

Taxable Wages - Employer Paid Relocation Expenses *Tax Cut & Jobs Act Compliant*

As shared in the March 6, 2018 announcement, the Federal Tax Cuts and Jobs Act (TCJA, P.L. 115-97) placed new requirements to include all employer paid relocation expenses in Federal wage income. The most significant changes from existing law is the moving of household goods/personal effects and the family travel paid for by the University are included in federal wages, subject to income tax and FICA withholding. This is referred to as *imputed income*. While it is likely that California will eventually adopt the Federal tax law, we do not anticipate it within the current tax year.

Imputed income must be added to an employee's normal pay cycle to be correctly reported and subject to withholding. Income tax withholding will be based upon the graduated income tax withholding tables driven by the individual's W-4. The addition of imputed income to a regular pay cycle may drive the withholding for the entire paycheck into higher Federal withholding percentage and can have a significant impact to net pay. Employees can calculate the impact of the imputed income using the *Estimate Tax Withholding* tool available at *At Your Service Online (AYSO)*. Exhibit 1 shows the potential benefit of this approach on net income.

Relocation Costs Reimbursed through Aggie Travel: In coordination with Supply Chain Management, Tax Reporting & Compliance (TR&C) has an established practice of reporting reimbursements through Aggie Travel as imputed income/taxable wages. Family travel costs will continue to be reimbursed through this process and now will be included in the imputed income calculations.

Relocation Costs paid Directly to Third Parties: Typically, the payments to third parties are for relocation of household goods/personal effects. The TCJA requires these costs be reported as taxable wages. Expenditures paid (in KFS) under **object code 2700** will be reviewed to determine if the costs are attributable to an employee relocation. When employee relocation costs are identified, TR&C will communicate directly with the Assistant Dean/Assistant Vice Chancellor¹. The following considerations should be evaluated and communicated to TR&C if applicable:

- To assist UC Davis employees in mitigating the impact to net pay, Payroll Services has developed a procedure to distribute the Federal imputed income **equally** over **as many as 4 months** when the total Federal imputed income is **greater than \$4,000**. Imputed income must be **fully imputed within the calendar year the payment(s) are made**.
- Relocation costs associated with a professional library or laboratory equipment is not taxable to the employee and can be excluded from the taxable wages. If a portion of the costs attributable to moving a professional library is not itemized on the invoice, the *Faculty Moving and*

¹ Or designee. TR&C will communicate with a single point of contact for each Dean/VC/VP unit.

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Relocation Travel Expense vouchers submitted to Budget & Institutional Analysis can be provided.

Additional information about the TCJA is available at the [webpage](#) and specific questions can be submitted to TR&C at afs-trcmail@ucdavis.edu.

Q: What if the moving expenses were incurred in 2017, but the vendor paid in 2018?

The University has received clear legal advice that any payments made in 2018 are reportable in this year. For situations where the invoice was **received** by the University in 2017 but the University did not pay the vendor until 2018, please contact Tax Reporting and Compliance.

Q: Can the department pay for the tax implications of the imputed income?

Yes, the department can estimate the tax impact of the imputed income and provide a one-time payment to compensate for the impact. The calculation to estimate the tax impact is based on the employee’s retirement plan and estimated federal tax bracket. The inverse of the estimated total tax rate becomes the denominator in the calculation and the imputed income is the numerator. The increase is typically close to 50%.

Imputed income	\$ 2,000	Gross up calculation			
Tax rate:		\$ 2,000	>>	\$ 2,000	= \$2,926.12
OASDI	6.20%	(1-.3165)		68.35%	
Medicare	1.45%				
Federal	24.00%	Net new cost to gross up			\$ 926.12
Est. Tax rate	<u>31.65%</u>				

Q: How will the department be notified that there is a 3rd party imputed income?

Based on the KFS data, Tax Reporting and Compliance will send a notification to the designated HR lead for each Dean/VC unit identifying the employee and amount to be imputed. The department will (1) be able to confirm the correct employee has been identified, (2) substantiate amounts attributable to moving a professional library (3) provide documentation requesting the distribution of the imputed income over as many as 4 months (appendix 2).

Q: How will TR&C/Payroll Services know to impute the income in a single check or to allocate equally over as many as four months?

The department will be able to provide the completed *Employee Request to allocate Federal imputed income* (Exhibit 2) form explicitly outlining the employee’s request. Individuals should estimate the withholding impact of the imputed income using the paycheck estimating tool available from At Your Service Online. Neither Payroll Services nor Tax Reporting and Compliance will estimate this amount on behalf of the employee. Once the form is remitted to TR&C, they will partner with Payroll Services to

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record manually for each identified pay cycle. There will be no additional follow up with the employee or department.

Q: The employee relocation costs were paid in November. Can the imputed income be allocated next calendar year?

No. While this process is intended to support employees, the priority remains the University's compliance with Federal tax law. Therefore, it is not possible to provide exceptions to impute income in a tax year subsequent to when the benefit is received.

Q: Is there a concise explanation that can be provided to impacted employees?

Below are draft statements that could be tailored to specific circumstances:

Imputed income on one check: *I hope that you are continuing to enjoy your transition to UC Davis. I am writing today to share with you that, as required by the Tax Cut and Job Act (P.L. 115-97), the payment of \$2,500 made directly to United Van Lines to move your household must be included in your Federal Gross wages, subject to OASI, Medicare and Federal income tax withholding. This is referred to as "imputed income." Tax Reporting & Compliance will add this amount to your June 1, 2018 paycheck and you will see a corresponding increase in Federal Payroll taxes withheld.*

Imputed income allocated over multiple checks: *I hope that you are continuing to enjoy your transition to UC Davis. I am writing today to share with you that, as required by the Tax Cut and Job Act (P.L. 115-97), the payment of \$6,500 made directly to United Van Lines to move your household must be included in your Federal Gross wages, subject to OASDI, Medicare and Federal income tax withholding. This is referred to as "imputed income." Knowing the impact that imputed income may have on your net pay, the University has the option of allocating the imputed income evenly over as many as four pay cycles. Please advise your (insert contact) if you wish to allocate the impact over multiple checks and they will work with you to submit the request to Tax Reporting and Compliance.*

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Exhibit 1					
Illustration of estimated tax impact of imputed income					
Employee - base	Federal	California	Relocation costs paid by UCD / Imputed income		
	<i>Monthly Paycycle</i>			Federal	California
Annual Salary	\$ 80,000	\$ 80,000	Moving household goods	\$ 7,000	\$ -
Monthly Salary	\$ 6,667	\$ 6,667	Family travel	\$ 1,500	\$ -
Pre-tax reductions	\$ (500)	\$ (500)	Househunting trip	\$ 1,000	\$ 1,000
<i>Calculated using AYSO calculator</i>			Imputed wage income	\$ 9,500	\$ 1,000
W-4 (married - 2)	\$ 510	\$ 140			
OASDI / Medicare	\$ 510				
Estimated withholding	\$ 1,020	\$ 140			
Scenario 1 - include in one paycheck			Scenario 2 - split across 2 months		
Imputed Income - Federal	\$ 9,500	\$ 1,000	Imputed Income - Federal	\$ 4,750	
Monthly Salary	\$ 6,667	\$ 6,667	Monthly Salary	\$ 6,667	
subtotal - taxable wages	\$ 16,167	\$ 7,667	subtotal - taxable wages	\$ 11,417	
Pre-tax reductions	\$ (500)	\$ (500)	Pre-tax reductions	\$ (500)	
<i>Calculated using AYSO calculator</i>			<i>Calculated using AYSO calculator</i>		
W-4 (married - 2)	\$ 2,411	\$ 206	W-4 (married - 2)	\$ 1,361	
OASDI / Medicare	\$ 1,237		OASDI / Medicare	\$ 873	
Estimated withholding	\$ 3,648	\$ 206	Estimated withholding	\$ 2,234	
Estimated impact on net pay	\$ (2,628)	\$ (66)	Estimated impact on net pay	\$ (1,214)	
Scenario 3 - split across 4 months					
Imputed Income - Federal	\$ 2,375				
Monthly Salary	\$ 6,667				
subtotal - taxable wages	\$ 9,042				
Pre-tax reductions	\$ (500)				
<i>Calculated using AYSO calculator</i>					
W-4 (married - 2)	\$ 838				
OASDI / Medicare	\$ 692				
Estimated withholding	\$ 1,530				
Estimated impact on net pay	\$ (510)				

Exhibit 2:

Employee Request to allocate Federal imputed income

Instructions: To distribute Federal imputed income, the shaded fields must be completed and the form signed by employee and returned to TR&C by **(TRC insert date prior to sending to Unit HR contact)**.

Dean / Vice Chancellor/ Vice Provost unit <i>(completed by TRC)</i>	
Home Department	
Department Contact	
Email	
Phone Number:	
Employee Name <i>(completed by TRC)</i>	
Employee ID number <i>(completed by TRC)</i>	
Employee Pay Cycle (MO / BW) <i>(completed by TRC)</i>	
Total Federal Imputed Income <i>(completed by TRC)</i>	
Requested number of months	
Pay Period Beginning	
Pay period Ending	

Employees are responsible for calculating the tax withholding impact and determining the number of months, up to four, over which the impact will be distributed. The tax withholding tool available within AYSO is the recommended tool.

By signing below I am requesting that the imputed income generated by University of California, Davis employer paid relocation costs be distributed as described above.

Employee Name: _____

Employee Signature: _____

Date: _____