MOVING EXPENSE REIMBURSEMENTS
TAXABLE VS NON-TAXABLE

Fiscal Rule 2-9 outlines the conditions under which the state may pay for an employee's moving expenses. Reimbursements made to employees for moving expenses are considered either taxable or non-taxable income, depending upon the circumstances of the move and the types of expenses. All moving expense reimbursements must be entered into CPPS for inclusion on employees' W-2s.

IRS Publication 521, *Moving Expenses*, contains useful information for both agencies and employees. If an employee has questions regarding the tax status of moving expenses and reimbursements, please direct him/her to this publication.

1. DETERMINE THE TAXABLE STATUS OF THE MOVE:

If the employee does not meet both of the following tests, all moving expense reimbursements paid to the employee will be considered taxable income. Reimbursements must be entered into CPPS, federal income tax and Medicare tax should be withheld from the reimbursements, and the reimbursement amounts will be included on the employee's W-2 in boxes 1 and 5.

If the employee does meet both of the tests, then some or all of the moving expense reimbursement may be non-taxable to the employee. Reimbursements that are considered non-taxable must be entered into CPPS as well, and the reimbursement amounts will be included on the employee's W-2 in box 12, code P.

TEST 1

DISTANCE TEST – Employee's new job location must be at least 50 miles farther from the employee's former home than the employee's old job location.

- Example: The old job location was 3 miles from the former home; the new job location must be at least 53 miles from the former home.

TEST 2

TIME TEST – The employee must be employed and work full-time for at least 39 weeks during the first 12 months after arriving at the new job location.

- Employee does not have to work the 39 weeks all in a row.
- Employee is still considered to work full-time even when temporarily absent from work due to illness, vacation, or natural disaster.
- Seasonal employees are considered to be "working" full-time during the off-season if the work contract or agreement covers an off-season of less than 6 months.
- If the employee has not worked the full 39 weeks before the end of the tax year, the test is considered to be met if the employee intends to work the remaining weeks in the following year.
    - If the employee does not fulfill that promise in the following year, a W-2C should be issued – all formerly non-taxable reimbursements must be changed to taxable income.

IF THE EMPLOYEE MEETS BOTH OF THE ABOVE TESTS:

2. IDENTIFY TAXABILITY OF EXPENSE REIMBURSEMENT:

Reimbursements to the employee for moving expenses that would be deductible to the employee per Publication 521 are considered to be non-taxable. These reimbursements should be entered into CPPS using earnings codes RPN or RCN (see next section for more earnings code information).

Non-taxable moving expenses are the costs of:

- Moving household goods and personal effects
  - Cost of packing, crating and transporting household items and personal effects.
  - Cost of storing and insuring household goods within 30-day period of move.
  - Cost of shipping car(s) and/or pet(s).
  - Cost of connecting/disconnecting utilities.
- Travel and lodging to new home
  - Mileage: The State's mileage reimbursement rate is higher than the IRS non-taxable moving rate. This means that for every mile reimbursed, part of the reimbursement is taxable, and part is non-taxable.
    - 2009 Reimbursement Rate
      - State mileage rate: $0.50. IRS moving rate: $0.24.
        - For each mile reimbursed, $0.24 is non-taxable (RPN or RCN), and $0.26 is taxable (RPT or RCT).
    - 2010 Reimbursement Rate
      - State mileage rate: $0.45. IRS moving rate: $0.165.
        - For each mile reimbursed, $0.165 is non-taxable (RPN or RCN), and $0.285 is taxable (RPT or RCT).

If the state pays for any of the above expenses by paying a third party through COFRS (e.g., a moving company), the payment would not be entered into CPPS. Qualified moving expense reimbursements that an employer pays to a third party on behalf of the employee are not considered to be W-2 reportable income.

Moving expense reimbursements made for other types of expenses are considered taxable income to the employee, and are entered into CPPS using earnings codes RPT or RCT (see next section).

Examples of taxable moving expenses:

- Trips back and forth to former home.
- Pre-move house hunting expenses.
- Down payment on new home.
- Loss incurred on sale of former home.
- Meals while travelling to new home.

To calculate what amounts of the reimbursement are taxable and what are non-taxable, please use the Excel Moving Expense Worksheet. Once the totals are calculated, enter the results into CPPS.

CPPS EARNINGS CODES

Employee reimbursements can be paid through CPPS or COFRS. However, all reimbursements of moving expenses, whether taxable or non-taxable, <u>must</u> be entered into CPPS for W-2 reporting purposes. Central Payroll recommends paying moving expense reimbursements through CPPS to minimize the amount of work for agency payroll offices.

Use an AP or RA transaction to enter the reimbursement into CPPS. Do not input hours for these earnings codes.

> **<u>RPT</u>** – to pay **taxable** reimbursable expenses through **CPPS**. The employee's year-to-date federal, state, and Medicare grosses will be increased by the reimbursement amount. Federal, state and Medicare taxes will be taken on reimbursed items.
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> **<u>RCT</u>** – to document in CPPS **taxable** reimbursable expenses that were already paid through **COFRS**. The employee's year-to-date federal, state, and Medicare grosses will be increased by the reimbursement amount.
> - If RCT is entered on the employee's regular payroll, taxes will pull.
> - If RCT is entered off-cycle, Medicare taxes will pull on the next payroll but federal and state taxes will be underpaid.
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> **<u>RPN</u>** – to pay **non-taxable** reimbursable expenses through **CPPS**.
>
> **<u>RCN</u>** – to document in CPPS **non-taxable** reimbursable expenses that were already paid through **COFRS**.