

DIVORCE FINANCIAL ADVISING UPDATE

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Employee Relocation Benefit Packages... Cash Flow and Tax Considerations

As corporations consolidate their offices, lay off workers and/or “right size”, I am seeing an increase in the number of clients relocating across the U.S. and abroad.

Many companies offer executives relocation packages which may include:

- **Retaining a “relocation coordinator” to facilitate all aspects of the move** - hiring the moving company, arranging for cars to be shipped, flight reservations, storage of furnishings in new location, temporary housing, lining up realtors, etc.
- **Familiarization and house hunting trips** for employee, spouse and family
- **Assistance in sale of current home through:**
 - Assumption of monthly payments, taxes and insurance until current home is sold
 - Price guarantees – company may pay the difference between a specified price and actual net selling price or company may buy the house if it doesn’t sell within a specified period of time
 - Company loans at low or no interest rate (IRS will impute a rate)
- **Moving expenses** including packing and insurance
- Travel expenses – lodging, meals, gas, airfare
- Temporary housing – usually 3 to 12 months
- Salary level commensurate with any increase in cost of living at new location

Income tax considerations: “Qualified moving expenses” are not taxable. Those are expenses that would have been deductible if paid by the employee. All others are included as taxable income. Rather than paying for select expenses, some companies are giving employees a lump sum which is taxable. However, it is common for employers to gross up that amount to cover the taxes on the nonqualified portion. See IRS Pub. 521 for details.

Impact on Cash Flow : Even though benefits may be taxed, free housing or unusually low mortgage rates significantly increase after tax cash flow, which can be considered in spousal support negotiations.

Reading and understanding the financial effects of the relocation package is a must!

Have Questions? Need help? Call or e-mail me!