PODS FOR BUSINESS

What the Tax Cuts and Jobs Act means for U.S. Companies' Corporate Relocation Programs

BY PODS® FOR BUSINESS

Contents

Introduction

On December 22, 2017, the Tax Cuts and Jobs Act, formally known as public law no. 115-97, was signed into law. The headline items in the act were clear: a collection of tax cuts and simplifications due to come into effect on January 1, 2018, that would result in net benefits to individuals and corporations worth hundreds of billions of dollars.

The practical effect of this change is that relocation costs will be higher in one of two ways.

But lurking in the small print far down the page was a line item that could impact business decisions: **both the personal deduction for moving expenses and the exclusion from employees' taxable income of qualified moving expense reimbursements are repealed.** Now all reimbursements for moving expenses from employers are considered employee income and are taxable.

The practical effect of this change is that relocation costs will be higher in one of two ways. For employers who choose to 'gross up', or make an additional payment so that the employee receives the sum they would have received if there had been no income tax, **the total cost of each relocation will increase by between 10 and 40 percent.** This increase would reimburse the employee not only for the moving expenses, but also the taxes they will pay on that additional "income". But if employers opt not to gross up, their employees will either have to scale back on the relocation services they use or pay more out of their own pockets to compensate for the taxes on that additional "income".

First, we will look at the change in the law and the resulting challenges it poses for companies intending to relocate employees. Then we'll examine the wider context to understand the likely impacts of the law more fully. Finally, we will discuss ways some affected companies plan to mitigate those impacts in an effort to remain competitive.*

Relocation:

the new financial geometry

Amid the welter of high-profile measures in the Tax Cuts and Jobs Act, the repeal of the moving expense deduction on personal income tax returns, and the exclusion for employer reimbursements and payments of qualified moving expenses, was a detail that received relatively little attention. Although industry bodies such as Worldwide ERC® and the American Moving and Storage Association (AMSA) fought hard, the measure remained in the bill.

The repeal of the deduction is actually just **a suspension until 2026, when the favorable tax treatment for moving expenses will also revert to the pre-2018 situation.** It affects payments made from January 1, 2018, onwards. The only exception is for military moves: **the deduction and the exclusion are preserved for members of the military on active duty who move as a result of military orders.**

However, the simple fact that payments for movement of household goods, storage, and final move travel will all become taxable to transferees, means that companies could experience additional relocation costs.

Peter Scott, Tax Counsel to Worldwide ERC®, explains the impact in more detail:

"If you're planning to move an employee from city A to city B and pay all the costs, [then] costs that were not formerly part of that employee's income now are. The cost of moving household goods and the cost of move travel and qualified storage of goods, for example, which previously were not taxable, now are taxable. So from the employee's perspective, they are going to owe additional taxes unless the employer protects them from those taxes. Most employers do that – in other words, they would not only pay to move the household goods, but they would pay an extra amount to cover the taxes that would result from that payment being classed as income. We call that 'gross up'. And not only does it cost the company money to make up the employee's tax liability, but the payment to cover the tax liability is itself additional income, so they then have to cover an extra amount to cover that, and that itself is income, and so on, so there's a formula companies use to figure that out. But typically it costs the company about 50 percent extra, just because of the taxability of the moving expenses.

In the past, some parts of moving expenses were already taxable: house-hunting expenses, temporary living, visits to the new city, that kind of thing. The company typically would gross those up and it typically cost them between 30 and 60 percent [of those costs] to do that. Now they're having to do the same thing with the movement of household goods, which is a high-cost item, and so we're looking at 30, 40, 50, 60 percent [of those newly affected costs] extra to cover those moves. Now companies may or may not choose to do that. They're not required to, but most do because you really can't ask employees to move if it's going to cost them extra money."

Total cost of each relocation will increase by between 10 and 40 percent.

Add these new extra gross-up payments into the mix and the total cost of each relocation will increase by between 10 and 40 percent.

Decision Time

The likely impacts of this potentially higher cost scenario are plain to see. Many companies considering employee relocations may place an increased emphasis on cost control. **As the shipping of household goods is the component of relocation costs most affected by the new law, companies may look at approaches such as smaller shipments, containerization, self-packing, and self-moving. It's possible we may see a move away from fixed-price, tariff-based contracts towards competitive bidding.** Companies may also look at their transferee population and ask themselves some hard questions. Could they cut back on staffing in the destination location? Could they hire more people locally? Could they fill in with temporary assignments rather than permanent relocations?

Among other financial impacts on corporations, the Tax Cuts and Jobs Act delivers a huge tax cut.

These are relevant questions, but companies also know that to remain competitive and to be able to grasp opportunities fully, they need to have the right people in the right locations. In many cases, relocation will remain the best and most profitable option. The question then becomes this: what is the best, most cost-effective way to manage relocation?

The primary alternatives that we are seeing are (a) partnering at the company-to-company level with a corporate relocation specialist, and (b) handing employees lump-sum payments to manage the process themselves, although they too may choose to partner with a **specialist.**

Working with a **partner** brings the advantage of control: the partner should know which services are required, how best to control costs and deliver value, and how to minimize stress and complication. The lump-sum option seems, at first sight, to offer simplicity and show great trust in the employee. However, it can be challenging for non-specialists to manage without the assistance of an experienced partner like PODS. We offer a Relocation Partner Program that supports transferees throughout the process and helps them make wise decisions with their lump-sum payout. There is another factor for companies to keep in mind as they weigh their relocation options: the bigger picture. Among other financial impacts on corporations, the Tax Cuts and Jobs Act delivers a huge tax cut. It enables them to write off capital investments and means they can bring home their overseas profits at a lower rate. For many businesses, the increase in reimbursements of relocation costs and the exclusion of qualified moving expenses in taxable wages will be almost insignificant by comparison.

Follow the Value

The Tax Cuts and Jobs Act has changed the corporate relocation landscape. On the face of it, the cost increase is a simple change that demands this equally simple response: increase downward pressure on costs and look to reduce the number of relocations. This thinking has some logic behind it, but it may be too simple. The highest priority in any enterprise decision, corporate relocation included, is likely how it will benefit the business.

Here are the factors to take into consideration when making decisions about potential relocations:

- At the top of the list is the imperative that the business not only remain competitive in the short term, but give itself the best chance to secure future growth opportunities. In a recent report, PwC found that almost 80 percent of private companies were more optimistic about the U.S. economy, compared to 66 percent in the first quarter of 2017. So, as the economy heats up the competition for talent will intensify, making it increasingly important to put the best people where they are most needed.

- The Tax Cuts and Jobs Act is designed to deliver huge net financial benefits to companies. Although these benefits will soon become the new normal, companies considering employee relocations should remember to put new relocation costs in this post-2017 context.

- Companies should think hard before transitioning to lump-sum arrangements, which may encourage employees to manage their moves directly. There are exceptions, but directly managed moves are almost always less efficient and more stressful. Remember the value in creating an exceptional experience for your employees. If you do decide on a lump-sum arrangement, make sure you find a moving partner like the PODS. Our Relocation Partner Program ensures employees can reap the benefits of a single point-of-contact and competitive commercial rates, creating a more positive experience.

- Every company opting for a partnership with a relocation specialist should be sure to choose a partner that is well matched and able to deliver all the services, expertise and experience required. The right partner will simplify and minimize moving expenses through corporate rates, billing options, storage, shipping, and partnerships with local packing and loading services. Your employees will know you value them if you create, or help them create, a seamless, full-service experience. If full service isn't required for all moves, PODS' Relocation Partner Program creates a "white glove" experience for your transferees, whether you're using a Relocation Management Company or not.

The Tax Cuts and Jobs Act is designed to deliver huge net financial benefits to companies.

- Even for companies choosing to give employees a lump-sum payment, recommending a **relocation specialist partner** like PODS is a good idea, as the employee will (a) still benefit from the commercial rates and cost management skills the partner will bring, and (b) have the same less stressful, full-service, experience.

- Treat the fact that relocation costs will now be subject to greater scrutiny as an opportunity to make fully informed relocation decisions, in which all interested parties (employee, HR, hiring manager) agree on costs, terms, and the economic sense of the relocation before signing off.

- The new circumstances mean that there are no tax implications for how a transferee spends money from the relocation budget, so it makes sense to modify relocation policies to give employees the flexibility to move money from one spending pot to another.

**The content contained herein is provided for informational purposes only. The content does not constitute either legal or tax advice. There is no implicit guarantee that this information is correct, complete, or up to date.*

Additional Resources

Worldwide ERC®:
https://community.worldwideerc.org/s/news/a004100000QcGXvAAN/tax-bill-signed-into-law-by-president-trump

Society for Human Resources Management:
https://www.shrm.org/ResourcesAndTools/hr-topics/compensation/Pages/private-company-pay-forecast-2018.aspx

Institute for Applied Management and Law:
https://www.iaml.com/blog/new-tax-law-impact-employee-benefits-and-compensation

McDermott Will & Emery:
https://www.mwe.com/en/thought-leadership/publications/2018/01/fringe-benefits-what-tax-reform-means-employer

About PODS for Business

PODS® for Business is a leading portable moving and storage solution for corporate relocations. Over two decades, our **PODS Corporate Relocation Partner Program** has enabled 700,000 long-distance moves and made more than 3,000,000 deliveries across the U.S.

Show your transferees how much you value them by ensuring they have a dedicated team to support their move. With PODS' Relocation Partner Program, they'll enjoy an experience that's flexible, seamless, and less stressful, and their hard work will repay the investment.

Consider **PODS' Relocation Program**, call **888-339-7637** or **contact us** today to speak with a **Corporate Relocation Program Specialist**.

PODZILLA®
Our Patented Lift System