moving expenses is subject to withholding of Federal income taxes. (See IRS Publication 521, ''Moving Expenses.'') There are some moving expenses which may be reimbursed but are not covered taxable reimbursements (see definition in § 302–17.5(d)) for purposes of the WTA and RIT allowance calculations, such as extended storage of household goods. (See exclusions in § 302–17.4.) Therefore, the actual amount of the covered taxable reimbursements may be different than the amount of nondeductible moving expenses subject to Federal income tax withholding. The difference in these amounts should not be substantial; therefore, the amount of nondeductible moving expenses subject to Federal income tax withholding, as determined by the agency pursuant to IRS regulations, may be used in calculating the WTA. (Note that the RIT calculation procedure in § 302–17.8 requires determination of covered taxable reimbursements.)

(c) *Determination of Federal withholding tax rate (FWTR).* Moving expense reimbursements constitute supplemental wages for Federal income tax purposes. Therefore, an agency must withhold at the withholding rate applicable to supplemental wages. Currently, the supplemental wages withholding rate is 28 percent. The supplemental wages withholding rate should be used in calculating the WTA unless under an agency's withholding procedures a different withholding rate is used pursuant to IRS tax regulations. In such cases, the applicable withholding rate shall be substituted for the supplemental wages withholding rate in the calculation shown in paragraph (d) of this section.

(d) *Calculation of the WTA.* The WTA is calculated by substituting the amounts determined in paragraphs (b) and (c) of this section into the following WTA gross-up formula:

Formula:

$$Y = \frac{X}{1 - X}\,(N)$$

Where:

Y = WTA

X = FWTR (generally, 28 percent)

N = nondeductible moving expenses/covered taxable reimbursements

Example:

If:

X = 28 percent

N = $20,000

Then:

$$Y = \frac{.28}{1.00 - .28}\,(\$20{,}000)$$

Y = .3889 ($20,000)

Y = $7778.00

(e) *WTA payment and employee agreement for repayment.* (1) The WTA may be calculated several times within Year 1 if reimbursements for moving expenses are made on more than one travel voucher. Each time an employee is reimbursed for moving expenses which are subject to Federal tax withholding in accordance with the IRS regulations, the WTA will be calculated and paid unless the employee fails to comply with the requirements in paragraph (e)(2) of this section.

(2) The employee shall be required to agree in writing to repay any excess amount paid to him/her in Year 1 (see §§ 302–17.8(f)(5) and 302–17.9(b)(3)), and submit the required certified tax information and claim for his/her RIT allowance within a reasonable length of time (as determined by the agency) after the close of Year 1. Failure of the employee to comply with this requirement will preclude the agency's payment of the WTA. The entire WTA will be considered an excess payment if the RIT allowance claim is not submitted in a timely manner to settle the RIT allowance account.

(f) *Determination of employee's withholding tax on WTA.* Since the amount of the WTA is considered income to the employee, it is subject to the same tax withholding requirements as all other moving expense reimbursements. (See Treasury Financial Manual, Section 4080, Moving Expense Reimbursements, for withholding requirements.)

(g) *End of year reporting.* At the end of the year, agencies generally are required to issue IRS Form(s) W-2 for each employee showing total gross compensation (including moving expense reimbursements) and the applicable amount of Federal taxes withheld. For tax reporting purposes, the WTA is to be treated as a moving expense reimbursement. The total amount of the employee's WTA's paid during the year as well as the amount of moving expense reimbursements should be included as income on the employee's Form W-2. The Federal tax withholding amount applicable to the moving expense reimbursements and the WTA should also be included on the employee's Form W-2. The amount of the WTA's also will be furnished to the employee along with the amount of moving expense reimbursements on IRS Form 4782 or another itemized listing provided for the employee's use in preparing his/her tax return (see IRS regulations for further guidance) and in claiming the RIT allowance as provided in §302–17.8.

§ 302–17.8 Rules and procedures for determining the RIT allowance in Year 2.

(a) *Summary/overview of procedures.* The RIT allowance will be calculated and claimed in Year 2. This can be accomplished as soon as the employee can determine earned income (as defined herein), income tax filing status, covered taxable reimbursements for Year 1, and the applicable marginal tax rates. The RIT allowance is then calculated using the gross-up formula under procedures prescribed herein. Since the RIT allowance is considered income, appropriate withholding taxes on the RIT allowance are deducted and the balance constitutes the net payment to the employee. Rules, procedures, and the prescribed tax tables for these calculations are provided in paragraphs (b) through (g) of this section, and in an annual Federal Travel Regulation (FTR) Bulletin (located at *www.gsa.gov/ftrbulletin*).

(b) *General rules and assumptions.* (1) The procedures prescribed herein for calculations and payment of the RIT allowance are based on certain assumptions jointly developed by GSA and IRS, and tax tables developed by IRS. This approach avoids a potentially controversial and administratively burdensome procedure requiring the employee to furnish extensive documentation, such as certified copies of actual tax returns and reconstructed returns, in support of a claim for a RIT allowance payment. Specifically, the following assumptions have been made:

(i) The employee will claim allowable moving expense deductions for the same tax year in which the corresponding moving expense reimbursements are included in income;

(ii) Changes to the IRC, applicable to the 1987 and subsequent tax years, require that allowable moving expense deductions must be taken as an itemized deduction from gross income rather than as an adjustment to gross income as in previous tax years. It is assumed that employees will receive the benefit of allowable moving expense deductions to offset income either by itemizing their moving expense deductions or through the increased standard deductions.

(iii) Prior to the Tax Reform Act of 1986, it was assumed that the employee's (and spouse's, if a joint return is filed) earned income, filing status, and CMTR determined for Year 1 (and used in determining the RIT allowance in Year 2) would remain the same or would not be substantially different in the second and subsequent tax years. However, the Tax Reform Act of 1986 substantially changed the Federal tax structure making it necessary to compute a separate CMTR for Year 1 and for Year 2. (See paragraph (e) of this section.) The formula for calculating the RIT allowance to be paid in 1988 and subsequent years is shown in paragraph (f) of this section. It is assumed that within the accuracy of the calculation, the State and local tax rates for Year 1 and Year 2 will remain the same or will not be substantially different. Therefore, the State and local tax rates for Year 1 shall be used in calculating the CMTR for Year 2.

(2) The prescribed procedures, which yield an estimate of an employee's additional tax liability due to moving expense reimbursements, are to be used uniformly. They are not to be adjusted to accommodate an employee's unique circumstance which may differ from the assumed circumstances stated in paragraph (b)(1) of this section.

(3) An adjustment of the RIT allowance paid in Year 2 for the covered taxable reimbursements received in Year 1 is required if the tax information certified to on the RIT allowance claim is different than that shown on the actual Federal tax return filed with IRS for

Year 1 or changed for any reason after filing of the tax return, so as to affect the CMTR's used in the RIT allowance calculation. (See § 302–17.10 for claims procedures.)

(c) *Determination of covered taxable reimbursements.* (1) Generally, the amount of the covered taxable reimbursements is the difference between (i) the amount of covered moving expense reimbursements for the allowances listed in § 302–17.3 that was included in the employee's income in Year 1, and (ii) the maximum amount of allowable moving expenses that may be claimed as a moving expense deduction by the employee on his/her Federal tax return under IRS tax regulations to offset the income resulting from moving expense reimbursements for Year 1. The covered taxable reimbursements will be determined as if the employee had itemized and deducted all allowable moving expense deductions. (See assumption made in paragraph (b)(1)(ii) of this section.) If the employee is precluded from claiming moving expense deductions because he/she does not meet IRS requirements for the distance test, then the amount of covered taxable reimbursements is the same as the amount of covered moving expense reimbursements. (See § 302–17.5(d).)

(2) For purposes of calculating the RIT allowance, the following special rules apply to the determination of moving expense deductions to offset moving expense reimbursements reported as income:

(i) The total amount of reimbursement (which was reported as income) for the expenses of en route travel for the employee and family (see § 302–17.3(a)) and transportation (including up to 30 days temporary storage) of household goods (see § 302–17.3(b)) to the new official station shall be used as a moving expense deduction. (See also § 302–17.4(e) and (f).)

(ii) The total amount of reimbursement for a househunting trip, temporary quarters (up to 30 days at new station) and real estate transaction expenses (see § 302–17.3(e), (f), (g), and (i)), up to the maximum allowable deduction under IRS tax regulations, shall be used as a moving expense deduction. For example, an employee and spouse filing a joint return and residing in the same household at the end of the tax year may deduct up to $3,000 for these expenses. (No more than $1,500 of the $3,000 may be claimed for a househunting trip and temporary quarters expenses combined.) If the employee was reimbursed $1,350 for a househunting trip and temporary quarters expenses and $9,000 for real estate expenses, the moving expense deductions would be $1,350 for the househunting trip and temporary quarters expenses and $1,650 for real estate expenses. If the employee's reimbursement was $1,850 for the househunting trip and temporary quarters expenses and $9,000 for real estate expenses, the moving expense deductions would be $1,500 for the househunting trip and temporary quarters expenses and $1,500 for real estate expenses. If the employee had no reimbursement for a househunting trip and temporary quarters, the full $3,000 would be applied to the $9,000 reimbursement for real estate expenses. (See IRS Publication 521, ''Moving Expenses,'' for these and other maximums which vary by situation and filing status.)

(3) Procedures and examples are provided herein as if all moving expense reimbursements are received in one year with all moving expense deductions applied in that same year to arrive at the covered taxable reimbursements. However, when reimbursements span more than one year, the amount of covered taxable reimbursements must be determined separately for each reimbursement year (Year 1). The maximum moving expense deductions apply to the entire move. Under IRS tax regulations, the employee has some discretion as to when he/she claims these deductions (e.g., in the year of the move when the expense was paid or in the year of reimbursement, if these actions do not occur in the same year). However, for purposes of the RIT allowance procedures, the moving expense deductions will be applied in the year that the corresponding reimbursement is made. For example, if an employee incurred and was reimbursed $1,000 for a househunting trip and temporary quarters in 1989 and an additional $1,000 for temporary quarters in 1990, this employee, according to his/her particular

situation and tax filing status, may deduct $1,500 of these expenses in moving expense deductions. In calculating the RIT allowance for 1989, $1,000 of the $1,500 deduction is used to offset the $1,000 reimbursement in 1989 resulting in zero covered taxable reimbursements for the househunting trip and temporary quarters for 1989. The remaining $500 (balance of the $1,500 not used in determining covered taxable reimbursements for 1989) will be used to offset the $1,000 temporary quarters reimbursement in 1990 (second Year 1), leaving $500 of the temporary quarters reimbursement as a covered taxable reimbursement for 1990.

(4) Although the WTA amount is included in income (see § 302–17.7), it shall not be included in the amount of covered taxable reimbursements. Under the procedures and formulas established herein, the proper amount of the RIT allowance is calculated using the RIT gross-up formula with the WTA and any prior RIT allowance payments excluded from covered taxable reimbursements.

(5) Agencies are cautioned that there may be moving expenses reimbursed to the employee that are not covered by the RIT allowance. (See exclusions in § 302–17.4; also see discussion in § 302–17.7 regarding covered taxable reimbursements versus nondeductible expenses.)

(d) *Determination of income level and filing status.* In order to determine the CMTR's needed to calculate the RIT allowance, the employee must determine the appropriate amount of earned income (as prescribed herein) that was or will be reported on his/her Federal tax return for the tax year in which the covered taxable reimbursements were received (Year 1). Such amount will also include the spouse's earned income if a joint filing status is claimed. For purposes of this regulation, appropriate earned income shall include only the amount of gross compensation reported on IRS Form(s) W-2, and, if applicable, the net earnings (or loss) from self-employment income as shown on Schedule SE of IRS Form 1040. (See § 302–17.5(h).) (Note that moving expense reimbursements including the WTA amounts and any RIT allowance paid for a prior Year 1 are to be included in earned income and should be shown as income on the Form W-2; if they are not, other appropriate documentation shall be furnished by the agency.) (*See* § 302–17.7(g).) The amount of earned income as determined under this paragraph and the tax filing status (for example, from lines 1 through 5 on the 1987 IRS Form 1040) shall be contained in a certified statement on, or attached to, the voucher claiming the RIT allowance. (See § 302–17.10.) If a joint filing status is claimed and the spouse's earned income is included, the spouse must sign the certified statement. If the spouse does not sign the statement, earned income will include only the employee's earned income and the RIT allowance will be calculated on that basis. This condition will not apply if an employee is allowed, under IRS rules, to file a joint return as a surviving spouse.

(e) *Determination of the CMTR's.* The gross-up formula used to calculate the RIT allowance in paragraph (f) of this section, requires the use of two CMTR's—one for Year 1 in which reimbursements were received and the other for Year 2 in which the RIT allowance is paid. CMTR's are single tax rates calculated to represent the Federal, State, and/or local income tax rates applicable to the earned income determined for Year 1. (*See* paragraph (d) of this section.) The CMTR's will be determined as follows:

(1) *Federal marginal tax rates.* The Federal marginal tax rates for Year 1 and Year 2 are determined by using the income level and filing status determined under paragraph (d) of this section and contained in the certified statement by the employee (or employee and spouse) on the RIT allowance claim, and applying the prescribed Federal tax tables located at *www.gsa.gov/ftrbulletin*. For example, if the income level for the 1989 tax year (Year 1) was $84,100 for a married employee filing a Federal joint return, the Federal marginal tax rate would be 33 percent for Year 1 (1989) (see the appropriate RIT tax table(s) located at *www.gsa.gov/ftrbulletin*) and 28 percent for Year 2 (1990) (see the appropriate RIT tax table(s) located at *www.gsa.gov/ftrbulletin*). These rates would be used regardless of how much

of the $84,100 was attributable to reimbursement for the employee's relocation expenses. (Note that these marginal rates are different from the withholding tax rate used for the WTA.) If the employee incurs only Federal income tax (*i.e.*, there are no State or local taxes), the Federal marginal tax rates determined from the appropriate RIT tax table(s) located at *www.gsa.gov/ftrbulletin* are the CMTR's to be used in the RIT gross-up formula provided in § 302–17.8(f). In such cases, the provisions of paragraphs (e)(2) and (3) of this section, do not apply.

(2) *State marginal tax rate.* (i) If the employee incurs an additional State income tax (see definition in § 302–17.5(a)) liability as a result of moving expense reimbursements, the appropriate State tax table located at *www.gsa.gov/ftrbulletin* is to be used to determine the applicable State marginal tax rate that will be substituted into the formula for determining the CMTR for both Year 1 and Year 2. The appropriate State tax table will be the one that corresponds to the tax year in which the reimbursements are paid to the employee (Year 1). The income level determined in paragraph (d) of this section for Federal taxes shall be used to identify the appropriate income bracket in the State tax table. The applicable State marginal tax rate is obtained from the selected income bracket column for the State where the employee is required to pay State income tax on moving expense reimbursements. The tax rates shown in the table apply to all employees regardless of their filing status, except where a separate rate is shown for a single filing status.

(ii) The lowest income bracket shown in the State tax tables located at *www.gsa.gov/ftrbulletin* is $20,000–$24,999. In cases where the employee's (employee's and spouse's, if filing jointly) earned income as determined under paragraph (d) of this section is less than this income bracket, an appropriate State marginal tax rate shall be established by the employing agency from the applicable State tax code or regulations issued pursuant thereto. Such State marginal tax rate shall be representative of the earned income level in question but in no case more than the marginal tax rate established located at *www.gsa.gov/ftrbulletin* for the $20,000–$24,999 income bracket for the particular State in which an additional tax obligation has been incurred.

(iii) The prescribed State marginal tax rates generally are expressed as a percent of taxable income. However, if the applicable State marginal tax rate is stated as a percentage of the Federal income tax liability, the State tax rate must be converted to a percent of taxable income to be used in the CMTR formulas in paragraph (e)(5) of this section. This is accomplished by multiplying the applicable Federal tax rate for Year 1 by the applicable State tax rate. For example, if the Federal tax rate is 33 percent for Year 1 and the State tax rate is 25 percent of the Federal income tax liability, the State tax rate stated as a percent of taxable income would be 8.25 percent. The State tax rate thus determined for Year 1 will be used in determining the CMTR for both Year 1 and Year 2.

(iv) An employee may incur a State income tax liability on moving expense reimbursements in more than one State at the same or different marginal tax rates (*i.e.*, double taxation). For example, an employee may incur taxes on moving expense reimbursements in one State because of residency in that State, and in another State because that particular State taxes income earned within its jurisdiction irrespective of whether the employee is a resident. In such cases, a single State marginal tax rate must be determined for use in the CMTR formulas in paragraph (e)(5) of this section. The general rules in paragraph (e)(2)(iv) (A) through (C) of this section apply in determining the applicable single State marginal tax rate in such cases.

(A) If two or more States impose an income tax on an employee's moving expense reimbursement, but no two States tax the same portion of the reimbursement, then the reimbursement is not subject to double taxation. In this situation, the average of the applicable State marginal tax rates, as determined under paragraphs (e)(2) (i) through (iii) of this section, shall be treated as being imposed on the entire reimbursement, and shall be used in the CMTR formula.

(B) If two or more States impose an income tax on the moving expense reimbursement, and more than one State taxes the same portion of the reimbursement, but those States allow an adjustment or credit for income taxes paid to the other State(s), then the reimbursement is not subject to double taxation. In this situation, the highest of the applicable State marginal tax rates, as determined under paragraphs (e)(2) (i) through (iii) of this section, shall be used in the CMTR formula.

(C) If two or more States impose an income tax on the moving expense reimbursement, and more than one State taxes the same portion of the reimbursement without allowing an adjustment or credit for income taxes paid to the other, then the reimbursement is subject to double taxation. In this situation, the sum of the applicable State marginal tax rates, as determined under paragraphs (e)(2) (i) through (iii) of this section, shall be used in the CMTR formula.

(3) *Local marginal tax rate.* Because of the impracticality of establishing a single marginal tax rate table for local income taxes that could be applied uniformly on a nationwide basis, appropriate local marginal tax rates shall be determined as provided in paragraphs (e)(3)(i) through (iii) of this section.

(i) If the employee incurs an additional local income tax (see definition §302–17.5(b)) liability as a result of moving expense reimbursements, he/she shall certify to such fact when claiming the RIT allowance (see certification statement in §302–17.10) by specifying the name of the locality imposing the income tax and the applicable marginal tax rate determined from the actual marginal tax rate table or schedule prescribed by the taxing locality. The marginal tax rate shall be the one applicable to the taxable income portion of the amount of earned income determined under paragraph (d) of this section for the employee (and spouse, if filing jointly). The same tax rate shall be used in calculating the CMTR for both Year 1 and Year 2. The employing agency shall establish procedures to determine whether the employee-certified local marginal tax rate is appropriate for the employee's income level and filing status and approve its use in the CMTR formulas. (See also §302–17.10(b)(2).)

(ii) If the local marginal tax rate is stated as a percentage of Federal or State income tax liability, such rate must be converted to a percent of taxable income for use in the CMTR formulas. This is accomplished by multiplying the applicable Federal or State tax rate for Year 1 as determined in paragraph (e) (1) or (2) of this section by the applicable local tax rate. For example, if the State tax rate for Year 1 is 6 percent and the local tax rate is 50 percent of State income tax liability, the local tax rate stated as a percentage of taxable income would be 3 percent. The local tax rate thus determined for Year 1 will be used in determining the CMTR for both Year 1 and Year 2.

(iii) The situations described in paragraph (e)(2)(iv) of this section with respect to State income taxes may also be encountered with local income taxes. If such situations do occur, the rules prescribed for determining the single State marginal tax rate shall also be applied to determine the single local marginal tax rate for use in the CMTR formulas.

(4) *Marginal tax rates for the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, and the U.S. possessions*—(i) *The Commonwealth of Puerto Rico.* A Federal employee who is relocated to or from a point, or between points, in the Commonwealth of Puerto Rico may be subject to income tax on the employee's salary (including moving expense reimbursements) by both the U.S. Government and the government of Puerto Rico. However, under the current law of Puerto Rico, such employee receives a credit on his/her Puerto Rico income tax for the amount of taxes paid to the United States. The rules in paragraphs (e)(4)(i)(A) through (C) apply in determining the marginal tax rate applicable for transfers to, from, or between points in Puerto Rico.

(A) The applicable Puerto Rico marginal tax rate shall be determined by using the income level determined in paragraph (d) of this section for Federal taxes and the employee's filing status. The Puerto Rico marginal tax rate for Year 1 will be used in computing the CMTR for both Year 1 and Year 2. The Puerto Rico tax tables are located at *www.gsa.gov/ftrbulletin*.

(B) If the applicable Puerto Rico marginal tax rate is higher than the applicable Federal marginal tax rate, then the total amount of taxes paid by the employee to both jurisdictions is equal to the employee's total income tax liability to the Commonwealth of Puerto Rico before any credit is given for taxes paid to the United States. The Federal marginal tax rate, therefore, is of no consequence and will be disregarded. In such cases, the formula in paragraph (e)(5)(iii) of this section will be used to compute the CMTR. The CMTR formula shall include only the Puerto Rico marginal tax rate, the State marginal tax rate as determined under paragraph (e)(2) of this section (when applicable), and the local marginal tax rate as determined under paragraph (e)(3) of this section. For purposes of applying the Puerto Rico CMTR formula in paragraph (e)(5)(iii) of this section, the State marginal tax rate will be applicable if both Puerto Rico and one or more of the States impose an income tax on the moving expense reimbursement, and more than one of these entities taxes the same portion of the reimbursement without allowing an adjustment or credit for income taxes paid to the other. In this situation, the S component of the CMTR formula will be the applicable State marginal tax rate as determined under paragraph (e)(2) of this section.

(C) If the applicable Puerto Rico marginal tax rate is equal to or lower than the applicable Federal marginal tax rate, then the total amount of taxes paid by the employee to both jurisdictions is equal to the employee's total Federal income tax liability. The Puerto Rico marginal tax rate, therefore, is of no consequence in such cases and will be disregarded. The CMTR will be computed using the formula in paragraphs (e)(5) (i) and (ii) of this section. This formula will include the Federal marginal tax rate as determined under paragraph (e)(1) of this section, the State marginal tax rate as determined under paragraph (e)(2) of this section (when applicable), and the local marginal tax rate as determined under paragraph (e)(3) of this section. The State marginal tax rate will be applicable if one or more States impose tax on the moving expense reimbursement.

(ii) *The Commonwealth of the Northern Mariana Islands and the U.S. possessions.* A Federal employee who is relocated to or from a point, or between points, in the Commonwealth of the Northern Mariana Islands or the U.S. possessions (Guam, American Samoa, and the U.S. Virgin Islands) is subject to both Federal income tax and income tax assessed by the Commonwealth of the Northern Mariana Islands or the U.S. possession, as applicable. However, the income tax system and rates for the Commonwealth of the Northern Mariana Islands and for the U.S. possessions are identical to the U.S. Federal income tax system and rates. This constitutes a "mirror tax" system. A tax credit or exclusion is provided by one of the taxing jurisdictions (either the U.S., the Commonwealth of the Northern Mariana Islands, or the U.S. possession, as appropriate) to prevent double taxation. The marginal tax rate for the Commonwealth of the Northern Mariana Islands or the U.S. possession, therefore, is of no consequence since it is identical to the Federal marginal income tax rate and is completely offset by a corresponding credit or exclusion. Thus, the Commonwealth's or the possession's tax rate will not be factored into the CMTR formula. The CMTR will be computed as provided in paragraphs (e)(5) (i) and (ii) based solely on the Federal marginal tax rate; when applicable, the State(s) marginal tax rate; and the local marginal tax rate.

(5) *Calculation of the CMTR's.* As stated above, the gross-up formula for calculating the RIT allowance requires the use of two CMTR's. However, the required CMTR's cannot be calculated by merely adding the Federal, State, and local marginal tax rates together because of the deductibility of State and local income taxes from income for Federal income tax purposes. The State tax tables located at *www.gsa.gov/ftrbulletin* are designed to use the same income amount as that determined for the Federal taxes, which reflects, among other things, State and local tax deductions. The

formulas prescribed below for calculating the CMTR's are designed to adjust the State and local tax rates to compensate for their deductibility from income for Federal tax purposes.

(i) *Calculation of the CMTR for Year 1.* The following formula shall be used to calculate the CMTR for Year 1.

CMTR Formula: $X = F + (1-F)S + (1-F)L$

Where:

X = CMTR for Year 1
F = Federal tax rate for Year 1
S = State tax rate for Year 1
L = local tax rate for Year 1

(A) *Federal, State, and local taxes incurred.* If the employee incurs Federal, State, and local income taxes on moving expense reimbursements, the CMTR formula may be solved as follows:

Example:
If:

F = 33 percent of income
S = 6 percent of income
L = 3 percent of income

Then:

$X = .33 + (1.00 - .33).06 + (1.00 - .33).03$
$X = .3903$

(B) *Federal and State income taxes only.* If the employee incurs tax liability on moving expense reimbursements for Federal and State income taxes but none for local income tax, the value of ''L'' is zero and the CMTR formula may be solved as follows:

Example:
If:

F = 33 percent of income
S = 6 percent of income
L = Zero

Then:

$X = .33 + (1.00 - .33).06$
$X = .3702$

(C) *Federal and local income taxes only.* If the employee incurs a tax liability on moving expense reimbursements for Federal and local income taxes but none for State income tax, the value of ''S'' is zero and the CMTR formula may be solved as follows:

Example:
If:

F = 33 percent of income
S = Zero
L = 3 percent of income

Then:

$X = .33 + (1.00 - .33).03$
$X = .3501$

(ii) *Calculation of the CMTR for Year 2.* The calculation of the CMTR for Year 2 is the same as described for Year 1, except that the Federal tax rate for Year 2 is used in place of the Federal tax rate for Year 1. State and local tax rates remain the same as for Year 1. The following formula shall be used to determine the CMTR for Year 2:

CMTR Formula: $W = F + (1-F)S + (1-F)L$

Where:

W = CMTR for Year 2
F = Federal tax rate for Year 2
S = State tax rate for Year 1
L = local tax rate for Year 1

(iii) *Calculation of CMTR's for Puerto Rico.* The following formula shall be used to calculate the CMTR for transfers to, from, or between points in Puerto Rico. (This formula is different from the formulas provided in paragraphs (e)(5) (i) and (ii) of this section since the Federal marginal tax rate is disregarded.)

CMTR Formula: $X = P + S + L$

Where:

X = CMTR for Year 1 and Year 2
P = Puerto Rico tax rate for Year 1
S = State tax rate for Year 1, when applicable (See § 302–17.8(e)(4)(i)(B).)
L = Local tax rate for Year 1

(f) *Determination of the RIT allowance.* The RIT allowance to cover the tax liability on additional income resulting from the covered taxable reimbursements received in Year 1 is calculated in Year 2 as provided below:

(1) The RIT allowance is calculated by substituting the amount of covered taxable reimbursements for Year 1, the CMTR's for Year 1 and Year 2, and the total amount of the WTA's paid in Year 1 into the gross-up formula as follows:

Formula:

$$Z = \frac{X}{1-W}\,(R) - \frac{1-X}{1-W}\,(Y)$$

Where:

Z = RIT allowance payable in Year 2
X = CMTR for Year 1
W = CMTR for Year 2
R = covered taxable reimbursements

Y = total WTA's paid in Year 1

Example:
If:
X = .3903
W = .3448
R = $21,800
Y = $5,450
Then:

$$Z = \frac{.3903}{1.00-.3448}(\$21{,}800) - \frac{1.00-.3903}{1.00-.3448}(\$5{,}450)$$

Z = .5957($21,800) − .9306($5,450)
Z = $12,986.26 − $5,071.77
Z = $7,914.49''

(2) There may be instances when a WTA was not paid in Year 1 at the time moving expense reimbursements were made. In cases where there is no WTA to be deducted, the value of ''Y'' is zero and the formula stated in paragraph (f)(1) of this section, for calculating the amount of the RIT allowance (Z) due the employee in Year 2 may be solved as shown in the following example:

Example:
If:
X = .3903
W = .3448
R = $21,800
Y = Zero
Then:

$$Z = \frac{.3903}{1.00-.3448}(\$21{,}800)$$

Z = .5957 ($21,800)
Z = $12,986.26

(3) Certain States do not allow the deduction of all or part of the covered moving expenses that are deductible for Federal income tax purposes. The State gross-up to cover the additional State income tax liability resulting from the covered moving expense reimbursements received in Year 1 that are deductible for Federal income tax purposes but not for State income tax purposes is calculated in Year 2 as follows:

(i) The State gross-up is calculated by substituting the amount of covered moving expense reimbursements that are deductible for Federal income tax purposes but not for State income tax purposes, the Federal tax rate for Year 1, the State tax rate for Year 1, and the combined marginal tax rate for Year 2 into the State gross-up formula as follows:

Formula:

$$A = \frac{S(1-F)}{1-W}(N)$$

Where:
A = State gross-up
F = Federal tax rate for Year 1
S = State tax rate for Year 1
W = CMTR for Year 2
N = covered moving expense reimbursements that are deductible for Federal income tax purposes but not for State income tax purposes

Example:
If:
F = .33
S = .06
W = .3448
N = $9,250
Then:

$$A = \frac{.06\ (1.00-.33)}{1.00-.3448}(\$9{,}250)$$

A = .0614 ($9,250)
A = $567.95

(ii) Add the State gross-up to the RIT allowance as calculated using the formula in paragraph (f)(1) of this section. The result is the RIT allowance adjusted for those States that do not allow moving expense deductions. Example:

RIT allowance payable in Year	$7,914.49
Plus adjustment factor	+567.95
Total	$8,482.44

(4) If the amount of the RIT allowance is greater than zero, it is payable to the employee on the travel voucher as a relocation or moving expense allowance. The RIT allowance amount is included in the employee's gross income for Year 2 and, therefore, subject to appropriate withholding taxes. (See net payment to employee in paragraph (g) of this section.) The RIT allowance amount will be reported on IRS Form