

The University of Tennessee
Moving Allowance Procedures
March 2008

The University recently changed procedures related to the payment of moving expenses for newly hired faculty and staff. The change is to start providing moving allowances (a non-accountable plan) rather than expense reimbursement (an accountable plan). This change resulted from a number of considerations including 1) facilitating proper tax reporting; 2) assisting new employees by funding moving expenses up front during a time of change in their lives. Now, rather than having to work with Purchasing to secure bids, negotiate with the successful bidder (who may not have a presence in the community), and await for the University to reimburse other related expenses, the new employee can secure an upfront lump sum payment and make all their own arrangement for the move. All moving expense documentation is then up to the individual for substantiation of the deductions and does not need to be filed with UT.

This procedure change does not impact the tax status of the new employee because the allowance is reported as taxable income. Moving expenses are deductible in arriving at adjusted gross income rather than from adjusted gross income. Consequently, all eligible moving expenses reduce reported taxable income whether itemizing deductions or not. The employee should be in the same position as if UT reimbursed them for moving expenses. Previously, to the extent UT reimbursed non-deductible moving expenses per IRS guidelines, those reimbursements are reported as taxable income to the individual. IRS publication 521, Moving Expenses, provides a detail of how these various provisions should be handled and reported on individual tax returns.

By example, if UT hires an individual and agrees to pay a moving allowance of \$10,000, then the department will process a T-27, Advance Payment form, documenting the approved allowance with a copy of the appointment letter or other document signed by the new employee, the department head, and unit head or designee (chancellor/vice president). Payment will be made to the new employee at the agreed upon allowance amount and used to pay for moving expenses or any other relocation costs. In this example, assume the new employee has to temporarily store household property at a cost of \$800, then hires a moving company to move for \$8,750, and incurs costs on driving family to new location (mileage and lodging) of \$450. These are all deductible moving costs so when completing the year end tax return, there is additional taxable income of \$10,000 (moving allowance) and a related \$10,000 deduction on line 26 of form 1040 (IRIS form 3903). Accordingly, the employee is not impacted by this procedural change. If the allowance is more than the deductible expenses incurred then there is a tax implication but the employee is still better off since the related tax will be less than the excess allowance.

This procedural change should make the moving experience for our new employees easier and less confusing while reducing administrative oversights. The moving allowance requires departments to negotiate the allowance amount but this is already happening by providing a reimbursement “up to” a specified dollar amount.