



United States Department of the Interior

OFFICE OF THE SECRETARY
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FINANCIAL ADMINISTRATION MEMORANDUM NO. 88 - 49 (II.G.6.)

To: Bureau Assistant Directors, Administration
Director of Management Services
Bureau Finance Officers
Chief, Division of Fiscal Services

From: Chief, Division of Financial Administration
Office of Financial Management

Subject: Payment of Withholding Tax Allowance (WTA) and Relocation Income Tax Allowance (RITA)

Attached are (1) Instructions to Employees on How to Claim the Relocation Income Tax Allowance and (2) Instructions to Finance Personnel for Processing Relocation Income Tax Allowance Payments. These instructions have been revised to incorporate the provisions of Supplement 27, FPMR 101-7, Federal Travel Regulations (FTR) issued by the General Services Administration (GSA). An advance copy of Supplement 27 is also attached.

These instructions and changes to the FTR incorporate the provisions of the Tax Reform Act of 1986 pertaining to calculating RITA for relocation allowance reimbursements in tax years before 1988. The changes include using two combined marginal tax rates in the RITA calculation. The deductibility of moving expenses was changed by the Tax Reform Act of 1986, and GSA has assumed that employees will either itemize the deductions or receive credit through the increased standard deduction. The RITA calculation will be based on the assumption that an employee will itemize the deductions and no adjustments or increases will be allowed for employees claiming a standard deduction.

Any RITA payments made after January 1, 1988, (using the previous formulas and tax tables) must be recalculated using the revised instructions, formulas and tax tables. Overpayments resulting from these early payments should be collected as soon as possible.

A computer program to calculate the RITA payment for relocation allowance reimbursements made in 1987 will be mailed to each bureau finance office in the near future.

Please direct any questions you may have on this subject to Mr. Lesley Oden of this Division on 343-5223.


Philip J. Daniels

Attachments

Prior Financial Administration
Memorandum on this Subject:

No. 88-02 (II.G.1.), January 21, 1988 - Canceled
No. 87-38 (II.G.6.), July 7, 1987 - Canceled

INSTRUCTIONS TO EMPLOYEES ON
HOW TO CLAIM THE RELOCATION INCOME TAX ALLOWANCE

Background: Public Law 98-151, enacted on November 14, 1983, authorized reimbursement of all or part of the additional Federal, State, and city income taxes incurred by a transferred employee as a result of reimbursement for certain relocation expenses. This applies only to moves where the employee's actual reporting date was on or after November 14, 1983. Public Law 98-473, enacted October 12, 1984, amended P.L. 98-151 modifying the relocation income tax allowance (RITA) to clearly include any payments to relocation service companies that must be reported as income by employees; by extending coverage to include all local taxes, rather than city only, in addition to Federal and State income taxes; and by clarifying that reimbursement of "substantially all" of these additional taxes is authorized. The General Services Administration entered into a multi-agency relocation service contract on May 1, 1986 and the payments to the contractors are not taxable income to the employee.

Policy: Relocation vouchers will continue to be filed in the usual manner, within 5 days after each segment of a relocation is completed and after each 30-day period of temporary quarters. The finance office will continue to perform the calculations, make the appropriate deductions for Federal, State, and local income taxes, and outstanding travel advances. The finance office will also deduct Social Security tax or the hospital insurance portion of the Social Security tax, as appropriate, on all relocation reimbursements not deductible on the employee's tax return.

When the finance office processes a relocation voucher containing covered taxable reimbursements, a Withholding Tax Allowance (WTA) will be calculated. The WTA will be paid to offset the 20 percent Federal income tax withholding (the WTA does not cover withholding for State/local income taxes or Social Security taxes). This allowance will be calculated and paid on each relocation reimbursement where a withholding is required for Federal income tax.

The WTA covers the employee's Federal tax withholding liability on covered taxable reimbursements in the year the relocation reimbursement voucher is paid. In a few cases (where the marginal tax rate is less than 20 percent) the WTA payment may exceed the amount of the RITA due and the employee must promptly repay the overpayment. The finance office is responsible for notifying the individual employee of the amount of the overpayment.

The WTA payment will be included in the employee's taxable income and reflected on the W-2. **The WTA will not be considered a covered taxable reimbursement for calculating the RITA.**

A RITA certification and voucher must be filed by each employee claiming reimbursement for increased taxes incurred as a result of relocation allowances

paid. The RITA will offset WTA payment(s) made and result in final calculation of the amount due the employee for a specific tax year. Claims for the RITA should be filed by May 15 of the year following the calendar year in which the relocation voucher was paid. If a claim for the RITA is not filed by the due date, action will be taken to collect the total WTA payment from any travel amounts available for offset, payroll deduction, or Bill of Collection as appropriate.

Procedures: Claims for RITA must be filed on a travel voucher, SF-1012. The claims should be filed as soon as possible after receipt of the W-2's for the taxable year in which relocation reimbursements and WTA payments were received. Since the RITA is based on relocation reimbursements received in a tax year (calendar year), a separate RITA claim is required for each tax year for which relocation reimbursements are reflected on the W-2's. RITA payments are taxable income to the employee and are subject to the same withholding for taxes as the relocation payments. The formula used to calculate the RITA includes an added factor to cover the tax on the RITA payment; therefore, only one RITA payment will be made for a specific tax year.

The front of the travel voucher should be completed in the manner prescribed for other relocation vouchers, including the claimant's signature and the signature of the approving official. The amount claimed block should be left blank since all RITA calculations will be performed by the finance office staff. The following statement should be entered on the back of the travel voucher: "RITA claimed for the calendar year 19 (enter the appropriate year). RITA Certification and supporting documents are attached."

The Relocation Income Tax Allowance Certification (Exhibit 1) must be completed and attached to the travel voucher along with copies of the W-2's and Schedule SE (1040) for self employment (if applicable) to substantiate the income amount shown in the Certification. Copies of the W-2's and Schedule SE applicable to the spouse's income must be included if the spouse's income is to be used in determining the applicable tax rates. A copy of the tax information form provided by the finance office reflecting the taxable reimbursement and taxes withheld on the relocation vouchers covered by the RITA claim should also be attached if available. The RITA will be calculated by the finance office based on the data provided on the Certification, if supported by the required documentation. Amounts shown on the Certification that are not supported by the required documentation will not be considered in calculating the RITA.

Relocation reimbursements that are non-deductible for tax purposes are normally taxed by the taxing authorities at the new duty location only. There may be instances where these reimbursements are subject to State and/or local taxes in two States or two localities. In these situations, the RITA will be based on the sum of the tax rates for the two States or two localities. However, if either State or locality allows an adjustment or credit for this "double taxation," the RITA will be based on the rate applicable to the State or locality that does not allow the credit. When the RITA reimbursement is to be based upon the combined rates for two States or two localities, the sum of the rates must be entered as the combined rate on the applicable lines of the Certification. Federal, State and local tax rates must be kept separate and not mixed even though a specific rate is a percentage of another rate.

RELOCATION INCOME TAX ALLOWANCE CERTIFICATION

This Certification must be attached to SF 1012 (Travel Voucher) to support a Relocation Income Tax (RITA) claim.

Name: _____

Reporting Date: _____

Office Phone Number: _____

I certify that the following information, which is to be used in calculating the RITA to which I am entitled, has been (or will be) shown on the income tax returns filed (or to be filed) by me (or by my spouse and me) with the applicable Federal, State, and local tax authorities for the tax year 19__.

- Gross compensation as shown on the attached Form(s) W-2 for the tax year and/or net earnings (or loss) from self-employment income shown on Schedule SE 1040 (line 1 plus line 2):

	<u>Forms W-2</u>	<u>Line 1 Plus Line 2</u> <u>Schedule SE</u>
Employee	\$ _____	\$ _____
Spouse (if filing joint return)	\$ _____	\$ _____
TOTAL		\$ _____

Federal Tax

- Filing Status:

Check One:

<p><input type="checkbox"/> Single</p> <p><input type="checkbox"/> Married Filing Joint Return</p> <p><input type="checkbox"/> Head of Household</p>	<p><input type="checkbox"/> Married Filing Separate Return</p> <p><input type="checkbox"/> Qualified Widow(er) with Dependent Child</p>
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- State or States where a tax liability was incurred as a result of relocation allowance payments _____.
(See instructions for taxation by more than one State.)
- If total compensation shown above is less than \$20,000, indicate State income tax rate _____.
- State tax rate above is expressed as a percent of which of the following:
Check One: Income Federal Tax
- Locality or localities where a tax liability was incurred as a result of relocation allowance payments _____.
(See instructions for taxation by more than one locality.)
- **Type of Locality:** City or Municipality
 County
- Indicate local income tax rate for locality/localities: _____

- Local tax rate above is expressed as a percent (%) of which of the following:

Check One: Income State Tax Federal Tax

Is your new duty location at least 35 miles farther from your old residence than your old duty station was from your old residence?

_____ (Yes or No)

The above information is true and accurate to the best of my(our) knowledge. I(we) agree to notify the finance office of any changes to the above (i.e., from amended tax returns, tax audit, etc.) so that appropriate adjustment to the RITA can be made. The required supporting documents (W-2's and Schedule SE) are attached. Additional documentation will be furnished if requested.

I(we) further agree that if the 12-month service agreement is violated, the total amount of the RITA will become a debt due the United States Government and will be repaid immediately. The finance officer is authorized to offset this debt against all salary or other payments due me(us).

Employee's Signature

Date

Spouse's Signature
(If joint return is checked above)

Date

**INSTRUCTIONS TO FINANCE PERSONNEL FOR PROCESSING
RELOCATION INCOME TAX ALLOWANCE PAYMENTS**

Policy: Relocation Income Tax Allowance (RITA) payments will be made as authorized by the Federal Travel Regulations, FPMR 101-7. Payment of the Withholding Tax Allowance (WTA) will be included on any claim for relocation allowance reimbursement where a Federal income tax withholding is made.

WTA and RITA payments are subject to the appropriate withholding for Federal, State, and local income taxes and Social Security tax or the hospital insurance portion of Social Security, as appropriate. These deductions must be made prior to payment of the WTA or RITA to preclude withholding from the salary payments due the employee. The formula used to calculate the RITA includes an added factor to cover the tax on the RITA payment; therefore, **only one RITA payment will be made for a specific tax year.** The employee may receive several relocation reimbursement payments and WTA payments in a single tax year. These payments will be covered by one RITA payment. If more than one RITA payment is required for a single tax year, the second payment will be computed based on the total covered taxable reimbursements for the tax year and reduced by the amount of the first RITA payment.

The WTA covers the employee's Federal income tax withholding liability on covered taxable reimbursements in the year the relocation reimbursement voucher is paid (Year 1). The WTA must be settled by a deduction from the RITA claim or refunded by the employee. RITA claims should be filed by May 15 of the year following the calendar year in which the relocation voucher was paid. When an employee fails to submit a claim for the RITA, he/she will be notified that the WTA payment amount will be collected by payroll deduction or from other amounts due.

Employer contributions are required for Social Security Tax deductions and should be charged to the same appropriation as the other relocation allowances being paid.

Procedures: Claims for relocation allowances should be filed in the usual manner, within five days after each segment of a relocation is completed and after each 30-day period of temporary quarters. When these claims are processed by the finance office, the WTA will be calculated and paid based on the non-deductible relocation allowances (covered taxable reimbursements) being paid. The covered taxable reimbursements will be determined as if the employee had itemized and deducted all allowable moving expense deductions [FPMR 101-7, 2-11.8b(1)(b)]. Internal Revenue Service (IRS) Publication 521, **Moving Expenses**, provides instructions and guidance on the deductibility of moving expenses. A worksheet (Exhibit 1) is provided for calculating the WTA and net amount due the employee.

Claims for RITA must be filed by the employee on a travel voucher, SF 1012. The claim must be supported by a copy of the Relocation Income Tax

Allowance Certification and copies of the W-2's and Schedule SE for self-employment (if applicable) to support the amount shown as income. **The Relocation Income Tax Allowance Certification must be signed by the employee and spouse if the spouse's income is included in the total earned income. Employees not reporting the spouse's income or providing a Relocation Income Tax Allowance Certification without the spouse's signature, except those eligible to file as a surviving spouse, will be reimbursed based on the employee's income only.**

The amount of covered taxable income from relocation payments will be determined by using a worksheet similar to Figure 2-11.11.8.a, FPMR 101-7, or another locally developed form which will provide the necessary audit trail. **WTA payments will not be included as part of the covered taxable income for computing the RITA.** The amount of the RITA will be calculated based on the covered taxable reimbursements, WTA payments in Year 1, the employee's (including spouse's) income and applicable tax rates. FPMR 101-7, Chapter 2, Part 11 provides rates and formulas to be used in the calculation of the RITA. The WORKSHEET FOR CALCULATION OF RELOCATION INCOME TAX ALLOWANCE (Exhibit 2) may be used for this purpose.

Each bureau should establish a control system to ensure all WTA payments are properly settled by the employee.

WORKSHEET FOR
CALCULATION OF WITHHOLDING TAX ALLOWANCE (WTA)

Name: _____
 SSN: _____
 Authorization No.: _____
 Tax Year: _____
 Reporting Date: _____

1. Total amount of relocation allowance claimed and proper for payment (from relocation voucher). \$ _____
2. Amount from item 1 subject to Federal income tax withholding. \$ _____
3. Multiply the amount in item 2 by .25 (25%) to determine the WTA. \$ _____
4. Add the amounts in item 2 and item 3. This is the adjusted amount subject to Federal income tax withholding. \$ _____
5. Multiply the amount in item 4 by .20 (20%). This is the amount to be withheld for Federal income tax and should be equal to item 3. \$ _____
6. Multiply the amount item 4 by the State withholding rate. \$ _____ (_____) State
7. Multiply the amount in item 4 by the local tax withholding rate. \$ _____
8. Total amount subject to Social Security tax or Hospital Insurance deduction (usually the amount in item 4 not to exceed the maximum wage ceiling). \$ _____
9. Multiply the amount in item 8 by the applicable rate. \$ _____
10. Other deductions (Travel Advances, Excess HHG costs, etc.) \$ _____
11. Compute adjusted amount payable item 1 plus item 3 minus items 5, 6, 7, 9, and 10. \$ _____

6. Local Tax Rate As Percent of Income (show rate as decimal). This may be the same as Local Tax Rate as shown on claimant's Certification. However, if employee reports the rate as percent of Federal Tax Liability, then enter result of multiplying Federal Tax Rate (item 2) by Local Tax Rate (item 5). If employee reports rate as percent of State Tax Liability, then enter result of multiplying State Tax Rate As Percent of Income (item 4) by Local Tax Rate (item 5).

7. Combined Marginal Tax Rate for Year 1 is computed as follows:

(a) Subtract Federal Tax Rate (item 2) from 1.0000.

(b) Multiply item 7(a) by State Tax Rate As Percent of Income (item 4). Round to four decimal places.

(c) Multiply item 7(a) by Local Tax Rate As Percent of Income (item 6). Round to four decimal places.

(d) Combined Marginal Tax Rate for Year 1 equals Federal Tax Rate (item 2) plus item 7(b) plus item 7(c).

YEAR 2

(Year in which Relocation Income Tax Allowance is paid.)

8. Federal Tax Rate for Year 2 [rate from Federal Tax Table for RITA (Appendix 2-11, FPMR 101-7)] using information in item 1 above. Show the rate as a decimal (i.e., show 15% as .15).

9. State Tax Rate [rate as shown in State Tax Table for RITA (Appendix 2-11, FPMR 101-7)] using information in item 1 above. (See special rule in FPMR 101-7, Part 2-11.8 if earned income is less than \$20,000.) Show the rate as decimal.

10. State Tax Rate As Percent of Income (show rate as decimal). In most cases, this is the same as item 9. However, if State Tax Table shows rate as percent of Federal Tax Liability, then enter the State Tax Rate determined for Year 1 (item 4).

11. Local Tax Rate as Percent of Income (show rate as decimal). Enter Local Tax Rate determined for Year 1 (item 6).

12. Combined Marginal Tax Rate for Year 2 is computed as follows:

(a) Subtract Federal Tax Rate (item 8) from 1.0000.

(b) Multiply item 12(a) by State Tax Rate As Percent of Income (item 10). Round to four decimal places.

(c) Multiply item 12(a) by Local Tax Rate As Percent of Income (item 11). Round to four decimal places.

(d) Combined Marginal Tax Rate for Year 2 equals Federal Tax Rate (item 8) plus item 12(b) plus item 12(c).

13. Total RITA is computed as follows:

(a) Subtract Year 2 Combined Marginal Tax Rate [item 12(d)] from 1.0000. _____

(b) Divide Year 1 Combined Marginal Tax Rate [item 7(d)] by item 13(a). Round to four decimal places. _____

(c) Enter amount of Covered Taxable Reimbursement made in the tax year (Year 1). _____

(d) Multiply the amount of covered taxable reimbursements [item 13(c)] by item 13(b). Round to two decimal places. _____

(e) Subtract Year 1 Combined Marginal Tax Rate [item 7(d)] from 1.0000. _____

(f) Divide item 13(e) by item 13(a). Round to four decimal places. _____

(g) Enter total Withholding Tax Allowance payments paid in Year 1. _____

(h) Multiply the Withholding Tax Allowance [item 13(g)] by item 13(f). Round to two decimal places. _____

14. The Relocation Income Tax Allowance due the employee in Year 2 is item 13(d) minus item 13(h). _____