



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

OFFICE OF
CHIEF COUNSEL

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Dear _____ :

Thank you for your letter dated September 22, 2005, concerning the payments your agency makes to relocation services companies on behalf of your employees. You requested that we review your current policy on the taxability of these payments to employees. According to your letter, you currently treat these payments as not taxable based on your interpretation of 41 C.F.R. § 302-12.108.

Whether a payment is taxable is determined under the Internal Revenue Code and depends on the type of services the relocation company is providing to the employee.

Section 82 of the Internal Revenue Code provides that an amount received, directly or indirectly, by an individual as payment or reimbursement for expenses of moving, attributable to employment, are included in gross income unless it is a "qualified moving expense reimbursement." See also 41 C.F.R. § 302-12.9.

Section 132(g) provides that a qualified moving expense reimbursement is a reimbursement for an expense that would be deductible as a moving expense under § 217 if directly paid or incurred by an individual. In other words, if a moving expense qualifies as a deduction under § 217, then a reimbursement for the moving expense is not included in income.

Section 217(a) allows as a deduction moving expenses paid or incurred during the taxable year in connection with the commencement of work by the taxpayer as an employee at a new principal place of work. Under § 217(b), deductible moving expenses include only the reasonable expenses of (1) moving household goods and personal effects from the former residence to the new residence, and (2) traveling from the former residence to the new residence (but not including meals).

Therefore, a reimbursement for many moving expenses reimbursable to federal employees under the Federal Travel Regulations is included in the employee's gross income. Taxable reimbursements include reimbursements for costs associated with the

purchase of a new home or sale of the old home (including home improvement expenses), expenses of breaking a lease, loss on the sale of a home, car registration and driver license fees, meals, mortgage penalties, househunting trips, real estate taxes, security deposits, and temporary living expenses. I have included a copy of Internal Revenue Service Publication 521, "Moving Expenses," which provides additional guidance on the taxability of moving expense reimbursements.

I hope you find this information helpful. If you have any questions, please call
at .

Sincerely,

Donna M. Crisalli
Special Counsel to the Associate Chief
Counsel
(Income Tax & Accounting)

Enclosure