

Providing relocation assistance to employees



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Employers often offer relocation assistance to attract new employees from other areas or to encourage current employees to relocate. The relocation assistance provided can impact the taxes of the employee and the employer. The following is a look at several common situations.

Moving Expenses

Generally, if an employer reimburses an employee for moving expenses, the reimbursement represents income to the employee. However, reimbursements made through an accountable plan need not be included in an employee's income if the employee would have been able to deduct the moving expenses had the employer not provided a reimbursement.

Purchase of Residence

If the employer offers to purchase an employee's old residence at its fair market value, the employee will not be treated as having received any additional compensation. And, the employee will not be taxed on any gain realized on the sale if he or she qualifies for the exclusion from gross income of \$250,000 of gain (\$500,000 for married persons filing a joint return) on the sale of a principal residence. The exclusion is generally allowed once every two years. It is available if the taxpayer owned the home and used it as a principal residence for periods aggregating at least two years during the five-year period before the sale.

An employee who begins a job in a new location may have to sell his or her old home at a loss. If the employer reimburses the employee for the loss, the reimbursement is taxable as compensation to the employee. If the employer purchases the employee's home for more than its fair market value, the employer is also considered to have reimbursed the employee for a loss and the employee will have additional compensation income.

Sale Assistance

A common arrangement is for the employer to hire a relocation service company to manage the sale of the employee's old residence. The relocation service generally pays for the cost of maintaining the residence while finding a third-party buyer and is reimbursed for the expenses by the employer. Depending on the terms of the arrangement, the employee may have to report compensation income.

Your Baker Tilly tax advisor can provide more information about specific tax consequences of relocation assistance based on your current environment, as well as assist with planning considerations.

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