Fundamentals of Relocation: U.S. Domestic

Making Sound Decisions and Maintaining a Successful Program

There is perhaps nothing more important to the strength and vitality of an organization than its mobile talent.

Relocation helps companies expand their presence, grow their business and groom future leaders, ensuring longevity and stability. Relocation is also a complex and ever-evolving process, impacted by everything from economic conditions to your company's business strategies.

Making sound decisions and maintaining a successful program requires a deep understanding of the fundamentals of workforce mobility. This whitepaper has been designed to offer a primer on those fundamentals, covering everything from key policy components, home sale and purchase processes, and tax and legal considerations.

Business success is fueled by having the right employees in the right place at the right time. This underscores the importance of a well-managed corporate relocation program.

THE AVERAGE RELOCATION COSTS

2022		2023	
$85,466 Homeowner	$33,522 Renter	$93,823 Homeowner	$36,486 Renter

RELOCATION ROLES

There are many people and functions involved in the relocation process. The most common team members in a mobility workforce program are:

The Corporate Mobility Manager

Corporate relocation personnel are typically aligned under Human Resources, Total Rewards, or Talent Acquisition. They are responsible for every aspect of employee relocation and thus must stay current with compliance regulations and the trends that could impact their workforce. Many corporations rely on the expertise of relocation service providers to keep internal resources focused on core objectives.

The Relocation Management Company (RMC)

RMCs are responsible for implementing their corporate clients' relocation policies, managing the relocation process, and providing the appropriate management, consulting, and administrative personnel. RMCs, either in-house or through vendor partners, have the legal, tax, and industry expertise often outside the "core competency" of the corporation, which is why more and more companies outsource the relocation function.

The Transferee (Or Relocating Employee)

Your mobile employees are among your organization's most valuable and critical assets! Getting them settled quickly is essential to the success of any company's relocation program.

Reflective of the current economic condition, more companies have shifted away from covering all relocation expenses. Employees are responsible for managing costs associated with their moves while ensuring they relocate quickly, cost-effectively, and with minimal inconvenience.

The Broker

The broker is the transferee's real estate expert. They prepare a Broker's Market Analysis (BMA)—a comprehensive evaluation of the home's marketability, an estimate of the most competitive list price, and the home's eventual selling price based on comparable listings and recent sales.

Using that information, the broker and homeowner work together to develop a marketing plan to sell the home in the shortest time for the best price possible. Depending on the type of home sale program, the broker will work with the relocation management company to manage the home while in inventory and, more importantly, help quickly find a buyer.

The broker in the new location will provide the transferee and family with information on their new location and gather data from them to assess their new home requirements. They will arrange orientation tours, help transferees find the right home or rental, and provide settling-in assistance.

The Appraiser

The appraiser prepares a comprehensive report utilizing competition and recent sales. They provide their opinion of the anticipated sale price based on an objective financial analysis of comparable listings, recent sales, anticipated future market conditions, and the anticipated time to sell the property in "as-is" condition (not to exceed 120 days).

The Home Inspector

The home inspector may be brought in to conduct a comprehensive examination of specific areas or the entire home. For instance, curled roofing material might warrant a more extensive roof inspection, or signs of water in the basement might necessitate an examination of footings or mechanical systems in that area.

Specific state-approved forms may also be required. Worldwide ERC® has developed a Relocation Home Inspection Report outlining standard criteria by which professionals can report on their visual inspection. However, the Relocation Home Inspection Report is not intended to replace a more comprehensive buyer's home inspection.

RELOCATION PROGRAMS AND POLICIES

Relocation programs have become more complex to support the company's evolving needs. The type of program should balance the company's interests with the employee experience.

Tiered Approach

Tiered policies are comprised of several levels of benefits, depending upon the criteria established by the company. Tiered relocation policies aim to ensure the appropriate level of support and benefits for each employee based on their salary, skill, position, or company need while containing overall relocation costs. According to a 2022 Atlas survey, most companies have at least two or more tiers (or levels) within their relocation policies - 69% large, 90% mid-size, and 87% small companies.

Policy Tiers are based on various criteria:

	Small Companies	Mid-Sized Companies	Large Companies
Position/Job Title	44%	49%	48%
Job or Grade Level	38%	41%	36%
New Hire/Current Employee Status	41%	42%	23%
Homeowner/Renter Status	15%	25%	20%
Company/Employee-Initated Moves	13%	19%	16%

Source: Atlas 2022 Corporate Relocation Survey

New Hires

Despite economic ups and downs, the demand for acquiring skilled talent is still high. As companies evaluate their talent management plans, a robust relocation package will remain vital to a corporate recruitment strategy. Early career new hires are more mobile than previous generations and have high expectations of their future employers. While new hire programs are typically less generous than the policies provided for current employees, many will tier their new hire policies to offer recruiters more flexibility.

Lump Sum

A lump sum payment is typically based on distance, family size, and anticipated expenses related to two or more policy areas, like house hunting and temporary living. The employee is not required to report expenses, and they retain any unused funds. A lump sum program provides motivation to expedite the move, an incentive to keep costs low, and the flexibility to address diverse needs.

Flexible Programs

Core-flex, Points, and Menu-driven programs continue to gain popularity, with more than 70% of companies wanting to add flexibility to their programs. The early adopters viewed flexible approaches as cost-saving since employees utilized fewer benefits overall. Today, the employee experience is the driving force behind flexibility. Stakeholders are more engaged in the overall success of the move as the employee or the business customizes the benefits to meet their needs. In some cases, the policy won't be the sole solution – the Core-Flex method may need to be combined with other elements or approaches to achieving the intended outcome.

Renters

There is a noticeable increase in the number and cost of relocating renters. Some homeowners are choosing to rent first in their new location, and there is a growing number of lifestyle renters; those who want to respond to job and lifestyle changes. This group includes those on a management track requiring frequent moves and those approaching retirement age.

Renters require the services of relocation professionals, especially when the rental market is tight and rents are high.

Recognizing these needs, corporations are beginning to offer renters expanded benefits. In addition to lease cancellation assistance and rental home finding services, employees may be provided support with home finding fees and commissions, cost-of-living assistance, and settling-in services within formal policies.

COST CONSIDERATIONS

The pressure to control relocation costs is constant, but the factors influencing spending can vary significantly from one company to the next. Cost drivers include:

- Volumes of Moves
- Locations
- Program Types
- Benefits
- Demographics - e.g., Executive-level moves or accompanied moves (families)

A common approach to managing costs is applying limits on assistance with dollar maximums or timeframes. Companies are advised to use caution when determining maximums. The employee may not see the value in the program should the maximums not cover the costs of the benefits.

The most 'in demand' services as reported by Worldwide ERC® 2022. Note: these costs don't necessarily reflect specific program types, provisions under each benefit, locations or family size.

1. Home Sale Assistance $36,910
2. Loss on sale assistance $31,125
3. Household goods shipment $16,465
4. Federal tax liability $14,289
5. Cost of living support $11,798
6. Temporary living $11,339
7. Home sale incentive bonus $8,188
8. Miscellaneous expense allowance $7,856
9. Home purchase closing costs $7,520
10. Final move relocation expenses $3,289
11. Home finding trip(s) $3,210
12. Duplicate housing assistance $3,069
13. Lease cancellation assistance $2,410
14. Spousal support $2,163

Payback Agreement

A payback agreement is like a safeguard for the company, protecting the investment of relocating an employee. Most companies have payback clauses in their relocation policies stating that if a relocated employee elects to leave the company within a defined period following their relocation (generally up to two years), the employee is responsible for repaying some or all of their relocation expenses. Some companies prorate the repayment amount based on the time from relocation to termination. HR, recruiting and legal counsel should determine if the provision is enforceable or consistent with company culture.

PRE-ACCEPTANCE PERIOD

Pre-Decision Assistance

In the face of dual career families and declining home values—two leading causes of employee reluctance to relocate—companies are taking a more proactive approach to relocation, performing extensive due diligence before any significant financial investment is made.

Pre-decision programs have emerged to encourage fact-based decisions regarding the value of employee properties and to avoid spending time, money, and effort recruiting an employee who can't afford to relocate or does not warrant the move-related costs.

These services come into play after an offer is extended to the employee (current and new hires) and are customized to reflect the company's relocation program.

According to Weichert's Employee Mobility Survey, most companies provide policy consulting and a pre-decision trip as part of their pre-decision programs. In addition, approximately half of the companies use at least one appraisal to establish the departure home value—essential if the employee is eligible for a guaranteed buyout. Others indicated using a Broker's Analysis (BMA) to establish the departure home value.

Orientation Tours

To help employees or new hires decide whether or not to accept an offer to relocate, relocation management companies coordinate with local real estate agents to provide tours of local housing, schools, corporate office and recreational opportunities.

DEPARTURE BENEFITS

Miscellaneous Expense Allowance

An allowance, usually equal to one month's gross salary, is often given to relocating employees to cover incidental expenses related to the move, such as auto registration and appliance hook-up. The employee is not required to itemize or document these expenses.

Lease Cancellation

For renters in the departure location, costs related to lease break, security deposit loss, and duplicate rent are typically reimbursed. The majority of companies will cover these expenses up to a maximum of 2-3 months of rent.

Home Sale Assistance

As part of corporate-based/in-house purchase programs, the company offers to buy the home at market value if the transferee cannot sell within a reasonable period. The corporation oversees all aspects of the program, often within the HR department. Similarly, in third-party programs, the company contracts with an outside firm to purchase and resell the home.

No matter the home sale program used, the goal is to sell the employee's home for the best price in the shortest time possible.

For a list of commonly used relocation terms and definitions **click here.**

Home Sale Programs

The goal of all home sale programs is the same: to sell the employee's home for the best price in the shortest time possible. The actual home sale transaction will be handled in one of several ways.

Ammended Value Option (AVO)

Appraisals are ordered, and an Appraised Value is established. The employee finds a buyer for their home during the offer period at an acceptable price. The corporation or relocation management company will acquire the home from the employee at the Fair Market Value (Sales Price) and complete the sale with the outside buyer.

Buyer Value Option (BVO)

No appraisals* are ordered by the company or relocation management company. Instead, the employee markets their home, and a bona fide offer from an outside buyer establishes the home value. At this point, the corporation or RMC acquires the home from the employee for the offer amount and completes the sale with the outside buyer.

*Weichert advocates ordering all pre-acquisition reports upfront, including at least one independent fee appraisal, to establish a more accurate and successful marketing strategy.

Appraised Value Offer

Appraisals are ordered, and an Appraised Value is established, typically based on two appraisals with values within 5 percent. At some point during the offer period (typically 60 days), the employee accepts the company's offer and receives equity based on the appraised value. The company assumes full responsibility for the maintenance and sale of the property.

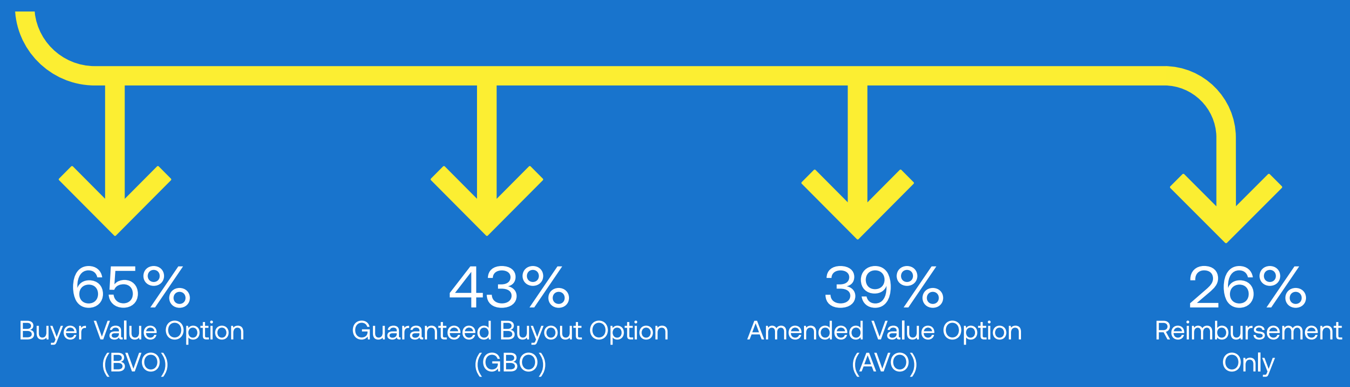
Assigned Sale

A home sale transaction in which the relocating employee accepts and signs a purchase offer from a potential buyer, at which time they "assign" the closing of the sale to the company or a relocation management company. The Assigned Sale transaction does not fit the concept of two separate transactions as outlined in IRS Rev. Rul. 72-339 and, therefore, is considered a higher-risk transaction from a tax perspective.

The reimbursement of commission and closing costs on the sale of an employee's home can be substantial, as can the resulting tax gross up on these reimbursements. Refer to the **"Tax and Legal Issues"** section for information on relocation home sale transactions with significant cost implications.

Whether Amended Value or Buyer Value Option, the most successful home sale programs include **transferee incentives,** such as a home sale bonus and mandatory marketing assistance provided by company-approved brokers who are relocation specialists.

TYPES OF HOMESALE PROGRAMS



Source: Worldwide ERC® 2022

Home Marketing Assistance

Relocating with or without family to begin a new job is challenging enough. Trying to market a home simultaneously means neither the new job nor the home marketing is given the attention they deserve. That is why many corporations require employees to participate in a well-structured home marketing program. The best marketing assistance includes a Broker's Price Opinion and marketing strategy prepared by a company-approved broker, who works hand-in-hand with the employee and spouse/partner, helping them decide what they should and should not do to sell their home quickly. T¬hese programs are also a cost-effective option to assist employees who are not eligible for full home sale programs.

An employee's attention is divided among multiple priorities during a relocation, so offering monetary incentives to those who sell their homes quickly may benefit in a shorter marketing time and fewer homes in inventory.

To increase the possibility of a quick sale, an effective strategy is to link eligibility for the incentive/bonus to using company-approved brokers and pricing guidelines. Weichert's Policy Database reports that 59 percent of companies offer a bonus or cash incentive, in addition to home marketing assistance, for homes sold during the self-marketing period. The most common method is to provide a percentage of the home's value, most frequently 2 percent. The average dollar amount last reported by Worldwide ERC® was $8,188 (in 2022).

Loss on Sale

A real estate market with declining home prices and shrinking demand increases the likelihood of sellers taking a loss on the sale of their homes. Weichert data in the years 2018-2022 reveals that companies experienced a steady decrease in the number of loss-on-sale payments. In comparison, Weichert's survey in 2017 showed that 54% of companies offered loss-on-sale assistance, either formally in policy or on a case-by-case basis.

Relocating employees must contend with existing market conditions when their companies ask them to move, unlike "typical" sellers who can wait out slow markets. Offering loss-on-sale protection can be a critical factor in prompting employees to move.

Most companies do not include capital improvements in their calculation of the loss. To lessen the financial burden, many companies tax-protect the loss-on-sale assistance.

DESTINATION BENEFITS

Home Finding Trips

Recognizing that finding a home or apartment in the new location is a priority for their relocating employees, companies offer home finding trips for homeowners and renters. Less than half of corporations surveyed offer homeowners two or more home finding trips, with the remaining companies providing one.

Temporary Living

Many transferees must vacate their old residences before moving into a new home. Temporary living coverage is usually offered for 30-60 days at the new location and may include reimbursement for one or more trips back to the departure location. The trend is to exclude family members from temporary living provisions to contain costs. Discouraging or denying eligibility for temporary living due to new construction can help keep these costs under control.

Mortgage Assistance

Offering mortgage assistance through national lenders is another common form of relocation assistance; this service is often provided to all company employees. National lenders understand the unique needs of relocating homeowners and have several mortgage programs available.

They can pre-qualify the employee, making them an attractive buyer. Lenders provide prompt loan approval and arrange for direct billing to the corporation.

Home Purchase

Most employees on a management track will be relocated more than once in their careers. To ensure that the property an employee buys today does not become a "problem property" in the future, transferees should be required to work with company-approved brokers in the destination location. Among new hires, most companies assist with home purchase costs, with 84% offering assistance to executive-level employees and 50% to experienced employees.

More companies are limiting home purchase benefits to certain employees to rein in relocation costs. The majority limit coverage to employees who were homeowners at the old location or have attained certain job levels.

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Declining real estate markets have resulted in challenges for employees purchasing homes. Changes in underwriting guidelines include increased down payment requirements, tighter debt-to-income ratios, and elimination of trailing spouse income in mortgage qualification. With historically low mortgage rates, many companies are now moving to a sliding scale for this portion of the reimbursable expense. The sliding scale is based on the FNMA 60-day rate, which allows policies to automatically meet the changing rate environment in the mortgage market. As rates increase, the benefit increases to provide additional assistance to transferees. When rates are low, paying points is not really necessary.

Important Note:
Check with corporate legal counsel to ensure that any financial assistance provided to an employee considered an "executive officer" is in compliance with the Sarbanes-Oxley Act. Many standard relocation practices (i.e., mortgage assistance, direct billing, and buy-downs), while not called loans, may be considered loans under Sarbanes-Oxley. (Refer to Worldwide ERC's Employer's Sarbanes-Oxley Checklist.)

Equity Advance

Because employees often find a new home before selling their departure residence, it is common practice to advance equity—generally based on the appraised value—for a down payment. The money will either be provided through corporate funds or advanced by the relocation management company and billed to the company with interest. Executive officers would not be eligible for this assistance under Sarbanes-Oxley restrictions.

Cost of Living Assistance (COLA)

Cost-of-Living Assistance programs help to ease the employee's relocation to a higher-cost area. Supplemental payments are made to the employee for the first several years in the new location, often on a three-year declining basis, with salary increases gradually offsetting the higher costs. Most companies consider costs other than housing when determining the amount of the COLA payment and may contract with their relocation management company or another third-party provider to develop location-specific allowances.

Mortgage Interest Differential Assistance (MIDA)

The MIDA Assistance program provides temporary subsidized payments to make up the difference in mortgage rates for a limited period (usually three to five years). This assistance is either provided as a lump sum, a uniform payment over a pre-determined time, or a graduated-payment.

Mortgage Subsidy/Buydowns

Whereas MIDA payments are paid directly to the employee, mortgage subsidy or buydown payments are advanced directly to the lender to reduce monthly mortgage payments. While temporary buydown qualification criteria have become more restrictive, several benefits exist. The buydown can be long-term, covering the life of the loan, or it can be short-term, reducing mortgage payments for a certain period.

Transportation of Household Goods

These services typically include shipping, packing, unpacking, and 30 to 60 days of storage. In addition, 90% of companies provide supplemental insurance (full replacement), and many will also cover the transportation of family pets and the shipment of automobiles.

Pets

This coverage is usually limited to two cats or dogs when offered. Exotic pets are the responsibility of the employee.

Automobiles

This coverage is often linked to the distance of the move. For instance, the company may move one vehicle if the distance is up to 300 miles and two if greater. Mileage reimbursement is provided for one or two vehicles when driven.

Family Assistance

Family concerns (dual career issues, child, and elderly care issues) are among the leading reasons for transferees to decline relocation, ranking number one among the major reasons for reluctance to relocate. And as more employees accept responsibility for their aging parents, elder care may become an area of equal concern.

Because moving employees into hot housing markets is a tough sell, high housing costs are one of the leading causes of reluctance to relocation.

TAX AND LEGAL ISSUES

Misunderstanding the tax and legal requirements associated with relocation can be costly, so a corporation's tax and legal counsel must be consulted concerning any interpretation of IRS guidelines or policy changes.

Tax Assistance (Gross-Up)

Any amount paid to (or on behalf of) an employee as reimbursement for relocation expenses must be included in the employee's gross wages and is subject to the appropriate withholding requirements. These taxable expenses are part of the employee's income, creating an additional tax burden for the employee that would not have existed had the employee not been transferred.

Furthermore, employees who receive reimbursements for the federal tax liability resulting from the payment of moving expenses face additional tax consequences (just like the original moving expense reimbursement) and give rise to additional tax liability.

Understanding this tax-on-tax situation, most companies providing tax reimbursements make provisions to offset or "gross up" the tax reimbursement.

To address this added financial burden, most companies have developed "gross up" assistance to alleviate some or all of the employee's federal tax liability resulting from payment of moving expenses.

Tax Assistance Policy Components

Companies vary on which expenses they tax-protect. For example, virtually all companies assist with the tax liability on payments for temporary living and house hunting, meals, and new home purchase closing costs. Most companies also tax-protect miscellaneous allowances and employee loss-on-sale payments. It is less common to tax-protect incentives. Of the companies that gross up, nearly all also assist with state income taxes, while more than half pay local income tax liability.

Withholding

Moving expenses paid to or on behalf of an employee must be included in the employee's income, with all applicable taxes withheld on the payment. The company may withhold at the rate used for the employee's regular wages or at the rate allowed for supplemental wages.

Tax Treatment of Home Sale Programs

In 1972, the IRS issued Revenue Ruling (RR) 72-339, which holds that a properly structured home sale program does not result in employee income. Provided there are two bona fide sale transactions, one from the employee to the corporation/relocation company to the ultimate buyer, then "no part of the transaction will give rise to income as compensation for the amount of a real estate commission that was neither paid nor incurred." The reimbursement of commission on the sale of an employee's home can be substantial, as can the resulting tax gross-up on these reimbursements.

As a result, (RR) 72-339 offers a legitimate method to reduce relocation costs.

In a home sale program, the corporation or relocation company usually estimates the fair market value of the employee's property by ordering two independent appraisals and averaging the two figures. This averaged appraised value amount becomes the offer price presented to the employee.

Employee sales are perceived more favorably by the employee and are half as costly to the corporation as inventory sales; that is, a home acquired from the employee, taken into inventory, and resold.

To maintain the favorable tax treatment associated with Revenue Ruling 72-339, the transferee/employer must demonstrate that there are two bona fide sales and that the amount paid to the employee is not contingent on the successful close of the outside offer.

Over the years, companies have implemented numerous variations of these types of programs. As a result, the IRS issued several private and adverse letter rulings regarding some forms of employee sales.

Revenue Ruling 2005-74 (issued November 30, 2005) clarifies the taxability of home sale programs. Specifically, appraised value and amended value transactions are tax protected. Unfortunately, the ruling does not express an opinion on Buyer Value Option (BVO) transactions. Still, it is generally accepted that programs that follow the Worldwide ERC® 11 Key Steps will be reviewed favorably by the IRS.

11 Key Elements and Procedures of an Amended Value Option **click here.**

PUTTING IT ALL TOGETHER

Fundamental to achieving business and profit objectives is having the right employees in the right place at the right time. Companies can suffer heavy losses on recruiting, training, and operations without relocation programs that complement these goals. The challenge in most organizations today is to accomplish the desired mobility objectives at a reasonable cost but with a smaller staff juggling more responsibilities. However, each company enjoys a different competitive environment, and its relocation policy should reflect its unique culture and specific corporate mobility objectives. Leveraging the knowledge you have gained here will help you balance your policy with those corporate objectives.

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