

Relocation Income Tax (RIT) Allowance (summary)

Purpose of the RIT Allowance

You will receive a special Relocation Income Tax (RIT) allowance to pay the taxes that you will owe on the reimbursements you receive for moving expenses; Federal, state, and local tax codes remain unchanged. These taxing authorities tax your moving expense reimbursements as income; as the taxpayer you remain liable to pay these taxes, Your RIT allowance will be provided to you to fund a substantial portion of the estimated additional tax liability that you will owe or that you and your spouse will owe if a joint tax return is filed. Moving expenses that are taxable will be reported as income on your annual Form W-2, Wage and Tax Statement each January, including the amount of all taxes withheld. Travel advances are not available for RIT allowances or other employee tax liabilities.

What Moving Expenses Are Taxable?

Generally, if your move is less than 50 miles, all of your expenses will be taxed. In moves of more than 50 miles, some expenses will be fully taxed, some will be taxed when they reach a certain dollar limit, and some will not be taxed at all. Expenses that are not taxed will be reported annually as nontaxable income on your W-2, Wage and Tax Statement.

Moving Expenses That Are Always Taxed:

- Miscellaneous expense allowance
- Temporary quarters beyond 30 days
- All nontemporary storage of household goods
- Relocation Income Tax (RIT) allowance

Taxable Moving Expenses That Are Subject to Certain Dollar Limitations:

- Advance househunting trips
- First 30 days of temporary quarters
- Real estate expenses that you pay
- Unexpired lease allowance

No taxes are withheld or due on the first \$3,000 of the above expenses. However, only the first \$1,500 of the combined expenses for an advance househunting trip plus the first 30 days of temporary quarters are taxable.

Moving Expenses That Are Not Taxable:

- Shipment of household goods
- Temporary storage of household goods for less than 30 days
- Shipment of a mobile home
- Shipment of a vehicle (Alaska, Hawaii and Puerto Rico)
- Airline and train tickets
- Real estate expenses when selling through a relocation services contractor

Taxes Withheld by NFC from Your Moving Expense Reimbursements

By law the National Finance Center (NFC) is required to withhold money for the Federal, state, and local income taxes that you will owe from each of your moving expense reimbursements. Federal tax is withheld by NFC at the 20 percent rate. State tax is withheld at a rate of 10 percent of federal taxes for all taxable moving expenses.

Partial RIT Allowances

To protect you from having to use a substantial part of each of your moving expense reimbursements for the withholding of taxes, a partial RIT allowance called a Withholding Tax Allowance (WTA) will be calculated and paid to you to offset the Federal taxes that are withheld. Partial RIT (WTA) allowances apply only to Federal taxes. After the necessary taxes are actually withheld, a partial RIT (WTA) allowance is computed and added to each of your expense reimbursements as part of your overall RIT allowance. Partial RIT (WTA) allowances made to you are also taxable and subject to withholding.

The Final RIT Allowance Claim

Because payment to you for partial RIT (WTA) allowances are based only on your estimated Federal tax liability allowance for your state and local tax, a final and actual accounting of your taxable moving expenses is required for each tax year. A final RIT claim to accomplish this must be filed with NFC by August 31, in the year following any year you received a partial RIT (WTA) payment.

The final claim is called the Relocation Income Tax (RIT) Claim and provides you with an allowance for your state and local tax liability and provides any final adjustments to your Federal tax liability caused by the estimates used to pay you a partial RIT (WTA). This final claim settles your account for tax allowances and represents the full amount you will receive. If you fail to file a final RIT claim in a timely manner, all of the partial RIT claims (WTA's) paid you will be collected as a debt owed the government.

Since estimates were used to compute each of your partial RIT payments (WTA's), your final RIT claim will generally result in an additional payment to you for at least your state and local tax allowances. There can be an instance of overpayment to you in the partial RIT (WTA) process which requires a collection from you by NFC to settle your account for the year involved. If overpayment does occur, NFC will issue a bill to you for the amount needed to settle your overall RIT allowance account.

How Do I Settle My RIT Allowance Account Each Year?

You must claim a final RIT allowance for each tax year you received a partial RIT (WTA) payment by submitting form AD-1000, Claim for Relocation Income Tax Allowance and attaching it to form AID-616R, Travel Voucher. The claim will need to be supported by one copy of your W-2 statement and one copy of Schedule SE (1040) for any self-employment for both yourself and/or your spouse for a joint tax return as may apply for the tax year involved. One copy of any applicable local tax rate table will also be needed. Your NRCS state office can assist you in assembling the needed documents to make your final RIT claim. Your final RIT claim must be approved by your administrative officer before it is sent to NFC for settlement of your RIT allowance account.

Employees Not Eligible for RIT Allowances

All employees whose transfer is in the interest of the Government are eligible for the RIT allowance. However, the following individuals are precluded from receiving RIT allowances:

- Certain new appointees (i.e., political appointees)
- Employees relocated under the Government Employees Training Act
- Employees returning from overseas assignments for

the purpose of separation

- Employees relocating to or from a foreign post of duty

Reporting to You by NFC on Your Relocation Expenses

NFC will send you a complete itemization of each of your relocation expense payments including any partial RIT (WTA) and final payments on Form AD-570, Change of Station Allowances and Taxes Withheld. This computer printed information is mailed to you each time NFC makes a relocation expense payment on your behalf. These forms should be reviewed and retained for tax preparation purposes.

How Is the Partial RIT (WTA) Calculated?

Following is an example of one moving expense reimbursement made in 1987 to an employee for \$9,000 that involves moving expenses that were determined by NFC to be fully taxable. By following this example you will see how one partial RIT (WTA) is computed for payment. Keep in mind that partial RIT (WTA) payments are also taxable and a formula is used to put into one payment all that you are due to avoid paying tax on tax and having to file a final RIT claim year after year:

Formula:
$$\text{WTA} = \frac{\text{Federal Withholding Tax Rate (20\% by NFC)} (\$9,000)}{1 - \text{Federal Withholding Tax Rate}}$$

$$\text{WTA} = \frac{.20}{1 - .20(\$9,000)}$$

Then:
$$\begin{aligned} \text{WTA} &= .25(\$9,000) \\ \text{WTA} &= \$2,250 \end{aligned}$$

The amount of \$2,250 will be added to your 1987 moving expense claim of \$9,000 to assist you when your 1987 taxes are due on April 15, 1988. Applicable taxes will be withheld from both amounts and your partial RIT (WTA) payment will be issued as follows:

| | |
|---------------|--|
| \$9,000 | Moving Expense |
| + 2,250 | Withholding Tax Allowance (\$9,000 X .25) |
| <u>11,250</u> | Total Amount subject to tax withholding |
| | |
| -2,250 | Federal Tax Withholding (\$11,250 X .20) |
| <u>-225</u> | State Tax Withholding (.10 of Federal \$2,250) |
| \$8,775 | NET PAYMENT TO YOU |

Note that the partial RIT (WTA) is equal to the Federal taxes withheld. The partial RIT (WTA) does not provide you any allowance for state and local taxes. Essentially all of your state and local tax liability will be reimbursed to you, through your final RIT claim.

How Is the Final RIT Claim Calculated?

As mentioned earlier, the final RIT claim will accommodate all of your tax categories, including state and local taxes, tax rates, the earned income you report to NFC on your claim (Form AD-1000) and will cover both the year your partial RIT (WTA) was paid (1987) and the following year when you file your final RIT claim (1988). Assume in the example that the \$9,000 was the only moving

expense claim you made in 1987 and that you and your spouse file a joint tax return in 1988 with a combined earned income of \$65,000 (Form AD-1000). The calculation of your final RIT claim will require the combining of all the Federal, state, and local tax rates applicable to you for the two years involved. Assume the Federal tax rate for you in 1987 for your partial RIT (WTA) payment was actually 35% (NFC withheld only 20% towards Federal taxes) and in 1988 for your final RIT payment 28%. State and local tax rates are 6% and 2% respectively. All of your tax rates are combined by formula and for simplicity, result in a combined tax rate in 1987 of 40% and in 1988 of 34%. If you wish to know more about the details of the several formulas involved to combine your tax rates, you may locate them in the Federal Travel Regulations Part 302-17. To determine how much more overall RIT allowance you will receive from your final RIT claim, the following formula is used:

$$\text{Final RIT} = \frac{.40 -}{1.00 - .34(\$9,000)} - \frac{1.00 - .40}{1.00 - .34(\$2,250)}$$

$$\text{Then } (.6061 \times \$9,000) - (.9091 \times \$2,250)$$

$$\$5,454.90 - \$2,045.48$$

$$\text{Final RIT} = \$3,409.42$$

The amount of \$3,409.42 will be your final and additional allowance (before taxes are withheld) towards payment of essentially all of your tax liabilities for moving expense reimbursements. After taxes are withheld, you will receive the net amount in a separate check for your final RIT claim.

The RIT allowance is not an entitlement provided by the Internal Revenue Tax Code. The RIT allowance is provided by Federal Travel Regulations and is considered a taxable relocation allowance. The information in this brochure is provided to help employees understand the general features of the Relocation Income Tax Allowance. Employees are advised that rulings concerning the Relocation Income Tax allowance are governed by the Federal Travel Regulations, Procedures of the USDA National Finance Center, and decisions issued by the Comptroller General of the United States. Employees may also wish to review IRS Publication 521, "Moving Expenses." This publication discusses IRS form 4782 (Employee Moving Expense Information) and IRS form 3903 (Moving Expense Adjustment).

The U. S. Department of Agriculture. (USDA) prohibits discrimination in its programs on the basis of race, color, national origin, gender, religion, age, disability; political beliefs, sexual orientation, and marital or family status. (Not all prohibited bases apply to all programs.) Persons with disabilities who require alternative means for communication of program information (Braille, large print, audiotape, etc.) should contact USDA's TARGET Center at (202) 720-2600 (voice and TDD).

To file a complaint of discrimination, write USDA, Director, Office' of Civil Rights, Room 326W; Whitten Building; 14th and Independence Avenue SW, Washington, DC 20250-9410 or call (202) 720-5964 (voice or TDD). USDA is an equal opportunity provider and employer.