

U.S. Tax Update: IRS Confirms 2017 Moving Expenses Paid in 2018 are Nontaxable

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This article focuses on the implications for corporate mobility programs based on guidance provided via IRS Notice 2018-75 dated September 21, 2018 related to the U.S. tax reform signed into law on December 22, 2017.

Tax Relief for Moving Expense Payments and Reimbursements in 2018 for 2017 Moves

The Internal Revenue Service (IRS) has released guidance clarifying the tax treatment of certain moving expenses incurred in 2018 for moves that occurred in the prior calendar year. IRS Notice 2018-75 states that moving expenses previously excluded by employers from taxable income associated with shipment of household goods, storage expenses and final move travel expenses would remain nontaxable if paid in 2018 for an employee move that occurred in 2017.

This guidance from the IRS is welcome news for corporate mobility programs as well as employees as it creates a notable exception to the 2018 Tax Cuts and Jobs Act (TCJA) and carves out these residual expenses from 2017 moves that would have otherwise been taxable under tax reform. With the majority of mobility programs grossing-up these expenses, this will result in a tax savings of applicable Federal, FICA and FUTA (Federal Unemployment) taxes.

As a reminder, moving expenses for moves that have occurred in calendar 2018 will continue to be non-deductible for the employee and taxable wages, subject to tax withholding, if paid by the employer. The TCJA suspended the moving expense exclusion/deduction beginning January 1, 2018 through December 31, 2025.

State Taxation Considerations

The vast majority of states follow the IRS' guidance on the taxability of moving expenses and we anticipate that most states will follow suit and consider these moving expenses from 2017 moves as nontaxable for 2018 state tax purposes. But it is noteworthy to point out that currently there are several states that have not conformed to the taxable treatment of moving expenses for 2018 and beyond as set out in the tax reform. It will be prudent to monitor this closely and consider which states will require wage reporting and applicable gross-ups in 2018.

Employer Next Steps

Employers that have already included moving expense reimbursements or third-party payments in taxable wages for 2018 year-to-date should follow the normal employment tax adjustment and refund procedures to adjust wages and gross-ups before December 31, 2018. Employers should file Form 941-X to claim a refund of Federal and FICA tax withholdings (including employer and employee portions). It is worth noting that if these expenses were not grossed-up, the employee would be entitled to a refund of the withholdings. FUTA taxes as applicable can also be adjusted prior to year-end.

Final Thought

While many corporate mobility programs budgeted for the added tax costs on these moving expenses and will experience a favorable impact in tax savings, it's important to anticipate that there will be administrative costs (internal and/or external) to identify the impacted employees, recalculate reportable wages, reverse applicable taxes and process changes in a timely manner.