

## TAXABLE RELOCATION EXPENSES

The following reimbursements and allowances, whether by direct or indirect payment or to third-party vendors, are taxable to a relocating U.S. Government civilian employee:

1. En route travel, lodging, meals, and transportation expenses, including individually billed account or reimbursed personally procured airfare, Government-issued airline tickets or commercially billed accounts, privately owned vehicle mileage, tolls, and taxi costs;
2. Shipment of household goods, to include unaccompanied air baggage and professional books, paper, and equipment;
3. House-Hunting Trip expenses, including Government procured or reimbursed airfare and per diem;
4. Temporary Quarters Subsistence Expense (TQSE), including lodging and meals;
5. Certain real estate expenses;
6. Non-temporary household good storage for CONUS-to-CONUS moves;
7. Temporary household good storage;
8. Miscellaneous Expense Allowance (MEA);
9. Home Marketing Incentive Payments and Property Management Services;
10. Relocation Income Tax Allowance (RITA);
11. Withholding Tax Allowance (WTA);
12. CONUS-to-CONUS privately owned vehicle (POV) shipment; and
13. Mobile home transportation.

## NON-TAXABLE RELOCATION EXPENSES

The following entitlements, reimbursements, and allowances are not taxable to a relocating U.S. Government civilian employee:

1. OCONUS POV shipment (CONUS to OCONUS, or OCONUS to CONUS);
2. Non-temporary storage for OCONUS employees;
3. Residential sales conducted through the agency relocation services company Home Sale Program;
4. Temporary Quarters Subsistence Allowance (TQSA);
5. Foreign Transfer Allowance (FTA);
6. Post Allowance (PA); and
7. Living Quarters Allowance (LQA).

## RELOCATION INCOME TAX ALLOWANCE

RITA is a taxable allowance designed to reimburse an eligible transferred employee for the additional federal, state, and local income taxes incurred as a result of receiving taxable relocation benefits.

RITA is not an automatic benefit or allowance paid to recently transferred civilian employees. The employee must apply for RITA in the year after receiving taxable travel benefits.

For employees who reported to a new duty location on or after January 1, 2015, the RITA calculation is based on federal, state, and local taxable income and the formula found in 41 CFR §302-17.54. The calculated RITA amount is “grossed-up” to compensate the employee for the additional tax on RITA in the year received. The RITA formula is:

$$\text{RITA} = (C \div (1 - C)) \times \text{Reimbursements} - \text{WTA}$$

where C is the employee’s marginal tax rate.

RITA voucher submission requires DD Form 1351-2, DD Form 1614, Direct Deposit Form, all W-2s, RITA Status Certification Form (available at DFAS website), and completed Federal, State, and Local income tax returns. The amount of income reported on the Certification Form must match income tax documentation submitted with the RITA claim. Employees submit RITA requests to the DFAS office that adjudicated the travel voucher.

New employees and employees separating from federal service are not eligible for RITA or JTR MEA. RITA information and forms are available on the DFAS website.

A PCS move may generate more than one RITA event for an employee. DFAS assesses taxable move costs when paid to the employee as a reimbursement of move expenses, or when paid to a third-party (such as the HHG or POV carrier). Third-party payments are reported as taxable to the employee on Form W-2 for the following tax year if paid by DFAS after October 31.

## WITHHOLDING TAX ALLOWANCE

WTA is an optional taxable advance against RITA elected when the employee files the travel settlement voucher (DD Form 1351-2) following completion of PCS travel. WTA is not an automatic benefit or allowance; an employee must elect WTA on the WTA Employee Agreement Form in order to receive it. WTA reimburses employees for federal income tax withheld from travel settlements. State and local income taxes are not addressed by WTA. A relocating employee may decline payment of WTA on the WTA Agreement Form.

WTA is calculated using the formula found in 41 CFR §302-17.20. The calculated WTA amount is “grossed-up” in order to compensate the employee for the additional tax on WTA in the year received. The WTA formula is:

$$\text{WTA} = (R \div (1 - R)) \times \text{Expenses}$$

where R is the withholding rate. The current withholding rate is 22%, resulting in:

$$\text{WTA} = (0.22 \div (1 - 0.22)) \times \text{Expenses}$$

$$\text{WTA} = 28.205128205\% \times \text{Expenses}$$

If the employee elects WTA, the employee must file a RITA claim within the first 120 days of the following calendar year, April 30 (April 29 in a Leap Year). WTA is an advance payment of RITA and is deducted from the final RITA settlement. Failure to file a timely RITA claim will result in a DFAS debt and collection of the entire WTA amount.

As with RITA, new employees and employees separating from federal service are not eligible for WTA. WTA information and forms are available at the DFAS website.

**Excess WTA:** Employees taxed at a marginal tax rate below 22% (the rate used to calculate WTA) will receive WTA greater than their RITA authorization. This Excess WTA must be paid back to DFAS. Employees with Excess WTA over \$3,000 who itemize deductions may reduce their taxable income for the year after travel by deducting the Excess WTA amount on Line 16, Schedule A. FICA and Medicare withholdings on Excess WTA are refundable from DFAS or the IRS using Form 843 (see IRS Publication 525).

## MANDATORY TAX WITHHOLDING

Taxable relocation expense reimbursements are subject to required income tax withholding by DFAS on behalf of the employee. The expenses are also subject to Social Security and Medicare withholdings in the following amounts:

22.00%	Federal Income Tax Withholding (FITW)
6.20%	Social Security (FICA)
1.45%	Medicare
<b>29.65%</b>	<b>Total</b>

Social Security withholdings are capped at \$8,239.80 for 2019, corresponding to taxable income of \$132,900 (\$7,960.80 and \$128,400 for 2018). Excess Social Security withholdings are refundable to the employee by the employer or from the IRS using IRS Form 843.

DFAS deducts automatic FITW, FICA, and Medicare withholding amounts from the travel settlement. If the travel settlement amount is not enough to cover withholdings, DFAS will notify the employee of a debt and procedures for payment.

Employees should carefully monitor Government Travel Charge Card balances to insure direct travel settlement payments satisfy credit card requirements.

Employees in income tax brackets above 22% may owe additional tax on taxable relocation expenses and should determine whether estimated payments are necessary to avoid underpayment penalties.

Rate	Filing Status		
	Single	Joint	Head of Household
10%	Up to \$9,525	Up to \$19,050	Up to \$13,600
12%	\$9,525 - \$38,700	\$19,050 - \$77,400	\$13,600 - \$51,800
22%	\$38,700 - \$82,500	\$77,400 - \$165,000	\$51,800 - \$82,500
24%	\$82,500 - \$157,500	\$165,000 - \$315,000	\$82,500 - \$157,500
32%	\$157,500 - \$200,000	\$315,000 - \$400,000	\$157,500 - \$200,000
35%	\$200,000 - \$500,000	\$400,000 - \$600,000	\$200,000 - \$500,000
37%	Over \$500,000	Over \$600,000	Over \$500,000

DFAS does not withhold state or local taxes from taxable relocation expenses. Employees with state or local income tax obligations should determine whether relocation expenses are taxable by state and local governments, and whether estimated payments are necessary to avoid underpayment penalties.

## TQSE AND TQSA

Temporary Quarters Subsistence Expense (TQSE) is a taxable allowance intended to reimburse employees for some costs of lodging, food, and other necessities when occupying temporary quarters at a duty station in a CONUS location pursuant to a PCS move. The taxability of TQSE is not changed by the *Tax Cuts and Jobs Act of 2017*. TQSE is taxable.

Temporary Quarters Subsistence Allowance (TQSA) is a non-taxable allowance intended to reimburse employees for some costs of lodging, food, and other necessities when occupying temporary quarters at an overseas duty location, on official travel orders, who are authorized Living Quarters Allowance (LQA). The taxability of TQSA is not changed by the *Tax Cuts and Jobs Act of 2017*. TQSA is not taxable.

## OTHER TAX CONSEQUENCES

The addition of taxable income due to reimbursed move expenses may change an employee's marginal tax rate and affect eligibility for tax deductions and credits, such as the Earned Income Tax Credit, Child Tax Credit, or education credits such as the American Opportunity Credit and Lifetime Learning Credit. Adjusted gross income amounts can also affect a taxpayer's eligibility to contribute to a Traditional or Roth IRA.

## MORE INFORMATION

The following DFAS websites include links to more information about the taxability of civilian move expenses, RITA, WTA, and the Code of Federal Regulations (CFR).

<https://www.dfas.mil/civilianemployees/civrelo.html>

<https://www.dfas.mil/civilianemployees/civrelo/Civilian-Moving-Expenses-Tax-Deduction.html>



## Taxation of Civilian Employee PCS Moves

Public Law 115-97, the *Tax Cuts and Jobs Act of 2017*, effective January 1, 2018, suspends the tax exemption for qualified moving expenses for all taxpayers except active duty members of the Armed Forces who move pursuant to Permanent Change of Station (PCS) orders. Most moving expense reimbursements and allowances are taxable to the PCSing civilian employee for eight tax years, Tax Year 2018 through Tax Year 2025.

The taxation of the previously untaxed fringe benefit obligates DFAS to make federal income tax, Social Security, and Medicare withholding payments to the IRS on behalf of the employee. Relocating employees are responsible for tax withholdings remitted to the IRS by DFAS and must repay the withholding amounts to DFAS. The repayment may be deducted from the employee's travel settlement or regular pay as a debt to the Government. DFAS does not withhold state and local taxes on moving expense reimbursements.

Current U.S. Government civilian employees are eligible for allowances designed to offset income taxes incurred pursuant to an employer paid PCS move. These allowances are the Relocation Income Tax Allowance (RITA) and the advance on the RITA, the Withholding Tax Allowance (WTA). Information on both allowances is contained in this brochure. New and separating or retiring employees who move based on orders pursuant to the new status are not eligible for these allowances. These allowances do not offset an employee's Social Security and Medicare withholdings.