

Moving and Relocation Expense

As you move to South Bend, the University felt that it might be helpful to provide you with some information regarding the tax consequences of your move. When you file your tax return for this year, this information may help determine which items is income to you, if you can take a tax deduction, and how these expenses will be reported to you. You should note that this memo does not represent a policy statement from the University. All of the reimbursement items discussed below are hypothetical, illustrating a wide range of possibilities, rather than reviewing expenses specific to your move. This is simply meant to be a guide to understanding the tax consequences of your move.

What Are Deductible Moving Expenses For You As An Employee?

In order to be able to deduct moving expenses, the employee must pass two tests- the time & distance tests:

If an employee changes their workplace, & the new workplace is at least 50 miles farther away from their old home than their old workplace was, the distance test is met. The time test is met if the employee works full time for at least 39 of the 52 weeks in the new workplace (or general area) immediately after the move.

Once these two tests are met, the deduction is further limited to two specific types of expenses:

Transportation & storage of household goods & personal effects, and; Travel & lodging (but not meal) expenses of moving from the old to the new home. These expenses are limited to one trip per family member (although the trips do not need to all be at the same time).

Are They Included In The Employee's Income?

In general, moving expense reimbursement is considered compensation (subject to both income and FICA tax withholding), unless , the reimbursement is considered a " qualified moving expense reimbursement ." A "qualified moving expense reimbursement" is a reimbursement for those moving expenses which would have been deductible by the individual if he/she had paid them (see the two types of expenses discussed in sections 1) and 2) above)

If you are reimbursed by the University for the exact amount of these "qualified" moving expenses, then you will have no tax deduction. Neither will you have any taxable income from the reimbursement . For example, Notre Dame reimbursement for transportation of the personal property in your house would be excluded from your income . However, if your "qualified" expenses exceed your reimbursement from Notre Dame, then you may deduct the excess expenses on Form 3903 when you file your tax return.

You should note that the category for "qualified" moving expenses is not as broad as it once was under tax law. Expenses such as 'house hunting' expenses, or meals related to the move, or for any of your home closing costs are no longer deductible by you. If an employer reimbursed an

employee for these 'non-qualified' expenses (University of Notre Dame policy does not provide for payment of this type of expense), this reimbursement would be taxable to the employee and would be subject to payroll withholding taxes.

Are Reimbursements for Expenses of Other Household Members Considered Income to the Employee?

Typically, any payments made by an employer related to the employee's spouse or children are considered taxable income to the employee. However, there are exceptions made to this rule in the case of moving expenses. If the expense of the spouse or dependent falls into categories 1) or 2) listed above (i.e. transportation of household goods, or travel and lodging when moving to the new home) , it is considered a "qualified moving expense reimbursement" and would not be income to the employee.

However, any other move costs that are paid on behalf of the employee's spouse or dependents would be income to the employee(again, subject to all payroll taxes).

Are These Expenses Subject to Withholding?

As discussed above, if any expense that is reimbursed is not considered a "qualified moving expense" reimbursement, it would be taxable and subject to withholding taxes. For example, if an employer paid \$5,000 in moving expenses to an employee, and only \$3,500 was for "qualified" expenses, then \$1,500 (\$5,000-\$3,500) would be taxable compensation included in the employee's W-2, and subject to payroll taxes. This should not be the case as a result of your move to Notre Dame, since University policy typically pays only for "qualified" expenses.

How Are These Expense Reimbursements Reported to the Employee?

The University's reporting to you will depend on which of three categories your moving expense reimbursement falls into:

1. If the University pays your "qualified" moving expenses directly to a third party (e.g. directly to the moving company), then these expenses will not be reported at all on your W-2. Remember also that you are not entitled to a deduction for these reimbursed expenses.
2. If the University pays your "qualified" moving expenses directly to you, the employee, then these expenses will be reported in Box 13 of your Form W-2 and identified with a code P (to indicate nontaxable). These expenses are still not taxable to you, but are reported simply because the reimbursement was made directly to you. Similar to the expenses in the paragraph above, you are not entitled to a deduction for these reimbursed expenses unless your actual expenses exceed your reimbursement.
3. University policy does not provide for payment of non-qualified moving expenses (e.g. house hunting expenses, or reimbursed meals related to the move, or home closing costs). Any reimbursement of this type would be completely taxable to the employee and would be subject to payroll withholding taxes (whether it was paid directly to the employee or

not). These reimbursed expenses are reported on Form W-2 as additional compensation. There is no deduction for this type of reimbursed expense

Of course, if you're paid for several of the different categories above, then the reporting will be as stated for each category.

We hope this is a helpful guide in determining how to handle moving expenses. If you have specific questions related to your situation , you should contact your tax preparer.