Short-Distance Group Moves
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Group moves occur for a variety of reasons and in most cases can be treated (relative to the IRS rules) exactly as other non-group moves. A group move, however, may not meet the IRS 50-mile test. In that case, consideration should be given to providing a short-distance group move policy. The IRS 50-mile test generally requires that in order for certain costs associated with a relocation to be excludable from income, the distance between an employee’s old residence and the new work location must be 50 miles greater than the distance between the employee’s old residence and the old work location.

It is not uncommon for companies to change office locations, or have multiple facilities in the same geographic area, where the distance between an employee’s old and new work location may or may not meet the IRS 50-mile test. For example, in larger cities, where a move may be from one side of a metropolitan area to the other, it is likely that the IRS test will not be met. These “short distance” office relocations, however, can significantly impact the commuting patterns of employees. It is highly unlikely that employees impacted by an office move, where their commute could be increased by up to 49 miles, will simply accept an “IRS explanation” as to why they are not entitled to relocation benefits. Employees will often make their feelings known and ask management to consider providing some or all of the relocation benefits provided in a standard regular or “longer distance” employee transfer.

The relative distance that a short-distance group move involves, necessitates a closer look at the specific features provided in a company’s relocation policy to see if benefits should be offered for a short-distance group move. Properly structured, short-distance group move programs reduce absenteeism, attrition and administrative time, and are often far less costly than a normal relocation program.
What should be considered when determining whether or not relocation benefits are appropriate for a short-distance group move?

For each employee, a company needs to research the distance, both in mileage and commute time, between the employee’s home and his/her old and new work location, and determine the number of employees who are significantly impacted by the relocation. Commute time is very important when freeway access is lost or an employee is now required to cross a bridge. It is for this reason that some companies with a short-distance group move policy will include a commute-time test, along with a mileage test, in order to determine who is eligible for short-distance relocation benefits.

The new commute data for employees (based on miles and/or increased commute time) should be completed before the move is announced, so that individual cases, which may result in a perceived or real hardship, can be assessed. This gives a company time to determine whether an appropriate short-distance group move policy should be considered, even if the decision is to do nothing. Having the employee’s new commute research completed in advance is far more effective than being in the position of just “reacting” (without the needed data) to unhappy employees.

In the case of an office relocation, if the distance between two office locations is less than 50 miles, no employee, by definition, would meet the IRS 50-mile test. From a practical point of view, however, consider the case of the employee who lives and commutes 45 miles from his/her “soon to be” old workplace. Consider the impact on that employee if the new workplace is now an additional 45 miles away. The employee’s new commute is now 90 miles one-way, and yet he/she does not meet the IRS 50-mile test. Or consider the opposite case, the employee who lives on the other side of the old work location and has been commuting 45 miles one-way and is now just five miles from the new work location. It is this kind of disparity that often receives management’s attention and may result in both surprise and concern regarding the unintended consequence of the relocation on the realities of where employees may need (or wish to) live. Most employees do not believe it is fair to have their commutes significantly lengthened, and management often agrees that something must be done to prevent valuable and needed employees from leaving the company.

If the IRS 50-mile test is not met, should a company provide relocation benefits?

Companies can relocate employees one mile or 10,000 miles. It is a decision driven by the company, not the IRS. A company’s decision to provide benefits should be based on several factors including the results of the employee new-commute study, the current relocation policy, the company culture, how much money the company is willing to spend and the employee-attrition risk a company is willing to take.

IRS tax guidelines do have an impact on the relocation benefit decision, but far less than what many companies realize. This is because what a company spends in gross up on the items that are no longer eligible for tax exclusion, such as the movement of household goods, are offset by the benefits the company does not need to grant, such as the final trip expense. It is for this reason that a significant number of companies create mileage/time criteria and use a short-distance group move policy for particular situations and for employees they determine to be eligible for relocation benefits. Remember, this mileage/time criteria is whatever the company determines it to be. There is no industry standard or rule. Rather, based upon the new-commute data, company culture and other risk and cost factors unique to the company and the situation, companies individually determine that an increase of “X” miles and/or an increase in “Y” commute time will qualify an employee for predetermined, short-distance group move relocation benefits.
If the IRS 50-mile test is not met, what are the financial (tax) repercussions to the company?

The short answer is, not as much as many companies may think. It is important to review the IRS tax excludables. These are relocation expenses that do not go into an employee’s W-2 income, provided the IRS tests (e.g. the 50-mile test) are met.

All other relocation expenditures, except for the sale of the home, as noted below, are fully taxable regardless of the distance (one mile or 10,000 miles) of the move.

There is no codified IRS test regarding tax benefits in relation to the sale of the home as part of a relocation. The home can be sold at any time in accordance with Revenue Ruling 72-339 (the basis on which homes are sold using two separate and distinct transactions), which has neither time nor distance requirements. A company using a home sale program (either cost-plus or fixed fee) that meets the requirements of Revenue Ruling 72-339 can move an employee any distance, at any time, in conjunction with an office move, with no negative tax consequences insofar as the sale of the home is concerned. This rationale for Revenue Ruling 72-339 does not depend on whether the employee’s move meets the requirements to deduct moving expenses, including the 50-mile rule, nor indeed, that the employee is relocated at all. Rather, it proceeds from an assumption that the employer has purchased property from the employee for non-compensatory company-business reasons, and then incurred its own costs to dispose of it.

In a short-distance group move, there is no need for a “final trip” to the new location, so the tax benefit here is not an issue. Since the benefit is not needed, it is not perceived by the transferee as lost. There is, however, the need to move household goods, and this need does not diminish as a result of the distance of the move. In the movement of household goods, the cost is disproportionately impacted by the packing, loading, unloading and unpacking, rather than the distance between two points. So, while the cost to transport household goods is certainly less for a short-distance move, it is often offset by the cost of packing, loading, unloading and unpacking. Additionally, since a short-term move is typically intrastate, the company must consider that different moving rates will apply for an in-state move as opposed to a state-to-state relocation.

### BENEFITS THAT ARE IRS TAX EXCLUDABLE IF IRS TESTS ARE MET

<table>
<thead>
<tr>
<th>Benefit</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Movement of household goods</td>
<td>✔️</td>
</tr>
<tr>
<td>First 30 days of storage</td>
<td>✔️</td>
</tr>
<tr>
<td>Final trip lodging, including the last night in the old location, nights on the road and the first night in the new location</td>
<td>✔️</td>
</tr>
<tr>
<td>Final trip air transportation for the employee and his/her family</td>
<td>✔️</td>
</tr>
<tr>
<td>Final trip mileage not to exceed .15¢ per mile when an automobile(s) is driven</td>
<td>✔️</td>
</tr>
</tbody>
</table>

The sale of a home has no relation to the IRS 50-mile test. A company using a home sale program (either cost-plus or fixed fee) that meets the requirements of Revenue Ruling 72-339 can move an employee any distance, at any time, in conjunction with an office move with no negative tax consequences insofar as the sale of the home is concerned.
Can reducing other benefits that are typical for a normal group move offset the cost of the required gross up on the movement of household goods?

Because of the elimination of the need for other relocation benefits, where the exclusion is not available due to not meeting the 50-mile test (e.g. final trip), there remain only two IRS excludables (i.e. the loss of a tax advantage) that are lost as a result of the IRS’s 50-mile test, relative to a short-distance group move. These are the exclusion of the movement of household goods and the first 30 days of storage. If the 50-mile test is not met, the company must treat the payment of the movement of household goods and any storage as a W-2 taxable event for the employee. The employee cannot write off this cost on his/her federal tax form (IRS Form 1040), and either the employee or the company has to pay the tax associated with these benefits. In this instance, the added cost to the company would be the amount of tax gross-up the company is willing to pay to reduce the employee’s tax consequence created by the inclusion into the employee’s W-2 income of these items.

This increase in gross-up cost (should the company elect to do so) is often offset by companies eliminating some of the more traditional relocation features that are not needed in a short-distance group move. In addition, some companies reduce or eliminate the miscellaneous expense allowance (MEA) and household goods storage, in addition to the other benefits listed below.

A short-distance group move policy is often not only appropriate but, when properly structured, also far less costly than a regular relocation policy. Certainly, the policy may require additional administrative efforts, quantifying employee new-commute data, decisions on what mileage/time limits the company will set for an employee to qualify for short-distance group move benefits, and careful planning. Taking these steps, however, will lead to a well-informed and employee-friendly policy and will make the task of implementation and the relocation itself easier and smoother. Allied Van Lines, through its parent company SIRVA, has the in-house expertise to provide whatever assistance is necessary to develop the optimal short-distance group move process and help companies determine what the appropriate relocation benefits ought to be.

**Benefits Often Eliminated in a Short Distance Group Move Policy**

- Home finding trip
- Temporary housing & return trips home
- Loss-on-sale of residence
- Cost of living adjustments
- Family assistance programs

Allied Van Lines specializes in all types of moves and is committed to sharing our knowledge to keep your company informed about moving topics. To learn more about the Allied’s capabilities, visit www.allied.com/corporate or call 1-866-841-7530.

Disclaimer: Allied Van Lines does not provide tax advice. For tax advice concerning specific situations, consult a tax advisor.

Tax gross up can best be described as an estimated tax reimbursement paid by the employer on behalf of a transferee to cover, in whole or in part, a transferee’s added tax liability incurred as a result of a relocation.