

QUALIFIED MOVING EXPENSES

When employees are relocated from one workplace to another or move to begin a new job the employer often pays for the costs of the move, either directly or by reimbursing the employee for moving expenses.

Employer reimbursements for an employee's moving expenses are treated as a fringe benefit excludable from the employee's gross income and wages if both of the following tests are met:

1. The expenses would be deductible by the employee if he or she had directly paid or incurred the expenses.
2. The employee did not deduct the expenses in a prior year.

Generally, if an employer reimburses or pays a third party directly for moving expenses that qualify for a tax deduction, the amount reimbursed or paid is not included in the employee's income.

All other amounts paid or reimbursed must be included in income and are subject to federal income tax withholding, social security, Medicare, and FUTA taxes.

Before any expenses of a job-related move can be considered exempt, two tests must be met:

1. Distance test – the new workplace must be at least 50 miles farther from the employee's old residence than the previous workplace.
2. Time test – employees must be expected to work full time in the general location of their new place of work for at least 39 weeks during the 12 months immediately following the move.

There are two types of deductible moving expenses:

1. Transportation of household goods
2. Expenses of traveling from old home to new home

An employer can reimburse an employee for the cost of moving household goods and personal effects, including packing, crating, transporting, and in transit storage expenses if they are incurred within 30 days after the goods and effects are moved from the old residence and before delivery to the new residence.

All reasonable expenses incurred while traveling from the employee's old home to the new home, such as transportation and lodging during the trip, are deductible. However, there is no deduction allowed for meal expenses while traveling to the new residence. The mileage rate for moving expenses is \$.17 (17 cents) per mile as of January 1, 2017.

The deduction for an employee's moving expenses includes amounts spent on transporting and storing household goods and personal effects belonging to members of the employee's household who live in both the old and new residences. Their reasonable expenses in traveling from the old home to the new home (including household pets) are also deductible to the employee.

Moving expenses are deductible only to the extent they are reasonable under all the circumstances related to the move. This means the shortest and most direct routes must be taken when traveling and conventional modes of transportation must be used. If not, any excess expenses incurred are not deductible. Lodging expenses incurred while traveling must not be "lavish or extravagant".

Employer payments or reimbursements for expenses other than transportation of household goods or traveling from the employee's old home to the new home are included in the employee's income for federal income tax withholding and social security, Medicare, and FUTA tax purposes. Following is a list of common nondeductible expenses that would be included in the employee's income:

- Cost of meals while traveling from the old home to the new home
- Pre-move house hunting expenses
- Temporary living expenses after starting work in the new location
- Real estate expenses incurred by the employee in selling a residence in the prior location and/or buying one in the new location.

Qualified moving expenses are not reported in boxes 1, 3, and 5 of the W-2, but must be reported in box 12 with Code P.

Nonqualified expenses, whether paid to the employee or third party, must be reported as wages on their W-2 in boxes 1, 3, and 5 and subject to federal, social security, Medicare, and FUTA.

PA rules differ slightly. For the distance test, your new workplace must be at least 35 miles farther from your old residence and PA allows for the reimbursement of meals.