trip en route to new location	George Bailey	12 “P”	3903
▶ Home Finding Trips	George Bailey	1,3,5,16,18	1040 line 7
▶ Temporary Living	Apt. Finders	1,3,5,16,18	1040 line 7
▶ CO Home Sale (Company Buyout)	Homesale Co.	None	None
▶ IL home mortgage points	Mortgage Co.	1,3,5,16,18	Schedule A
▶ IL home purchase closing costs	Mortgage Co.	1,3,5,16,18	1040 line 7
▶ Tax Assistance	Tax Authority	1,3,5,16,18	1040 line 7
<b>Out-of-Pocket Expenses</b>			
▶ Shipment of goods from college	Van Lines B	None	3903
▶ Shipment of a personal car	Car Shipper	None	3903
▶ Additional 30 days temp living	Apt. Finder	None	None
▶ Carpet & Drapes for IL home	Joe Decorator	None	None

There are two categories of expense reimbursements, however, which fall under different tax rules. Reimbursements for points paid when purchasing a new residence and state and local income taxes paid in the current year are still included in Box 1 of the W-2 when paid by an employer but can be included as itemized deductions on Schedule A.

## Summary of Expense Types and Taxation

To help you better understand the impact of reimbursed relocation expenses on your financial situation, we’ve prepared an encapsulated view of typical relocation expenses and their tax handling.

### Excludable Expenses (Deductible per IRS Code 217)

These expenses are reported on your W-2 in box 12 with a “P” code and include only those expenses listed below that are directly reimbursed to you.

- ▶ Shipment of Household Goods and Personal Belongings
- ▶ Storage of Goods for the First 30 Consecutive Days
- ▶ Insurance of Goods
- ▶ Tips to Mover
- ▶ Final Travel to the New Location
- ▶ Last Night of Lodging in Old Location When Goods are in Transit
- ▶ Mileage at 24¢ per mile
- ▶ Tolls, Parking and Lodging While In Transit

### Excludable Expenses (Not Reported on W-2)

Non-Reportable expenses are essentially the same as Excludable expenses but have been paid directly to a service provider or third party on your behalf. These expenses aren’t reported on your W-2.

- ▶ Shipment of Household Goods and Personal Belongings
- ▶ Storage of Goods for the First 30 Consecutive Days
- ▶ Insurance of Goods
- ▶ Tips to Mover
- ▶ Final Travel to the New Location
- ▶ Last Night of Lodging in Old Location When Goods are in Transit
- ▶ Mileage at 24¢ a mile
- ▶ Tolls, Parking and Lodging While In Transit

### Taxable Expenses – Schedule A Deductible

True deductible expenses are taxable if reimbursed directly to you or paid to a third party on your behalf. Although they are added to your wages as taxable, you may deduct these expenses on Schedule A of your 1040 form when filing your tax returns.

- ▶ Points Paid on a New Mortgage
- ▶ Mortgage Interest Differential
- ▶ State and Local Gross-up (Tax Assistance)
- ▶ Real Estate Taxes
- ▶ Mortgage Pre-Pay Penalty

## ■ Summary of Expense Types and Taxation continued

### Business Expenses

Some companies offer employees a program guaranteeing a buyout of their home. In this case, **when handled correctly** and according to IRS Revenue Rulings, the costs associated with the sale of the home may be considered Non-Taxable.

- |   |  |
|---|--|
| ▶ Real Estate Commission                                | ▶ Travel and Entertainment Expenses During Business Trips              |
| ▶ Non-Recurring Closing Costs in the Resale of the Home | ▶ “Look-see” or Interviewing Trips Prior to Accepting the New Position |

### Taxable Expenses

All other expenses associated with relocation are considered taxable and are added to your W-2 Income.

- |  |   |
|--|---|
| ▶ Househunting Trips                                 | ▶ Drivers’ License and Car Tags                                 |
| ▶ Meals  | ▶ Lease Break   |
| ▶ Temporary and Interim Living                       | ▶ Lease Finding Fee   |
| ▶ Return Trips Home During Temporary Living          | ▶ New Home Closing Costs  |
| ▶ Storage in Excess of The First 30 Consecutive Days | ▶ Refitting Carpets or Drapes                                   |
| ▶ Miscellaneous Allowance                            | ▶ Old Home Closing Costs That Do Not Follow IRS Revenue Rulings |
| ▶ Security Deposits Lost                             | ▶ Loss on Sale of Old Home                                      |
| ▶ Membership Loss                                    | ▶ Final Move Mileage in Excess of 24¢ Per Mile                  |
|  | ▶ Unreceipted Lump Sums   |
|  | ▶ Other Allowances and Bonuses                                  |
|  | ▶ Tax Assistance  |

Because companies have different needs when relocating employees, these tables cannot be all-inclusive. However, relocation benefit reimbursements that fall into the Excludable, Deductible and Non-Reportable categories are limited and the tables for those expense types reflect these limitations. As a rule of thumb, if an expense doesn’t fall into one of these tables, the expense is taxable to you and should be added to your W-2 wages.

## ■ Lump Sum Payments

Many companies have determined that a lump sum payment is a fair and equitable way to reimburse relocating employees. Lump sums assist in reducing the administration of the reimbursement and payroll process. There are some advantages and disadvantages to this method, a few of which we’ll discuss here.

A lump sum payment may be structured to cover only those expenses that would normally be taxable to you. In these cases, the tax effect on your financial situation would not change from a direct reimbursement of these expenses. These payments would be included in your taxable wages regardless of whether they were included in a lump sum payment or not.

However, some companies offer a lump sum amount that includes excludable expenses such as Household Goods and Final Trip. In those cases, it is important that you keep accurate receipts of all deductible expenses you incur during your relocation since they may be used to reduce your AGI when filing your tax returns. These expenses, when included in a lump sum, are considered taxable at the time you receive your lump sum payment.

At the end of this booklet, we have included a worksheet to assist you in keeping track of these expenses and ensuring that each deduction you are allowed is accurately taken to reduce your taxable income.

## What is Tax Assistance?

As we noted earlier, all taxable expenses reimbursed during your move must be reported as income. This additional income will create an additional tax liability for you including Federal income tax, FICA taxes and possibly State and Local taxes depending on where you live and work.

To assist you with this additional tax burden, many companies provide a tax assistance (gross-up) amount. The purpose of tax assistance is to help offset the additional tax that results from being relocated.

The amount of tax assistance you receive depends on your company's relocation policy. There are no required guidelines for a tax assistance calculation nor are companies required to offer any tax assistance at all. For this reason, relocation policies and tax assistance calculations can vary greatly between companies so it is important for you to become familiar with yours.

### Common Tax Assistance Methods

#### Fixed Amount

The company provides a set dollar amount to offset some of the additional taxes. The amount may vary depending on the particular relocation policy that applies to the move.

#### Percentage of Taxable Expenses

The company provides an amount equal to a percentage of the taxable expenses. The percentage may vary depending on your income and tax bracket as well as the particular relocation policy that applies to the move.

#### Equalization Method

The company calculates your estimated tax return, once without moving expense reimbursements and once with the reimbursements. The difference between the two calculations is the tax assistance. This type of calculation is typically based on the effect of Federal and State income taxes. It may also include Local income tax and FICA taxes

Finally, if you receive any tax assistance, it is also considered income and will create an additional tax liability. Many companies take this into account and provide additional assistance to compensate for this "tax-on-tax" effect. The total amount calculated will be included on your W-2 in income boxes 1, 3, 5 and 16 (and box 18 if you pay local taxes). The individual tax calculations will be included in the withholding box for the appropriate taxing authority.

## A Summary Expense Form (RTR)

### Needed to Complete IRS Form 3903



Your company may provide a Summary Expense Form or Relocation Tax Report (RTR) to you in order to categorize your moving expenses. The amounts for expenses that are incurred in 2009 are transferred from this form to IRS Form 3903. Form 3903 should be included with your individual tax return but the RTR is for your records only and should not be included when filing your returns. Here's how George Bailey's RTR looks.

Relocation Tax Report Yearend Summary			
George Bailey PPRBR-1 200 Ineo Blvd Chicago, IL 60606	Should match the amount in Box 12 "P" of W-2	EmployeeID	123456PPBRC
<b>Excludable and Non-Reportable Moving Expenses</b>	<b>Paid To Employee</b>	<b>Paid To Vendor</b>	<b>Total</b>
Transportation of Household Goods and Final Trip Expenses	\$1,500.00	\$17,000.00	\$18,500.00
<b>Taxable HHG and Final Trip Expenses</b>	\$0.00	\$0.00	\$0.00
<b>Taxable Moving Expenses</b>			
PreMove Travel and Lodging Expenses in Search of A New Residence	\$2,500.00	\$0.00	\$2,500.00
Temporary Living Expenses	\$0.00	\$7,500.00	\$7,500.00
Qualified Real Estate Expenses of Old Residence	\$0.00	\$0.00	\$0.00
Qualified Real Estate Expenses of New Residence	\$0.00	\$4,000.00	\$4,000.00
Taxable Expenses, Full Tax Assistance	\$0.00	\$0.00	\$0.00
Taxable Expenses, FICA Only	\$0.00	\$8,000.00	\$8,000.00
Taxable Expenses, No Tax Assistance	\$5,000.00	\$0.00	\$5,000.00
Total Tax Assistance	\$6,766.75	\$0.00	\$6,766.75
<b>Total Taxable Moving Expenses</b>	<b>\$14,266.75</b>	<b>\$19,500.00</b>	<b>\$33,766.75</b>
<b>Payroll Tax Authorities</b>	<b>Tax Assistance</b>	<b>Withholding</b>	
Federal	\$5,533.04	\$5,533.04	
From State	\$0.00	\$0.00	
To State ILLINOIS	\$816.59	\$816.59	
Locals Total	\$0.00	\$0.00	
	\$0.00	\$0.00	
	\$0.00	\$0.00	
	\$0.00	\$0.00	
	\$0.00	\$0.00	
	\$0.00	\$0.00	
Social Security	\$0.00	\$0.00	
Medicare	\$417.12	\$417.12	
<b>Total Tax Assistance</b>	<b>\$6,766.75</b>	<b>\$6,766.75</b>	

# Form 3903



The forms on these pages illustrate how to complete Form 3903 for any current year expense reimbursements. Note that the amount entered on line 4 should match the amount found on your W-2 Box 12 designated with a "P" code.

**Form 3903 Moving Expenses**  
 Department of the Treasury Internal Revenue Service (99)  
 OMB No. 1545-0062  
 Attach to Form 1040.  
 Attachment Sequence No. **62**  
 Name(s) shown on Form 1040: **George Bailey and Mary Bailey**  
 Your social security number: [redacted]

**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)	4,000.00
2	Enter the amount you paid for travel and lodging in moving from your old home to your new home (see instructions). Do not include the cost of meals.	1,500.00
3	Add lines 1 and 2	5,500.00
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 Form W-2. This amount should be shown in box 12 of your Form W-2 with code <b>P</b> .	1,500.00
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 Form 1040, line 7. <input checked="" type="checkbox"/> Yes. Moving expense deduction. Subtract line 4 from line 3. Enter the result here and on Form 1040, line 29.	

**From Box 12 of your W-2** (arrow pointing to line 4)

### General Instructions

#### What's New

For 2004, the standard mileage rate for using your vehicle to move to a new home is 14 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 (workplace). If the new workplace is outside the United States or its possessions, you must be a U.S. citizen or resident alien to deduct your expenses.

If you qualify to deduct expenses for more than one move, use a separate Form 3903 for each move.  
 For more details, see Pub. 521, Moving Expenses.

#### Who May Deduct Moving Expenses

If you move to a new home because of a new principal workplace, you may be able to deduct your moving expenses whether you are self-employed or an employee. But you must meet both the distance test and time test that follow.

#### 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 3 miles from your old home, your new workplace must be at least 53 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 shortest of the more commonly traveled routes between them.

**TIP** To see if you meet the distance test, you can use the worksheet below.

#### Distance Test Worksheet

Keep a Copy for Your Records

**TIP** 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	1.	992 miles
2.	Enter the number of miles from your old home to your old workplace	2.	47 miles
3.	Subtract line 2 from line 1. If zero or less, enter -0-	3.	945 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.

For Paperwork Reduction Act Notice, see back of form.

Cat. No. 12490K

Form 3903 (2004)

# W-2 Form



a Control number	22222	Void <input type="checkbox"/>	For Official Use Only OMB No. 1545-0008		
b Employer identification number (EIN)	1 Wages, tips, other compensation		2 Federal income tax withheld		
c Employer's name, address, and ZIP code <b>PepperBar, LTD 1000 Broadway Denver, CO 80202</b>	3 Social security wages		4 Social security tax withheld		
	5 Medicare wages and tips		6 Medicare tax withheld		
	7 Social security tips		8 Allocated tips		
	9 Advance EIC payment		10 Dependent care benefits		
	11 Nonqualified plans		12a See instructions for box 12		
d Employee's social security number	e Employee's first name and initial		Last name		
f Employee's address and ZIP code <b>George Bailey 200 Inco Blvd Chicago, IL 60606</b>		13a Statutory employee <input type="checkbox"/>		12b <b>P</b> 1,500.00	
13b Retiree annuity plan <input type="checkbox"/>		13c Non-qualified plan <input type="checkbox"/>		12c	
14 Other		13d Third-party sick pay <input type="checkbox"/>		12d	
15 State	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name
IL	108,766.75	3,263.00			
CO	45,000.00	2,083.50			

**Form W-2 Wage and Tax Statement**  
 Copy A For Social Security Administration — Send this entire page with Form W-3 to the Social Security Administration; photocopies are not acceptable.  
 Department of the Treasury—Internal Revenue Service  
 For Privacy Act and Paperwork Reduction Act Notice, see back of Copy D.  
 Cat. No. 10134D  
**Do Not Cut, Fold, or Staple Forms on This Page — Do Not Cut, Fold, or Staple Forms on This Page**

The amount in box 12 of the W-2, marked with a "P" code, is the amount of household goods and en route expenses (moving expenses) reimbursed to George Bailey by PepperBar. George should keep a copy of all these receipts. In doing so, he can accurately prepare form 3903. Without copies of the receipts, he may not have an accurate total to enter on lines 1 and 2 of form 3903. The result is that if his amount(s) total less than what is on his W-2 (box 12 "P"), then he may have to pay taxes on the difference. In addition, if PepperBar overstated the amount on his W-2, box 12, he may have to pay taxes on the overstated amount. For example, if the company improperly reported the shipment of his household goods to box 12 (even though it was paid directly to the van lines), George must request a corrected W-2 from PepperBar or risk paying taxes on the overstated amount.

## Child Tax Credit

### ■ Child Tax Credit

As discussed earlier, one of the factors that can impact a tax calculation are credits. As opposed to deductions, which reduce taxable income, tax credits are a direct reduction to your tax liability because, if applicable, they reduce the actual tax due not the taxable basis. One of the most often qualified for credits is that of the Child Tax Credit.

There is a \$1,000 credit per qualified dependent under the age of 17. This credit should not be confused with the personal exemption deduction or the childcare expense credit. Also, the number of dependents for exemption purposes may be different than the number of dependent children under age 17 for child tax credit purposes.

### ■ Phase Out of Child Tax Credit

The Child Tax Credit is phased down for taxpayers with AGI exceeding specific threshold amounts. The tax credit is phased out \$50 for every \$1,000 of modified AGI above the threshold limits.

#### 2009 Child Tax Credit Phase Out Limits

Single	\$75,000
Married, Filing Jointly	\$110,000
Married, Filing Separately	\$55,000
Head of Household	\$75,000

The Bailey's have AGI of \$228,767 which puts them over the Child Tax Credit Phase Out limit. Since Andy is their only child under the 17 year-old age limit, the Baileys would have one child tax credit at \$1,000 before the phase out calculation. This calculation would be:

#### Child Tax Credit Phase Out Calculation

- ▶  $\$228,767 - \$110,000 = \$118,767$  (round up to nearest 1,000)
- ▶  $\$119,000 * .05 = \$5,950$  child tax credit phase out
- ▶  $\$1,000 - \$5,950 = \$0.00$  (completely phased out)

As a rule of thumb, for every \$20,000 of AGI over the threshold limit, a full child tax credit will be phased out (\$1,000).

## Alternative Minimum Tax (AMT)

The alternative minimum tax (or AMT) is an additional tax some taxpayers may pay in addition to their normal income tax. The tax was created as a result of some individuals receiving preferential treatment to certain income and allowing special deductions or credits to certain expenses.

Typically, taxpayers with very high income are subject to AMT. These individuals, and some corporations, are allowed under US tax laws to take advantage of deductions and pay little or no tax at all. AMT is designed to eliminate or reduce some of these special deductions and ensure that these individuals pay, at least, a minimum amount of tax, hence the name. In other words, AMT (theoretically) determines the minimum amount of tax someone with your income should pay.

Certain criteria help determine who will pay AMT. However, there is no one determining factor. It could be one large deduction or a combination of many small deductions that make you subject to AMT.

If you meet one or more of the following criteria, you may wish to prepare form 6251 to see if you must pay the additional tax:

1. Form 6251 line 31 is greater than line 34;
2. You claim any general business credit, qualified electric vehicle credit, non-conventional source fuel credit or credit for prior year AMT; or
3. The total of form 6251 lines 8 through 27 is negative and line 31 would be greater than line 34 if you did not take into account the total of lines 8 through 27.

Generally, you are exempt from AMT if you have taxable income less than:

Married filing jointly	\$69,970
Single / Head of household	\$46,200
Married filing separately	\$34,975

Unfortunately, more and more taxpayers are subject to AMT each year. However, the good news is that a portion of your AMT liability, and possibly all of it, may reduce the tax you pay on future tax returns. To calculate and report this credit, prepare form 8801.

# Putting the Pieces Together



The following section is designed as a resource to assist you in planning your personal finances when relocating.

## Frequently Asked Questions (FAQs)

- Some taxable moving expenses were not grossed up by my company. Do I owe more taxes?*

Your company may have already withheld the appropriate amount of taxes at the time the payment was made. Verify with your relocation counselor that taxes were taken out of the payment for Federal, FICA, State and any applicable local taxes.
- During my move, I put personal belongings into a storage facility and the costs were not reimbursed by my company. Can I deduct these?*

If these expenses were for 30 consecutive days, you may deduct the costs from your taxable income. Add these costs to line 1 of IRS form 3903. Be sure you have appropriate receipts to validate the dates and costs associated with this reduction to your AGI.
- I noticed that there are more than just the non-deductible expenses added to my W-2 income. What could these amounts be?*

More than likely, any additional amount is the amount of tax assistance or gross-up your company paid to help offset your relocation tax liability. These amounts are typically paid directly to the taxing authorities on your behalf and reported in the appropriate tax boxes on your W-2 (boxes 1, 3, 5, 16 and/or 18).
- When should I expect a check for the additional tax assistance my company offers in its relocation plan?*

It's unlikely you'll receive an additional payment since most companies now pay these amounts directly to the appropriate taxing authorities on your behalf and report them in boxes 1, 3, 5, 16 and 1 of your W-2 as income, and boxes 2,4,5,17 & 19 as taxes withheld for each authority.
- I didn't get enough gross up. What should I do?*

Chances are, your company gave you an estimated amount that is near, and sometimes in excess of your relocation tax liability. Because relocation is such a specialized entity, some tax professionals forget to take appropriate deductions when those expenses are paid by the company, such as points or mortgage interest. It's best to take your relocation policy, RTR and this tax booklet to your accountant to assist in calculating your tax returns. Because companies are not required to pay any tax assistance, policies and calculations vary greatly. Become familiar with your company's policy as quickly as possible and begin discussing your tax situation with a tax professional early enough in the year to ensure you have appropriate planning time for your financial situation.

6. *I moved twice in this year. Can I take deductions on both moves?*

There are a number of factors at work here. Both moves must be for the benefit of your company to qualify. In addition, the intent of the first move should have been permanent and not temporary in nature. Should either of these conditions not be met, you risk the deductibility of one or both moves. Regardless, a separate IRS form 3903 should be completed for each move. Your company should provide you with a separate accounting of expenses in each move.

7. *I don't itemize deductions when filing my tax returns. Can I still take a moving expense deduction?*

Your company may have already resolved this for you since some moving expenses are excluded from your income as we discussed earlier in this booklet. Any other deductible expenses you had that were not reimbursed by your company can be taken as a deduction using IRS form 3903, which will assist in reducing your overall taxable wages when filing your tax returns.

8. *My company provided a lump sum to me to cover relocation expenses. Are there any deductions that I can take?*

If your lump sum was all-inclusive of your relocation, save all receipts relating to the shipment of your Household Goods and personal effects as well as the Final Trip costs to the new location. When these are not reimbursed to you separately, they may be taken as a reduction to your AGI using IRS form 3903. If these expenses are NOT included in your lump sum, but reimbursed separately, you should see the reimbursed amounts in Box 12 of your W-2 and cannot take a deduction for these amounts.

9. *My relocation reimbursements have moved me into an income range where I have lost some deductions and exemptions on my tax return. Is this considered in my tax assistance calculation?*

It may be. Discuss this with your relocation counselor. How the tax assistance is calculated and whether phase-outs are considered is determined in your company's relocation policy.

10. *I tipped my van line driver and his team. Can I take this as a deduction?*

Enter amounts for tips, food and beverages on line 1 of IRS form 3903 if you paid them yourself and were not reimbursed by your company. Also, don't forget to add other items such as packing supplies, pet shipment, appliance hook-up, assembly/disassembly of weight stations and play equipment, lodging and travel to the new location.

Remember, you can deduct only those expenses that are reasonable for the circumstances of your move. Travel deductions are via the most direct route.

Throughout this book, we've identified areas where relocation tax laws can be complex, at best. It is easy to see why the advice and counsel of a tax professional is critical to preparing an accurate tax return. However, many individuals prefer to prepare their own tax returns. Below are several areas that tax preparers with limited experience with relocation laws may make:

1. ***Mortgage interest and points are deductible.*** It's a common misconception that if a company reimburses an employee for interest or points (or pays them to a service provider on the employee's behalf), that they cannot be deducted. Since these expenses are added to your wages when paid by your company, it's important to offset the tax burden by taking this deduction.
2. ***State and Local tax assistance is deductible.*** Again, even if a company pays the state and local taxes on relocation, these amounts are deductible on Schedule A.
3. ***Non-company income may not be considered.*** Few companies include spousal or outside income when calculating an employee's relocation tax liability. For this reason it is important to review your company's relocation policy thoroughly and plan your financials accordingly.
4. ***Keep receipts for all moving expenses.*** Even if your company reimbursed your moving expenses, you should keep a copy of the receipts you submitted for reimbursement. Your company will report these reimbursements in box 12 of your W-2. However, when you prepare form 3903, lines 1 and 2 ask for the amount you paid for these expenses then compares this total to the number on your W-2. Insufficient receipts may result in you paying tax on any amount short of what is reported in box 12.
5. ***Tax is due in the state in which income is earned.*** Too often, taxpayers make the mistake of assuming that their residence dictates their tax state. The IRS defines the "tax home" as the city/locale where the income is earned. For this reason, it is important to file a W-4 form with your payroll department as soon as work in the new location begins.
6. ***Employees are responsible for W-4 form accuracy.*** The IRS holds you responsible for filing a correct W-4 in a timely manner. Even if your payroll department enters the wrong tax state for payroll withholding, it is your responsibility to ensure the correction is made.

## Common Mistakes Taxpayers Make continued

7. *State Gross-up may only encompass the new state.* It is common for companies to calculate state gross-up in the destination state only. However, certain expenses may have been earned prior to beginning the new position and should be reported accordingly on your tax returns for each state.
8. *A local tax preparer may not know multi-state tax implications.* Most of us prefer to be loyal to professionals who have given us great service in the past. However, the tax preparer you have used for several years may not have the knowledge or experience to work with issues surrounding relocation, especially multi-state tax issues. It is advisable to seek council from a preparer who is experienced in these issues during a year(s) in which you have relocated.

Tax preparers, too, can make mistakes. Often, a tax professional will calculate a tax return with and without relocation to determine if there is a shortage of tax assistance. While this may sound reasonable, certain aspects of the relocation need to be known to do this accurately.

The tax mistakes already noted should be discussed with the tax professional. When removing relocation from the tax forms for the “without” relocation tax calculation, the preparer should take these items into account. For example, if the company only includes company-earned income in it’s tax assistance calculation, then all outside income should be removed from the without calculation.

Likewise, if the company paid mortgage points or interest, the “without” calculation should have the company paid amounts removed from the Schedule A deductions. In addition, it’s important for the tax professional to know which expenses the company’s policy allows for gross-up and those which are not grossed-up.



### How the Baileys Fared

PepperBar did pay tax assistance for George but did not include Mary’s income in the calculation. The result is that, even though when filing their Federal tax returns the Baileys will be in the 28% tax bracket, the company grossed-up the taxable relocation expenses at 25%. George’s tax professional helped him adjust his W-4 withholding to ensure he would not be penalized for under-withholding.

## Relocation Expense Worksheet

E X P E N S E	Amount Reimbursed to Me	Amount Paid on My Behalf
<b>DEDUCTIBLE MOVING EXPENSES</b>		
<i>Transportation of Household Goods &amp; Personal Effects</i>		
▶ Transportation of household goods		
▶ In-transit storage (1 <sup>st</sup> 30 consecutive days)		
▶ In-transit insurance		
▶ Cost of packing and crating		
▶ Cost to ship automobiles		
▶ Cost to move pets		
▶ Tips and food for van line personnel		
▶ Cost to disconnect & connect utilities/appliances		
▶ Other deductible costs to move household goods		
<i>Travel Expenses from Old Home to New Residence</i>		
▶ One-way airfare and public transportation		
Personal car mileage @ 24¢ per mile <b>OR</b> actual expenses of car (gas, oil, etc)		
▶ Parking and tolls		
▶ Lodging while enroute (including last day at old location and first day at new location)		
▶ Other deductible costs while traveling to new residence		
<b>TOTAL DEDUCTIBLE MOVING COSTS</b>	\$ *	\$
<b>TAXABLE MOVING EXPENSES</b>		
▶ House hunting trip(s)		
▶ Temporary and interim living expenses		
▶ Meals		
▶ Storage in excess of 1 <sup>st</sup> 30 consecutive days		
▶ Closing costs in sale of old residence		
▶ Cost of breaking a lease		
▶ Closing costs in purchase of new residence		
▶ Cost of obtaining a new lease		
▶ Loss on sale		
▶ Miscellaneous allowance(s)		
▶ Lump sum payments		
▶ Return trips home during temporary living		
▶ Excess final move mileage over 24¢ per mile		
▶ Other allowances and/or bonuses		
<b>TOTAL TAXABLE MOVING EXPENSES</b>	\$	\$

\* The amount noted in this box should appear on your W-2 in box 12, designated with a “P” code if it was reimbursed directly to you. If this amount is higher than the amount in Box 12 of your W-2, you may be eligible for an additional reduction of your AGI on your Federal tax return. If this amount is lower than the amount in Box 12, contact your relocation counselor to ensure you have accurate records of all receipts for these expenses since the excess amount may increase your taxable income when filing your tax return.

## Additional Information at your Fingertips

There are a number of valuable resources available to you on the internet. Below is a listing of a few of these sites.

**[www.ineotech.com](http://www.ineotech.com)**

Nationally recognized leader in relocation and tax management software solutions

**[www.usps.com](http://www.usps.com)**

Official US Postal Service website for change of address information

**[www.irs.gov](http://www.irs.gov)**

Official IRS website forms, publications and general information

**[www.state.XX.us](http://www.state.XX.us)**

State websites (use the state's two letter code in place of XX)

**[www.sisterstates.com](http://www.sisterstates.com)**

A single source for state tax sites

**[houseandhome.msn.com](http://houseandhome.msn.com)**

Variety of information on moving, home selling, buying, improvement and finance

Also, be sure to visit the IRS' website for information, publications or tax forms to help you on your way when filing your tax returns.

### Helpful Publications available online at IRS website

- ▶ Publication 521  
Moving Expenses
- ▶ Publication 523  
Selling your Home
- ▶ Publication 530  
Tax Information for First Time Homeowners
- ▶ Publication 54  
Tax Guide for US Citizens and Residents Abroad
- ▶ Publication 972  
Child Tax Credit

## Glossary of Terms

### ■ AGI – Adjusted Gross Income

Actual taxable income prior to deductions calculated on IRS form 1040.

### ■ Deduction

Any amount allowed under US tax law that can be used to reduce the amount of taxable income a person reports when filing a tax return on IRS form 1040.

### ■ Deductible Expense

This term can cover several categories of expenses. The shipment of household goods and final travel to the new location are considered deductible and may be deducted from taxable wages on IRS form 1040 if they have not been reimbursed by your employer. The same expenses, if reimbursed directly to you, are reported on your W-2 in box 12P. When these expenses are paid directly to a third party on your behalf, they are not reported on your W-2 and you cannot take a deduction since you did not pay them yourself. Other deductible expenses include points, which are taxable but may be taken as a deduction on Schedule A of your IRS form 1040.

### ■ Exemption

Every tax filer may take him or herself as an exemption to help reduce your taxable income. Also, your spouse and dependents may be taken as exemptions under certain guidelines. For 2009, the amount of each exemption is \$3,650.

### ■ Excludable Expense (Deductible)

These expenses are deductible expenses that are excluded from income but reported on your W-2 in box 12 designated with a "P" code. They have no affect on your income except when you cannot produce appropriate receipts for the amount listed in box 12, at which point, the difference of the receipted amount and actual receipted amount may be taxable to you. You do NOT have to itemize on your tax return to "exclude" these expenses.

### ■ Gross-up

This is another term for tax assistance. Gross-up is used to help offset the tax liability incurred as a result of relocation. There is no set guideline for how a gross-up must be calculated and each company can determine to what extent they will "gross-up" taxable relocation expenses.

### ■ **Homesale Expense**

When handled according to IRS Revenue Rulings, homesale expenses may be reported as a business expense by the company and not added to your taxable earnings. Because of the risk involved in a guaranteed buyout of an employee's home, companies may not offer this benefit to every employee. Certain expenses associated with a guaranteed buyout may still be taxable.

### ■ **IRS form 3903**

Moving expense form you should complete and file with your Federal tax return. This form is an account of moving expenses that may help you reduce your taxable income. Only the amounts actually paid by you may be included on this form. Amounts paid by your company on your behalf are not reported on your tax returns.

### ■ **Mortgage Points and Interest**

A discount point is typically prepaid interest and helps reduce the overall interest rate of a mortgage. Points, along with other mortgage interest amounts, are deductible on Schedule A of IRS form 1040 and may also be called loan origination fees or loan discount points. Points also fall into the deductible expense category but are reported on Schedule A to reduce taxable income rather than form 3903. Points are also deductible in many states, but not all states.

### ■ **Non-Deductible Expenses (Taxable)**

These expenses are nearly any other expense that does not fit into the deductible or business expense categories. They include all meals, househunting, temporary living, allowances, bonuses, lump sums, new/old home closing costs, and tax assistance.

### ■ **Non-Reportable Expenses (Deductible)**

These expenses are often confused with excludable expenses and rightfully so. They are the same expense types but what makes them different is who receives the reimbursement. If your company pays a deductible expense directly to a van line, for example, it is not reported on your W-2 and cannot be used to reduce your overall taxable income.

### ■ **Schedule A**

This form is used to report itemized deductions when your total allowable deductions exceed the standard deduction amount set each year by the IRS. Moving expenses reported on form 3903 reduce your taxable income and are not reported on Schedule A.

*The information in this book is based on the tax laws in effect as of January 1, 2009. This publication is designed to assist the reader in identifying the underlying effects of a relocation but should not be construed as professional advice about a personal financial situation. It is recommended to consult with a qualified tax professional about your specific circumstances.*



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