

**Relocation Allowances**

**§ 302-17.61**

your payroll wages and a separate one for your taxable relocation expenses, WTA, and RITA.

**§ 302-17.56 What do I do, under the one-year process, once my agency has provided my W-2(s)?**

(a) You must use all W-2(s) that you have received to file your tax returns. On those returns, you must include all taxable relocation expenses shown on your W-2(s) as income, including your WTA and RITA (if any). Please note that you must also include all WTA as withholding, in addition to the standard withholding from your payroll wages.

(b) If you finished your relocation within one calendar year, and your agency paid all of your relocation reimbursements, allowances, and direct payments to vendors in the same calendar year, before the cutoff date, then your tax returns for that calendar year are the end of your relocation tax process. If, on the other hand, your agency reimburses you for relocation expenses, or pays allowances or relocation vendors on your behalf, during a second (and possibly a third) calendar year, then you and your agency repeat the process above for each of those years.

**Subpart G—The Two-Year RITA Process**

**§ 302-17.60 How are the terms “Year 1” and “Year 2” used in the two-year RITA process?**

(a) Year 1 is the calendar year in which the agency reimburses you for a specific expense, provides an allowance, or pays a vendor directly. If your reimbursements, allowances, and/or direct payments to vendors occur in more than one calendar year, you will have more than one Year 1.

Allowance computed without WTA:

	\$1,300.00	Miscellaneous Expenses Allowance.
Minus .....	325.00	Federal Withholding Tax (25%).
Minus .....	18.85	Medicare Withholding Tax (1.45%).
Minus .....	80.60	FICA (Social Security) Tax (6.20%).
Equals .....	875.55	Amount due to the transferee.

Allowance computed with WTA:

	1,300.00	Miscellaneous Expenses Allowance.
Plus .....	433.33	Withholding Tax Allowance (25% of \$1733.33).
Equals .....	1,733.33	Net allowance with WTA.
Minus .....	433.33	Federal Withholding Tax (25%).
Minus .....	25.13	Medicare Withholding Tax (1.45%).

(b) Year 2 is the calendar year in which you submit your RITA claim and your agency pays your RITA to you.

(c) In most cases:

(1) For every Year 1 you will have a corresponding Year 2;

(2) Every Year 2 immediately follows a Year 1; and

(3) Year 2 is the year in which you file a tax return reflecting your remaining tax liability for taxable reimbursement(s), allowance(s), and/or direct payments to vendors in each Year 1.

(d) The table below offers a graphic explanation of Year 1 and Year 2, assuming that you begin your relocation in 2012 and incurred additional approved expenses in 2013.

January 2012	2013	2014
First Year 1 .....	Second Year 1 and Year 2 for 2012.	Year 2 for 2013.

**§ 302-17.61 Is the WTA optional under the two-year process?**

(a) Yes. If your agency makes the WTA optional to you, you may choose to not receive the WTA.

(b) WTA is paid at a rate of 25 percent. When deciding whether or not to receive the WTA, you should consider the following:

(1) If you expect that your marginal Federal tax rate will be 25 percent or higher for the calendar year for which you received the majority of your relocation reimbursements, you may want to elect to receive the WTA, because your initial reimbursements will be higher, as shown in the following Example 3 to part 302-17).

*Example 3 to part 302-17: Claims Paid with and without WTA.*

Minus ..... 107.47 FICA (Social Security) Tax (6.20%).  
 Equals ..... 1,167.40 Amount due to the transferee.

(2) If you expect that your marginal Federal tax rate will be less than 25 percent, you may want to decline the WTA to avoid or limit possible overpayment of the WTA, the so-called “negative RITA” situation. In a “negative RITA” situation, you must repay some of the WTA in Year 2. However, even if your marginal Federal tax rate will be less than 25 percent, you may want to accept the WTA so that your initial reimbursement is larger. Example 3 shows the relative reimbursements you would receive by accepting and declining the WTA, in the case of a hypothetical \$1,300 Miscellaneous Expense Allowance.

**§ 302-17.62 What information do I put on my tax returns for Year 1 under the two-year process?**

(a) Your agency provides allowances to you, reimburses you for vouchers that you submit, and pays certain relocation vendors directly, all during the same calendar year, as described in Subpart B of this Part. Some of these reimbursements, allowances, and direct payments to vendors are taxable income to you, the employee. Your agency computes a WTA and reports that withholding to the IRS for each of these that is taxable. This is Year 1 of the two-year process.

(b) If your agency makes the WTA optional to you and you have chosen not to receive the WTA, then your agency computes withholding tax for each taxable reimbursement, allowance, and direct payment, and reports that withholding to the IRS. See Example 3 to Part 302-17 in this section.

(c) Shortly after the end of the calendar year, your agency provides one or more W-2 forms to you. At its discretion, your agency may include all of your taxable relocation expenses and WTA (if any) in one W-2, along with your regular payroll wages, or it may provide you one W-2 for your regular payroll wages and a separate W-2 for your taxable relocation expenses and WTA (if any).

(d) At approximately the same time as your agency provides your W-2(s), it also may provide you an itemized list of all relocation benefits and the WTA (if any) for each benefit. You should use this statement to verify that your agency has included all covered taxable items in its calculations and to check your agency’s calculations.

(e) You must submit all W-2s that you have received with your Year 1 tax returns. On those returns, you must include all taxable relocation expenses during the previous year as income. Furthermore, you must include the WTA (if any) as tax payments that your agency made for you during the previous year, in addition to the regular withholding of payroll taxes from your salary.

**§ 302-17.63 What information should I provide to my agency to make the RITA calculation possible under the two-year process?**

You should provide the information required in the “Statement of Income and Tax Filing Status” shown below. This information should be taken from the income tax returns you filed for Year 1.

STATEMENT OF INCOME AND TAX FILING STATUS—TWO-YEAR PROCESS

The following information, which my agency will use in calculating the RITA to which I am entitled, was shown on the Federal, state and local income tax returns that I (or my spouse and I) filed for the 20\_\_\_\_\_ tax year.

Federal Filing status:  
 Single .....  Head of Household  
 Married Filing Jointly .....  Qualifying Widow(er)  
 Married Filing Separately.  
 Taxable income as shown on my (our) IRS Form 1040: \$ \_\_\_\_\_  
 State you are moving out of: \_\_\_\_\_  
 Filing status for the state moving out of: \_\_\_\_\_  
 Marginal Tax Rate: \_\_\_\_\_ %

**Relocation Allowances**

**§ 302-17.67**

STATEMENT OF INCOME AND TAX FILING STATUS—TWO-YEAR PROCESS—Continued

State you are moving into: \_\_\_\_\_  
Filing status for the state moving into: \_\_\_\_\_

Marginal Tax Rate: \_\_\_\_\_ %  
Locality you are moving out of: \_\_\_\_\_  
Filing status for the locality moving out of: \_\_\_\_\_

Marginal Tax Rate: \_\_\_\_\_ %  
Locality you are moving into: \_\_\_\_\_  
Filing status for the locality moving into: \_\_\_\_\_

Marginal Tax Rate: \_\_\_\_\_ %  
The above information is true and accurate to the best of my (our) knowledge. I (we) agree to notify the appropriate agency official of any significant changes to the above so that appropriate adjustments to the RITA can be made.

\_\_\_\_\_  
Employee's signature Date  
\_\_\_\_\_  
Spouse's signature (if filing jointly) Date

**§ 302-17.64 When should I file my "Statement of Income and Tax Filing Status" and RITA claim under the two-year process?**

For the two-year process, you should file the "Statement of Income and Tax Filing Status" in Year 2, along with your RITA claim, after you file your income tax return. If your agency pays any taxable expenses covered by the WTA (if any) in more than one year, then you will have to file a new "Statement of Income and Tax Filing Status" each year. Your agency establishes the deadline each year for filing of your Statement.

**§ 302-17.65 What happens if I do not file the "Statement of Income and Tax Filing Status" in a timely manner?**

The WTA is an advance on your income tax expenses, thus if you don't file the "Statement of Income and Tax Filing Status" in a timely manner, your agency will require you to repay the entire amount of the withholding and WTA (if any) that the agency has paid on your behalf.

**§ 302-17.66 How do I claim my RITA under the two-year process?**

(a) To claim your RITA under the two-year process, you must submit a voucher and attach the "Statement of

Income and Tax Filing Status," as discussed in §§ 302-17.63-302-17.65.

(b) Your voucher must claim a specific amount. However, your agency will calculate your actual RITA after you submit your RITA voucher and your "Statement of Income and Tax Filing Status;" the amount you claim on your voucher does not enter into that calculation. You should perform the RITA calculation for yourself, as a check on your agency's calculation, but you are not required to put the "right answer" on the voucher you submit to claim your RITA.

**§ 302-17.67 How does my agency calculate my RITA under the two-year process?**

(a) Your agency calculates your RITA after receipt of your RITA voucher.

(b) Your RITA is itself taxable income to you. To account for taxes on the RITA, your agency will gross-up your RITA by applying the CMTR to the final amount rather than the reimbursed amount.

(c) Thus, your agency calculates your RITA by multiplying the Combined Marginal Tax Rate (CMTR) (using the state and local tax tables most current at the time of the RITA calculation) by the total of all covered taxable relocation benefits during the applicable

Year 1, and then subtracting your WTA(s), if any, from the same Year 1 from that total. That is:

$$RITA = \left( \left( \frac{C}{1-C} \right) \times R \right) - Z$$

Where

C = CMTR

R = Reimbursements, allowances, and direct payments to vendors covered by WTA during Year 1

Z = Total grossed-up WTAs paid during Year 1.

NOTE TO §302-17.67(c) – If your agency offers you the choice, the WTA is optional to you. If the employee has declined the WTA, enter zero for element Z in the above calculation.

**§302-17.68 What does my agency do once it has calculated my RITA under the two-year process?**

(a) Your RITA is likely to be different from the sum of the WTA(s) paid during Year 1, if any, because the WTA is calculated using a flat rate, established by the IRC, while the RITA is calculated using the CMTR. Therefore:

(1) If the RITA calculation in §302-17.67 results in a negative value (that is, if your agency’s calculation shows that it withheld and reported too much money as income taxes), then your agency will report this result to you and will send you a bill for the difference, to repay the excess amount that it sent to the IRS on your behalf as withheld income taxes. The IRS will credit you for the full amount of withheld taxes, including the excess amount, when you file your income tax return for Year 1; therefore, you must repay the excess amount to your agency within 90 days, or within a time period set by your agency. If you are required to repay an amount in Year 2 that was included as wages on your W-2 in Year 1, you may be entitled to a miscellaneous itemized deduction on your Federal income tax return in Year 2. For more information, see IRS Publication 535, “Business Expenses.” If your agency chooses to offer you the

choice, then you may want to decline the WTA to avoid this so-called “negative RITA” situation.

(2) If the RITA calculation in §302-17.67 results in a positive value (that is, if your agency’s calculation shows that it did not withhold enough money as income taxes), then your agency will pay your RITA to you before the end of Year 2 and will report it to the IRS as part of your income for that year. Also, after your agency has paid your RITA to you, it will provide a W-2 that shows your RITA as taxable income to you.

(b) At your agency’s discretion, you may receive one W-2 that includes all of your taxable relocation expenses, WTA (if any), and RITA (if any), along with your regular payroll wages, or you may receive one W-2 for your regular payroll wages and a separate one for your taxable relocation expenses, WTA, and RITA.

**§302-17.69 How do I pay taxes on my RITA under the two-year process?**

When income taxes are due for Year 2, you must report your RITA, if any, as taxable income on your Federal, state, and local tax returns.

(a) If your relocation process results in only one Year 2, or if the previous year was your last Year 1, your RITA is the only amount that you report as income resulting from your relocation for that Year 2.

(b) If, on the other hand, your relocation process results in more than one Year 2 (if, for example, you incurred relocation expenses during more than one calendar year), then, except for your last Year 2, you will need to report reimbursements, allowances, direct payments to vendors, and WTA(s), if any, for succeeding Year 1’s at the

## Relocation Allowances

## § 302-17.102

same time that you report each Year 2's RITA.

(c) See the table in §302-17.60 for a graphic explanation of Year 1 and Year 2.

### Subpart H—Agency Responsibilities

#### § 302-17.100 May we use a relocation services provider to comply with the requirements of this part?

Yes. You may use the services of relocation companies to manage all aspects of relocation, including the RITA computation. Agencies that relocate few employees or do not have the resources to manage the complexity of relocation may find that the use of relocation companies is a practical alternative. As another alternative, agencies with infrequent requirements for relocation or with inadequate internal resources may establish an interagency agreement with one or more other agencies to pool resources to provide this service.

#### § 302-17.101 What are our responsibilities with regard to taxes on relocation expenses?

To ensure that all provisions of this Part are fulfilled, you must:

(a) Prepare a relocation travel authorization that includes an estimate of the WTA and RITA, to obligate the funds that will be needed.

(b) Determine, in light of the specific circumstances of each employee relocation, which reimbursements, allowances, and direct payments to vendors are taxable, and which are nontaxable.

(c) Decide whether or not you will allow individual employees and/or categories of employees to choose not to receive the WTA.

(d) Calculate the WTA, and credit the amount of the WTA to the employee at the time of reimbursement.

(e) Prepare the employee's W-2 Form(s) and ensure that it (they) reflect(s) the WTA.

(f) Provide each employee an itemized list of relocation expenses after the end of each calendar year in which you provided an allowance, reimbursement, or direct payment to a vendor.

(g) Establish processes for identifying the relevant Federal, state, and local marginal tax rates and for keeping that information current.

(h) Establish processes for identifying states that treat a reimbursement or direct payment to a vendor as taxable even though it is nontaxable under the Federal IRC, and for keeping that information current.

(i) Calculate the employee's CMTR(s).

(j) Decide whether you will use the one-year or two-year RITA process and whether you will use different processes (that is, one-year or two-year) for different groups of employees within your agency.

(k) Make sure the RITA calculation is done correctly and in a timely manner, whether your policies call for the calculation to be done by you or by a third party.

(l) Make sure that payment of the RITA occurs in a timely manner (this is especially critical for the one-year process).

(m) Develop criteria for accepting and rejecting requests for recalculation of RITA.

(n) Establish a process for recalculating the RITA when the employee's request for recalculation is accepted.

(o) Consult with IRS for clarification of any confusion stemming from taxes on relocation expenses.

#### § 302-17.102 What happens if an employee fails to file and/or amend a "Statement of Income and Tax Filing Status" prior to the required date?

(a) If a relocating employee does not file and/or amend a "Statement of Income and Tax Filing Status" prior to the required date, and you are using a one-year RITA process, you are to switch to a two-year RITA process and send a written warning to the employee reminding them of the requirement and informing them that if they do not submit the "Statement of Income and Tax Filing Status," you may declare the entire amount of the WTA forfeited.

(b) If the relocating employee does not file and/or amend a Statement of Income and Tax Filing Status prior to the required date, and you are using a two-year RITA process, you are to send