

MOVING EXPENSES

Employer-paid qualified moving expenses may be excluded from income as Section 132 fringe benefits. Federal income taxes and FICA (social security) do not have to be withheld. FUTA (federal unemployment) taxes do not apply. Payments related to moving an employee that do not satisfy the definition of "qualified moving expenses" are not Section 132 benefits. They must be included in income and reported as wages, and they are subject to federal income tax withholding, FICA, and FUTA.

Accountable Plan - The rules for business expense accountable plans apply to moving expenses. Briefly, that means that the move must be business-related, the expenses must be substantiated, and any excess payments advanced by the employer must be returned to the employer within a reasonable period of time.

If the employer pays a lump sum intended to cover moving costs, does not require substantiation of expenses, and does not require unspent sums to be returned, the moving expense plan is not an accountable one. In that case, the entire lump sum would be included in income, reportable on Form W-2, and subject to employment taxes. There will also be federal income tax withholding of 25% from the payment.

Qualified Moving Expenses - The types of expenses that may be paid as Section 132 benefits because they would be deductible if paid by an individual include only the following:

1. Reasonable costs of moving household goods and personal effects from the employee's former residence to the new residence. The cost of packing, crating, and shipping furniture and other household items, personal effects of the employee and other members of the household, and the cost of shipping automobiles and pets is tax-free. The expense of storing and insuring items within the 30-day period after moving out of the former home and before delivery to the new residence is tax-free.
2. Reasonable costs of travel and lodging from the old location to the new one. The cost of only one trip per person is tax-free; however, all family members are not required to make the trip at the same time. If travel is by car, actual expenses (such as gas and oil, but not repairs, maintenance, depreciation, or insurance) are tax-free. Alternatively, expenses may be computed at 20 cents per mile driven plus tolls and parking fees. The route taken must be the most direct one; side trips for sightseeing or other visits are not tax-free. **Meals are not deductible moving expenses.**
3. Lodging. One night's lodging on the date of arrival in Austin is allowed. One night's lodging can be claimed at the old residence if all of the furniture has been removed and the employee cannot stay at home.

There are no dollar limits on the amounts of these expenses that may be excluded from income, other than they must be "reasonable." The expenses of the employee and other members of his or her household who lived with the employee at the old residence and will continue living with the employee at the new location are included as qualified moving expenses.

Taxable Moving Expenses - The following payments for other types of expenses associated with an employee's work-related move are no longer tax-free, if paid for by the employer, they must be included in the employee's income:

1. House hunting trips prior to the actual move
2. Temporary living expenses at the new location
3. Costs associated with selling the old residence (or ending a lease) and purchasing a new residence (or acquiring a new lease)
4. All meal expenses, including those while en route to the new location.

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Employer Reporting and Withholding - Payments by an employer for qualified moving expenses, while not included in income, must be reported in Box **12** of the W-2. The payment must be labeled with Code "P" to identify it as a nontaxable reimbursement. Third-party payments (payments directly to the moving company, for example) are not included in Code P on the W-2, only reimbursements directly to the individual. Payments for expenses associated with a work-related relocation that do not satisfy the definition of a qualified moving expense (e.g., meals or house hunting trips) must be reported on Form W-2 as wages. Federal income taxes must be withheld, FICA taxes apply, and the payments are subject to FUTA. Income taxes may be withheld at the regular wage withholding rate or at the supplemental wages rate.

Procedures relating to UT Austin - Before a lump-sum advance payment or reimbursement payment can be made, a PO-8 form (Payroll Information Form for withholding) must be completed by the future or current employee.

An advance payment must be done on a paper payroll voucher and labeled as a moving expense advance or relocation advance. **A copy of the offer letter with the amount should be attached to the paper voucher.** Withholding will be done on a 28% flat basis.

Reimbursements for moving expenses will be processed with the taxable portion being handled by the Payroll Office through the payroll system using regular payroll distribution instructions and according to the semi-monthly payroll schedule. Non-taxable portions will be processed through Accounts Payable.

(Information from The University of Texas Payroll Office **and IRS Publication 521, Moving Expenses**. Updated May 2008.)