



CITY OF ATLANTA

LESLIE WARD
City Internal Auditor
lward1@atlantaga.gov

OFFICE OF CITY INTERNAL AUDITOR

68 MITCHELL STREET SW, SUITE 12100
ATLANTA, GEORGIA 30303-0312
(404) 330-6452
FAX: (404) 658-6077

AUDIT COMMITTEE
W. Wayne Woody, Chair
Henry A. Kelly, Vice-Chair
Johnnie L. Clark
Mayor Shirley Franklin
Council President Pro Tem Ceasar Mitchell

TO: Benita Ransom, Commissioner of Human Resources

FROM: Leslie Ward, City Auditor

DATE: October 18, 2004

SUBJECT: Comments on Policy for Relocation Expenses

We have reviewed the draft policy on relocation expense reimbursement. Our comments follow, listed by section number of the draft policy. We especially want to highlight the effect the draft policy would have on the city's tax compliance responsibilities. As written, some reimbursements would have to be reported to the IRS as income and would be subject to tax withholding. We believe a simpler approach would be to reimburse only those expenses that would be deductible for individuals. To do otherwise would make it more complex for the city to correctly report the reimbursements to the IRS. A detailed explanation of the tax issues is included in our comments on Section 2 of the draft policy.

Because of the tax compliance issues, we are also sending a copy of this memo to the Chief Financial Officer.

Definitions:

The term "hard-to-fill" is defined, but this term is not used in the policy. If it is not needed, recommend it be deleted. If it is to be used in determining eligibility for reimbursement, this should be explained in the appropriate section of the policy.

Section 1, General:

This section limits reimbursement for relocation expenses to "executive or managerial employees" but does not define this group or provide criteria for applying it in individual decisions. Recommend that a general definition be provided in the Definitions section, including the types of positions that would normally be considered to meet the definition. Also recommend that provisions be added to 1) designate who will have final approval of eligibility, and 2) specify how to handle positions that don't clearly fit the definition of "executive or managerial employee" recommended in the Definitions section above. For example, the definition might list commissioners and department heads, deputies, and directors of bureaus or equivalent units as those who would normally be considered to meet the definition. The exceptions process might provide that hard-to-fill professional or

technical positions would be considered with documentation of the difficulty in hiring, subject to approval.

This section also references the requirement that only those moving from outside the State of Georgia be eligible for reimbursement. We realize that this is in the Code of Ordinances, but there is no apparent reason why this distinction is imposed. IRS Publication 521, Moving Expenses, allows deduction of moving expenses based on the distance in miles from one's residence to one's new place of employment. An amendment to the Code to allow reimbursement of moving expenses only to those who would be eligible to deduct them for tax purposes (provided that they meet the other criteria in the policy) would be more equitable.

This section also references the requirement, again from the Code of Ordinances, that only those new employees who "desire to establish a domicile" in the City of Atlanta are eligible for reimbursement. However there is no method described for determining such "desire." Recommend that the language from the Code be removed, and that the policy only apply to new employees who move to a residential address within the City of Atlanta and provide appropriate documentation of the location of their residence.

Section 2, Reimbursable Relocation Expenses:

In general, this section is not consistent with the provisions of the Internal Revenue Code for deductible and nondeductible moving expenses. The policy allows reimbursement of certain expenses that are not deductible for tax purposes but does not provide for reimbursement of other moving expenses that the IRS allows as deductions. From a tax perspective, it makes sense to allow reimbursement of any moving expenses that the IRS would allow as deductions on an employee's tax return, not to exceed the monetary limits of the city's relocation expense policy. The tax laws do not prohibit reimbursement of nondeductible moving expenses; however, they do require that such reimbursements be reported as income to the employee and that the appropriate taxes be withheld.

Section 217 of the Internal Revenue Code defines what is allowed as deductible moving expenses, and IRS Publication 521, Moving Expenses, clarifies the moving expenses that the Internal Revenue Code allows or disallows as deductions.

- IRS Publication 521 specifically identifies certain expenses that are deductible, including expenses for moving personal effects, travel expenses for the actual move, hotel expenses incurred while moving, the costs of connecting or disconnecting utilities associated with the move, and expenses for shipping vehicles and pets. However, the city's draft policy does not address whether these deductible expenses are reimbursable. Recommend that a provision be included in the city policy to allow reimbursement of any expenses that the IRS would allow as a deduction, limited to the amount of reimbursement negotiated between the city and the employee.
- IRS Publication 521 specifically states that the cost of using a personal vehicle to move to a new home may be deducted based on actual expenses (e.g., gas and oil) or at a standard mileage rate for moving. However, the city's draft policy does not address whether transportation by any mode other than air is reimbursable.

Recommend that a provision be included in the policy to allow travel by automobile to be reimbursed at the prevailing IRS mileage rate for deductible moving expenses.

- IRS Publication 521 specifically states that expenses for house-hunting trips and temporary living expenses are nondeductible moving expenses. However, the city's draft policy would allow reimbursement of airfare expenses for house-hunting trips and temporary housing expenses incurred after arriving at the principal site of employment. If the city's policy will be to allow reimbursement of nondeductible moving expenses, it needs to establish procedures to ensure that such reimbursements meet the IRS requirements for reporting and tax withholding (see additional discussion in Section 7 below)
- If the city's intent is to not reimburse certain expenses, the policy should identify specific expenses that will not be reimbursed. These expenses should be consistent with what the IRS has identified as nondeductible expenses.

The policy allows moving expenses paid in advance by the employee to be reimbursed "up to the amount negotiated." It is not clear if the "amount negotiated" refers to an amount negotiated between the employee and the moving company or the employee and the city.

Section 3, Determining the Maximum Relocation Amount

The policy states that all amounts will be "grossed up" to ensure equitable payments regardless of the new employee's tax situation. It is not clear what this phrase means (e.g., how the amounts would be "grossed up" or how this would ensure equitable payments).

Section 4, Initiating the Relocation Process

The policy states that the hiring department will discuss the relocation policy with the new employee *after* the offer has been accepted. However, it is likely that acceptance of an offer will often be contingent upon the inclusion of relocation assistance. Recommend that the policy be reworded to state that the relocation policy should be discussed with the employee while an offer of employment is being negotiated.

Section 5, Collecting the Relocation Receipts

Section 2 of the policy states that moving expenses may be paid directly to the moving company or reimbursed to the employee. Payment, whether direct to the moving company or as a reimbursement to the employee, should be based on the actual cost rather than an estimate. Recommend that Section 5 be reworded to clarify that direct payment to the moving company will be based on a firm quote or invoice, and that reimbursement to the employee will be based on the amount shown on the moving company's receipt. The policy should also state that when direct payment is made to the moving company, the employee is responsible for the difference between the actual cost and the amount allowed for reimbursement under this policy.

Section 7, Issuing the Reimbursement Check and IRS Form

The policy states that Accounts Payable will send the appropriate IRS form to the new employee. The IRS requires nondeductible moving expenses that have been reimbursed to be reported as wages on the employee's W-2 and the appropriate taxes to be withheld. Since Accounts Payable does not issue W-2s or withhold taxes from employee

reimbursements, recommend the policy be changed to state that Payroll will report moving expense reimbursements to the employee on a W-2 and withhold the appropriate taxes, when applicable.

Thanks for the opportunity to comment. Please call me at ext. 6804 or Harriet Richardson at ext. 6750 if you have questions or want to discuss. We appreciate your efforts to develop comprehensive human resource policies and procedures.

cc: Janice Davis, Chief Financial Officer
Sherri Dickerson, Department of Human Resources