Tax Impacts Bulletin

JANUARY 2018 | ISSUE 46

Executive Summary: Mobility Implications of U.S. Tax Reform

This Executive Summary focuses on the implications for corporate mobility programs of the U.S. tax reform signed into law by the President on December 22, 2017.

MOVING EXPENSE DEDUCTION AND EXCLUSION REPEALED

Costs previously excluded by employers from taxable income associated with shipment of household goods, storage expenses, and final move travel expenses become taxable for employees effective January 1, 2018.

Employers should budget an additional tax gross-up cost of 60%-70% for these expenses assuming they don't pass the tax burden to the employees. Relocation policies need to reflect the company tax position on these benefits. Communications will be prudent for both internal stakeholders and impacted employees.

RELOCATION HOME SALE PROGRAMS NOT IMPACTED

The new bill leaves the favorable tax treatment of relocation home sale "as is" under current law, maintaining non-taxability of certain costs related to the disposition of a home for employers with a formalized home sale program/policy.

SUPPLEMENTAL WITHHOLDING RATE REDUCED FROM 25% TO 22%

On January 11, 2018, the IRS issued the following guidance:

- Supplemental withholding rate reduced to 22% for
  employees with less than $1 million in supplemental earnings.
- Supplemental withholding rate reduced to 37% for
  employees with more than $1 million in supplemental earnings.
- Company payroll systems should be updated by February 15, 2018 for new withholding tables.

While companies grossing-up relocation expenses at the supplemental rate will experience a 3% reduction in the Federal rate, with the addition of moving expenses to taxable income and the reduction to itemized deductions, overall gross-up costs will likely increase based on our estimates.

OVERALL REDUCTION IN INDIVIDUAL INCOME TAX RATES

The new tax brackets are 10%, 12%, 22%, 24%, 32%, 35%, and 37%. The highest tax rate was reduced from 39.6% to 37%. U.S. outbounds tax equalized to the U.S. will require a recalculation of their hypothetical tax. Inbounds and permanent relocations into the U.S. will generally experience an overall. reduction in U.S. tax cost based on the lower tax brackets. Individual circumstances need to be considered.

ITEMIZED DEDUCTIONS VS. STANDARD DEDUCTION

The overall cost of owning a home, especially in high

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tax states, will increase for most employees as more will claim the standard deduction.

- Mortgage interest debt threshold reduced to $750,000 going forward with mortgages grandfathered prior to December 15, 2017.
- State and local property, sales and income taxes subject to a combined cap of $10,000 for single or married filers.
- Home Equity Line of Credit (HELOC) interest no longer deductible.
- Standard deduction increased to $24,000 for married filers and to $12,000 for single filers.
- Personal exemptions reduced to $0 and child tax credit increased to $2,000 for qualifying children.

Employees may be more resistant to relocating to high income/property tax states (i.e. CA, NY, NJ) and/or purchasing homes in the new location. This may lower acceptance rates.

EXCLUSION OF GAIN ON SALE OF PRIMARY RESIDENCE PRESERVED

The current rules remain in effect, whereby an individual must live in and own the property for 2 out of the previous 5 years prior to sale in order to qualify for the full exclusion of the capital gain ($250,000/single; $500,000/married). The exception to prorate the exclusion for job-related moves is still available.

We anticipate a couple likely trends for relocating employees:

1. Higher likelihood to rent (vs. own) in the new location.
2. Increased conversion of their primary residence to a rental property to preserve interest and tax deductions.

We recommend providing an individualized tax briefing and tax preparation assistance for the transfer year to reduce "noise" and improve acceptance rates.

REDUCTION IN CORPORATE TAX RATE TO 21%

The anticipated increase in tax costs for mobility programs should be mitigated on the corporate tax side with the reduction of the corporate tax rate.

NEXT STEPS

Based on our initial findings, we're estimating an overall increase in the cost of U.S. domestic and international mobility programs. It will be prudent for companies to proactively assess the financial impact going forward and adjust mobility budgets, tax accruals, and mobility policies accordingly.

QUESTIONS?

For any questions or additional clarification, please contact your tax advisor, or a **Perkins tax expert**.

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