

Tax-Free Reimbursement and Deductibility of Moving Expenses Suspended Under the New Tax Act

By Ted Batson, Partner

Many churches and other nonprofit organizations pay for or reimburse moving expenses for new or relocating employees. A church might cover the expenses for a new pastor moving from out of state, or a mission agency might reimburse the cost for a missionary's family moving to a new assignment.

Previously, this could be done on a tax-free basis. However, the new tax bill (the Tax Cuts and Jobs Act) contained several changes affecting tax benefits typically offered by employers. This includes suspension of the ability to pay for or reimburse moving expenses on a tax-free basis or deduct unreimbursed expenses as an itemized deduction.

This change doesn't prohibit employers from paying moving expenses, but it does make such payments taxable to the employee.

Moving Expenses Under the Prior Law

Under the prior law, so long as an employee's move met certain time and distance requirements:

- An employer could pay for or reimburse the expense of the employee's move on a tax-free basis (IRC sec. 132(g)), or
- The employee could deduct any unreimbursed expenses as an itemized deduction (IRC sec. 217).

This benefit extended to the cost of transporting the employee, the employee's spouse, the employee's children, and the employee's household goods and personal effects from their former residence to their new residence. Reimbursable expenses included lodging but not meals.

Moving Expenses Under the New Law

The new tax bill suspends IRC sections 132(g) and 217 for tax years 2018 through 2025. Thus as of January 1, 2018, moving expenses may no longer be paid by an employer, including churches and other nonprofit organizations, on a tax-free basis or deducted by the employee if not paid for by the employer. Accordingly, if an employer pays for an employee's move, any amounts paid are now includible in taxable wages. This means these amounts are also subject to income tax withholding and FICA and Medicare tax withholding when paid.

There is an exception for members of the Armed Forces of the United States on active duty who move pursuant to a military order or permanent change of station.

What Should an Employer Do?

Keep the following in mind:

- If your organization pays for an employee's moving expenses, the employee's net after-tax cost of the move will be the taxes he or she must pay on the reimbursed moving expenses. Consider whether your organization will also provide additional amounts to assist the employee with the tax liability arising from the reimbursed moving expenses.
- Because employees can no longer deduct the cost of unreimbursed moving expenses, if your organization does not provide financial assistance with a move, the employee will now incur all the expenses of the move without the subsidy of taxes saved through claiming a deduction. Your nonprofit may find that you need to offer some assistance to incent employees to take a position that requires a move.

Moving expenses may no longer be paid by an employer on a tax-free basis or deducted by the employee.

- You should also review and update your policies, procedures, and offer letters to conform with the current tax law.

A summary of key elements of the new tax law nonprofits should be aware of is available [here](#). Please [contact us](#) with any questions.

About the Author

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As a certified public accountant and tax counsel, Ted advises exempt organizations of all sizes on a wide range of issues. This includes consulting on tax and employee benefit related matters, representation before state and federal tax authorities, and assistance with firm audit or advisory engagements to formulate advice and counsel on important operating and tax issues. Ted also leads the firm's tax preparation practice, including IRS Forms 990 and 990-T and related state forms.

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