New Tax Law Affects Employee Moving Expenses

Introduction

Congregational Search Committees, along with ministers and other religious professionals starting a new position beginning in 2018, need to be aware of the suspension of two moving-related benefits in the Tax Cuts and Jobs Act of 2017. These two employee tax benefits have been suspended until 2026 when the individual tax provisions revert to the pre-2018 law.

Employer-Paid Moving Expenses

Old Law

Congregations generally paid for all or most of the expenses related to the move of a new minister or other religious professional. Such qualified expenses included retaining a moving company or renting a truck, purchasing moving supplies, expenses incurred during the actual move (hotels and mileage, but not food), and temporary storage expenses.

New Law

Congregations and other employers may continue to pay for moving-related expenses, but such payments must be treated as taxable income through 2025, and reported on the employee's W2.

Impact

Since moving expenses can often total more than $10,000, the new employee will now owe income taxes on this amount as well as either FICA (non-ministers) or SECA (ministers). Congregations are encouraged to gross up the reimbursement amount to include the amount of estimated taxes. For ministers, the added tax burden will be 25-35 percent (depending upon tax bracket) of the reimbursement. So if a new minister incurs $12,000 of qualified moving expenses, the congregation should consider reimbursing the minister about $15,000 (25% gross up) to $16,200 (35% gross up).

Unreimbursed Business Expenses

Old Law

Employees could deduct qualified moving expenses for which the employee was not reimbursed. Since moving expenses sometimes exceeded the amount that congregations were able to reimburse, the new minister or other religious professional who moved to accept a new position could deduct the unreimbursed amount (to the extent they exceeded 2% of adjusted gross income) on Schedule A using Form 2106 - Employee Business Expenses.

New Law

Employees are no longer allowed to deduct unreimbursed business expenses, including moving-related, from their adjusted gross income.

Impact

Since ministers and other congregational employees will no longer be able to deduct unreimbursed business expenses from their income, congregations are asked to make an extra effort to provide sufficient professional expenses to their professional staff members. The provision of professional expenses should be through an Accountable Reimbursement Plan. UUA Guidelines recommend the larger of 10% of salary (and housing for ministers) or $5,000 for full-time employees.

Takeaway

Ministers and other religious professionals in search need to be aware that any financial assistance provided by the congregation toward the cost of their move to the new community will now be taxable income. Search Committees need to be aware that additional taxes will be owed on the amount provided for moving expenses. This additional expense includes income taxes (approximately 20%) and FICA for non-ministers (7.65%) and Self-Employment Taxes (SECA) for ministers (15.3%).