



United States Department of the Interior

OFFICE OF THE SECRETARY
Washington, D.C. 20240

JAN 18 1994

FINANCIAL ADMINISTRATION MEMORANDUM NO. 94 - 005 (II.G.6.)

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

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

Subject: Change in Treatment of Relocation Allowances for Income
Tax Purposes - Withholding and Reporting

The Revenue Reconciliation Act of 1993, Public Law 103-66, enacted August 10, 1993, changed the tax treatment of most relocation allowances. Moving expenses which are still deductible on the individual tax return are now taken before determining adjusted gross income, "an above the line deduction". However, most moving expenses are not deductible and/or not reportable, if incurred or reimbursed by the employer after December 31, 1993. The following interpretation of the revised law will be applied until the Internal Revenue Service (IRS) issues detail implementing instructions.

Any moving expense reimbursement which covers costs that the employee actually incurred prior to January 1, 1994 (December 31, 1993 and prior), will be processed under the rules applicable to payments made in 1993 and prior. This means that the real estate, house-hunting, temporary quarters and etc. will be considered deductible, up to the \$3,000 ceiling. Shipment of household goods on a commuted rate basis (payment made to the moving company in 1993 or prior) will be reported as income, not subject to withholding (this is a deductible reimbursement). Shipment of household goods and the first 30 days of temporary storage authorized on a Government Bill of Lading will not be reported as income unless the payment is being reported on the 1993 W-2. However, the taxable portion of all relocation reimbursements made after January 1, 1994, will be subject to the increased withholding rate of 28 per cent for **Federal Income Tax**.


Before any reimbursement for relocation expenses incurred in 1994 may be considered non-taxable or deductible the relocation must meet the revised distance test of 50 miles. The employee's new principal place of work must be at least 50 miles further from the employee's old residence than his old residence was from his old place of work. Failure to meet the distance test will result in all payments, including shipment and storage of household goods, being reported as taxable income.

Enroute transportation and reimbursement for lodging expenses incurred for the employee and family are not to be reported as income. All reimbursements for meals and miscellaneous expenses are to be included in taxable income.

Reimbursements for real estate, lease termination and similar expenses are taxable and must be included in taxable income. Payments to third party relocation service contractors for real estate expenses, including reimbursement for direct expenses for cancellations, are not taxable and will not to be reported as income.

All reimbursements for house-hunting, temporary quarters, and storage of household goods over 30 days are taxable and must be reported as taxable income. The \$3,000 exclusion for deductible expenses has been removed along with the provision which allowed the employee to deduct the majority of the moving expense reimbursements.

Please direct any questions you may have on this subject to Mr. Lesley Oden of this Division on (202) 208-5223.



Stephen J. Varholy

Attachment

Prior Financial Administration
Memorandums on this Subject:
No. 94-081 (II.G.6.), December 28, 1993 - Active