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Employee Relocation Expenses

Operating Policy and Procedure

Objective:

To reimburse employees promptly for authorized relocation expenses; ensure that reimbursements comply with applicable collective bargaining agreements, compensation plans, and policies and procedures of Minnesota Management & Budget; and assure compliance with tax withholding and reporting requirements.

Click the following:

Policy

Procedures

Forms:

FI-00376 Relocation Expense Authorization
FI-00568 Relocation Expense Report

NOTE The above forms are required for processing Employee Relocation Expenses. These forms are available on the Minnesota Management & Budget Web site.

References:

Minnesota Management & Budget Personnel Rule 3900.2200, Relocation Expenses

Last Reviewed: January 2013
Last Updated: June 2013

Number PAY0022 - Employee Relocation Expenses

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Employee Relocation Expenses

Policy - General

This policy applies to all executive branch employees regardless of the source of funds from which the reimbursement is made. Eligibility for amounts of relocation expense reimbursements for current employees is determined by the employee's applicable collective bargaining agreement or compensation plan, and by personnel rule 3900.2200 for new employees.

You may also refer to the following topic(s):
Employee Business Expense

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Employee Relocation Expenses Policy - Advance Funds

Requesting an Advance

Except for moving companies, employees will pay all third parties directly for expenses incurred. An advance may be authorized for the estimated amount of relocation expenses for the next 30 days. The original Relocation Expense Report must be submitted by the deadline to request the advance.

NOTE The original Relocation Expense Authorization must be on file in Statewide Payroll Services or must be submitted with the Relocation Expense Report when requesting an advance.

Calculating an Advance

An adjustment for taxes will be made when the advance is paid. The advance itself is not taxable, but the expenses submitted to settle it may be taxable. Therefore, the gross amount of the advance is adjusted to a net advance. Tax rates are subject to change from year to year. However, the following is an example showing the net advance an employee received on the payroll paycheck as calculated with 2013 tax rates:

1. Multiply the amount of the gross advance by the total of the current supplemental tax rates to determine the tax amount that expenses will be subject to when submitted. For 2013, the rates are:

   25% - for federal tax (rate required by the IRS for supplemental payments)
   6.25% - for state tax (rate required by the State of Minnesota for supplemental payments)
   6.2% - for FICA tax
   1.45% - for Medicare tax.
   38.90% Total

   For example, if an advance for $600.00 is requested, the taxes would be calculated as follows:

   $600.00 x .389 = $233.40 = taxes on expenses

2. Subtract the calculated tax from the amount of the gross advance to determine the net advance.

   $600.00 - $233.40 = $366.60 = Net Advance.

Paying an Advance

Because the advance is adjusted for taxes when paid, the employee receives regular net pay plus the net advance. When the expenses are submitted to settle the advance, the employee's net pay will not be affected by the taxes due. Consider the situation where an employee requests a $600.00 advance and regular net pay is $800.00. When the advance is granted, the employee receives $1166.60. Assuming the employee's net pay does not change, at the time the $600.00 expense is submitted to settle the advance, the employee will receive regular net pay of $800.00.

When Advance is Granted

Regular Net Pay	$800.00
+ Net Advance	366.60
Employee Receives	$1166.60

When Expenses are Submitted

Regular Net Pay	$800.00
+ Expenses	600.00
- Taxes on Expenses	(233.40)
- Net Advance Payback	(366.60)
Employee Receives	$800.00

Consider what would have happened if the advance was not adjusted when it was paid. The employee would receive regular net pay plus the gross advance. When the expenses were submitted to settle the advance, the employee's net pay would be less than regular net pay because the gross advance deducted would be more than the net reimbursement of the expenses.

So in the situation above, if adjustments had not been made for taxes when the advance was paid, the employee would instead receive $1,400.00 (the full $600.00 for the advance and regular net pay of $800.00). And when the advance is settled, the employee would receive $566.60 (less than regular net pay) because the entire $600.00 advance would be deducted and the net reimbursement would be only $366.60 ($600.00 - $233.40).

When Advance is Granted

Regular Net Pay	$800.00
+ Net Advance	600.00
Employee Receives	$1400.00

When Expenses are Submitted

Regular Net Pay	$800.00
+ Expenses	600.00
- Taxes on Expenses	(233.40)
- Net Advance Payback	(600.00)
Employee Receives	$566.60

Recapturing an Advance

If the advance is not settled by the time the final expenses are submitted or by the relocation advance recapture date, whichever comes first, the amount of the unsettled advance will be recaptured (deducted and withheld for repayment) from the employee's next paycheck(s). Statewide Payroll Services will review amounts to be recaptured for employees to determine if the recapture should occur over one or several pay periods. Personal checks will only be accepted in rare situations.

Warning Agencies cannot advance relocation funds through any other method without the prior approval of Statewide Payroll Services.

You may also refer to the following topic(s):
Employee Business Expense

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Show

Employee Relocation Expenses Policy - Agency Responsibilities

Agencies have primary responsibility for:

- Communicating with relocating employees, and ensuring that employees have a clear understanding of policies and procedures that will impact their relocation.
  - Provide employees with an explanation of limitations specified in bargaining unit agreements, and provide written documentation (copies of the applicable collective bargaining agreement or compensation plan).
  - Ensure that employees understand that most relocation reimbursements are taxable.
  - Act as the primary liaison between relocating employees and Statewide Payroll Services if questions arise.
- Ensuring compliance with applicable collective bargaining agreements, compensation plans and all relocation policies and procedures.
- Ensuring the accuracy of the Relocation Expense Report and the Relocation Expense Authorization.
- Ensuring compliance with the limits and time period on the Relocation Expense Authorization.
- Educating supervisors regarding their responsibilities for employee relocation expenses.
- Contacting Statewide Payroll Services before any questionable item is submitted for reimbursement. This may be a result of the item not being clearly covered by the applicable collective bargaining agreement, compensation plan, or policy.
- Informing employees that original forms and itemized receipts are required before the relocation expense report can be approved and sent to Statewide Payroll Services for reimbursement.
- Ensuring that, prior to committing to a vendor and incurring expenses, required bids are obtained and reviewed in accordance with bargaining agreements and compensation plans, as well as the Department of Administration Procurement Division policies and the Appointing Authority's Authority for Local Purchase, when appropriate.

Internal policies and procedures to control and monitor relocation expenses must be developed and should include:

- Who is responsible for signing Relocation Expense Authorizations and Relocation Expense Reports
- A review or pre-audit function to ensure that all relocation payments comply with agency rules and regulations, agency policies and procedures, the employee's applicable collective bargaining agreement or compensation plan, and Minnesota Management & Budget policies and procedures.

You may also refer to the following topic(s):
Employee Business Expense

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Employee Relocation Expenses

Policy - Employee Responsibilities

The employee must receive written advanced approval on the Relocation Expense Authorization form before incurring relocation expenses. If an advance is requested, it should be requested no earlier than two pay periods before the funds are needed, and must be for an estimate of expense(s) for no more than 30 days. Settlement of the advance will occur when the expenses are submitted. If the advance is not fully settled at the time the final expenses are submitted, the amount will be recaptured (deducted) from the employee's next paycheck.

Each employee who incurs relocation expenses is responsible for the accurate completion of all required forms, including the Relocation Expense Report. The employee must include only those expenses authorized by the employee's agency and by the employee's applicable collective bargaining agreement or compensation plan. The total amount of expenses must not exceed the total amount approved, and the dates of expenses must be consistent with the time period approved on the Relocation Expense Authorization form. An extension (if allowed by the employee's applicable collective bargaining agreement or compensation plan) must be obtained on the Relocation Expense Authorization if the time period needs to be extended or the total amount of expenses needs to be increased before any further expenses are submitted. The employee is responsible for obtaining itemized receipts for all reimbursable expenses. These itemized receipts must be attached to the Relocation Expense Report.

You may also refer to the following topic(s):
Employee Business Expense

STOP Continue with your next task.

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Employee Relocation Expenses

Policy - Supervisor Responsibilities

The employee's new supervisor must review/pre-audit the Relocation Expense Report and approve only if there is:

- written advanced approval
- knowledge of the necessity for relocation and expense
- compliance with all provisions of applicable relocation regulations
- compliance with the limits and time period on the Relocation Expense Authorization.

The supervisor must deny those items which do not comply, and must inform the employee of the denied expenses.

You may also refer to the following topic(s):
Employee Business Expense

STOP Continue with your next task.

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Employee Relocation Expenses Policy - Tax Reporting

Relocation payments will be reported on employee W-2 forms in accordance with current IRS regulations. Employees may refer to Internal Revenue Service Publication 521 (Moving Expenses) and Form 3903 (Moving Expenses) for information on tax filing requirements.

You may also refer to the following topic(s):
Employee Business Expense

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Employee Relocation Expenses

Policy - Timing of Payments

All relocation expenses are entered by Minnesota Management & Budget, Statewide Payroll Services staff. In order for the relocation expense reimbursement to be included with the employee's next paycheck, all original documents/forms/receipts must be received in Statewide Payroll Services by Monday noon on payroll Processing weeks. (This deadline may vary due to changes to the processing schedule, such as holidays). Payment will not be made, or may be reduced, if the appropriate forms, signatures, and itemized receipts are not included.

NOTE Before submitting the relocation expenses to Statewide Payroll Services, the agency relocation contact must verify, correct, and sign the relocation expense report.

You may also refer to the following topic(s):
Employee Business Expense

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Employee Relocation Expenses

Policy - Types of Expenses

To differentiate between taxable and non-taxable payments, IRS regulations divide relocation expenses into qualified expenses and other expenses.

Qualified Expenses

Qualified expenses are non-taxable and consist of transporting household items to the new residence and moving from the old residence to the new residence. Expenses for moving from the old residence to the new residence may include mileage, lodging, or other expenses as specified by federal tax regulations.

The appointing authority must follow all applicable collective bargaining agreements, compensation plans, and state policies and procedures when paying moving expenses. For example, some bargaining agreements require the employee or the agency to obtain a minimum of two bids (refer to current bargaining agreement or compensation plan) from moving companies for transporting household items to the new residence. The agency confirms the low bid and an Appointing Authority Designee must then approve the moving company.

Arrangements with the moving company should be made only after the Appointing Authority's approval is obtained. The moving company may be paid directly from the state to the vendor, or the employee may pay the moving company and submit the expense for reimbursement on the Relocation Expense Report. Direct payments to a moving company are the only expense paid directly from the state to the vendor. A department purchase order is issued by the agency for making a direct payment to a moving company. Refer to Procurement operating policy and procedures. If the employee moves household items without a moving company, mileage and other expenses may be claimed, if allowed by the applicable collective bargaining agreement or compensation plan.

NOTE If the agency is reimbursing the employee an amount less than the total moving company bid, the employee should pay the moving company and submit an expense report with the proper receipts for reimbursement.

Exceptions to Qualified Expenses

For qualified expenses the IRS divides mileage into a qualified, and other expense. The amount of the mileage reimbursement considered to be qualified may vary according to current IRS regulations.

For example, as of January 1, 2013, the amount of mileage paid at 24 cents per mile was a qualified (non-taxable) expense; and the amount over 24 cents per mile was considered other (taxable) expense. All meal expenses incurred are considered other (taxable) expenses.

Other Expenses

Other expenses are taxable. Federal, state, FICA, and Medicare taxes are withheld from the employee's pay when the expenses are paid. Other expenses may include:

- Pre-move expenses in search of a new residence
- Temporary living expenses
- Travel to and from the former job location
- Residence sale, purchase, or lease expenses
- Other relocation costs
- Federal and state tax obligation*

*If authorized by the applicable collective bargaining agreement or compensation plan, and depending on the agency budgetary limitations, an agency may agree to compensate an employee for any additional taxes paid because the full amount of the reimbursement was not deductible.

Tip The taxable and non-taxable expenses can change due to changes made by the IRS.

Other Guidelines

There are certain circumstances under which none of an employee's reimbursed relocation expenses are viewed as qualified, and therefore all relocation expenses are taxable. The IRS outlines a distance test and a time test. If relocating employees do not meet **both** of these tests, expenses are not considered qualified (or deductible) and therefore ALL relocations expenses are taxed at the appropriate rates.

- In order to satisfy the IRS relocation "distance test," the new job location must be at least 50 miles farther from the employee's former home than the old job location.
- In order to satisfy the IRS relocation "time test," the relocating employee must work (full time) at least 39 weeks in the new job location.

The IRS does allow for certain exceptions, and IRS regulations are subject to change. It is the responsibility of the agency and the employee to be aware of, and comply with, IRS regulations. IRS instructions, publications and regulations can be found on the IRS Web site.

Because of the tax implications, state vehicles should not be used for relocation.

You may also refer to the following topic(s):
Employee Business Expense

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Employee Relocation Expenses

Procedure - General

Employee

1. Obtain the agency's approval to incur relocation expenses at state expense on the Relocation Expense Authorization in accordance with your agency's procedure. Employees must receive authorization and have all approving signatures obtained on the Relocation Expense Authorization form prior to incurring expenses.

2. After the relocation period is completed (or periodically as expenses are incurred), complete the Relocation Expense Report and submit it along with required itemized receipts to the new supervisor. If this is the first Relocation Expense Report to be submitted, the original Relocation Expense Authorization must be included. All expenses must be in compliance with:

   - Applicable collective bargaining agreement, compensation plan or statute limits.
   - Policies and procedures of Minnesota Management & Budget and the Department of Administration (third-party movers).
   - Agency rules and regulations, including advanced approval.
   - Limits and time period on the Relocation Expense Authorization.

NOTE If needed, an advance covering estimated expenses for the next 30 days may be obtained using the Relocation Expense Report. The Relocation Expense Authorization must also be submitted. The advance should be requested no earlier than two pay periods before the funds are needed. Settlement of the advance will occur when the expenses are submitted. If the advance is not settled at the time the final expenses are submitted, the amount will be recaptured (deducted) from the employee's next paycheck.

Supervisor

3. Review the Relocation Expense Report and the attached itemized receipts for propriety and accuracy.

4. Verify that expense are in compliance with:

   - Applicable collective bargaining agreement, compensation plan or statute limits.
   - Policies and procedures of Minnesota Management & Budget and the Department of Administration (third-party movers).
   - Agency rules and regulations, including advanced approval and Authority for Local Purchase.
   - Limits and time period on the Relocation Expense Authorization.

5. Deny and adjust expenses that do not comply. Provide the employee with an explanation.

6. Sign, date and forward the expense report to the Agency Relocation Contact.

Agency Relocation Contact

7. Review the Relocation Expense Report and the attached itemized receipts for propriety and accuracy.

8. Verify that expense are in compliance with:

   - Applicable collective bargaining agreement, compensation plan or statute limits.

- Policies and procedures of Minnesota Management & Budget and the Department of Administration (third-party movers).
- Agency rules and regulations, including advanced approval and Authority for Local Purchase.
- Limits and time period on the Relocation Expense Authorization.

9. Deny and adjust expenses that do not comply. Provide both the employee and supervisor with an explanation.
10. Make copies of the Relocation Expense Report, the Relocation Expense Authorization (if this is the first time expenses are being submitted), and all required itemized receipts.
11. Sign, date and forward the originals to Statewide Payroll Services and retain copies in agency files.

Statewide Payroll Services

12. Review the Relocation Expense Report and the attached itemized receipts for propriety and accuracy. Verify that all expenses are in compliance with:

    - Applicable collective bargaining agreement, compensation plan or statute limits
    - Policies and procedures of Minnesota Management & Budget
    - Limits and time period on the Relocation Expense Authorization.

13. Deny and adjust expenses that do not comply. Provide the Agency Relocation Contact with an explanation.
14. Reimburse authorized and approved relocation expenses.
15. Assist Agency Relocation Contacts with questions.
16. Review any outstanding advances and determine on an individual basis if the recapture should occur over one or several pay periods.

You may also refer to the following topic(s):
Employee Business Expense

STOP Continue with your next task.