

through October 11, 1984. (See definition in §302-17.5(b).)

(c) Any tax liability resulting from reimbursed expenses for any extended storage of household goods except as specifically provided for in §302-17.3(c).

(d) Any tax liability resulting from paid or reimbursed expenses for shipment of a privately owned automobile.

(e) Any tax liability resulting from an excess of reimbursed amounts over the actual expense paid or incurred. For instance, if an employee's reimbursement for the movement of household goods is based on the commuted rate schedule and his/her actual moving expenses are less than the reimbursement, the tax liability resulting from the difference is not covered by the RIT allowance. (See §302-17.8(c)(2)(i).)

(f) Any tax liability resulting from an employee's decision not to deduct moving expenses for which a tax deduction is allowable under the Internal Revenue Code or appropriate State and local tax codes. (See §§302-17.8(b)(1) and 302-17.8(c)(2).)

(g) Any tax liability resulting from the payment of recruitment, retention, or relocation bonuses authorized by the Office of Personnel Management pursuant to 5 U.S.C. 5753 and 5754, or any other provisions which allow relocation payments that are not reimbursements for travel, transportation, and other expenses incurred in relocation.

#### §302-17.5 Definitions and discussion of terms.

For purposes of this part, the following definitions will apply:

(a) *State income tax.* A tax, imposed by a State tax authority, that is deductible for Federal income tax purposes as a State income tax under section 164(a)(3) of the IRC. "State" means any one of the several States of the United States and the District of Columbia.

(b) *Local income tax.* A tax, imposed by a recognized city or county tax authority, that is deductible for Federal income tax purposes as a local (city or county) income tax under section 164(a)(3) of the IRC; except, that for employees transferred on or after November 14, 1983, through October 11, 1984, local income tax shall be con-

strued to mean only city income tax. For purposes of this regulation:

(1) *City* means any unit of general local government which is classified as a municipality by the Bureau of the Census, or which is a town or township that in the determination of the Secretary of the Treasury possesses powers and performs functions comparable to those associated with municipalities, is closely settled, and contains within its boundaries no incorporated places as defined by the Bureau of the Census (31 CFR 215.2(b)(1)).

(2) *County* means any unit of local general government which is classified as a county by the Bureau of the Census (31 CFR 215.2(e)).

(c) *Covered moving expense reimbursements or covered reimbursements.* As used herein, these terms include those moving expenses listed in §302-17.3 as being covered by the RIT allowance and which may be furnished in kind, or for which reimbursement or an allowance is provided by the Government.

(d) *Covered taxable reimbursements.* Covered moving expense reimbursements minus the tax deductions allowable under the IRC and IRS regulations for moving expenses. (See determination in §302-17.8(c).)

(e) *Year 1 or reimbursement year.* The calendar year in which reimbursement or payment for moving expenses is made to, or for, the employee under the provisions of this part. All or part of these reimbursements (see §302-17.6) are reported to the IRS as income (wages, salary, or other compensation) to the employee for that tax year under the provisions of the IRC and IRS regulations, and are subject to Federal tax withholding. The withholding tax allowance (WTA) (see paragraph (f)(1) of this section) is calculated in Year 1, to cover the employee's Federal tax withholding obligations each time covered moving expense reimbursements are made that result in a Federal tax withholding obligation. For purposes of this part, an advance of funds for any of the covered moving expenses is not considered to be a reimbursement or a payment until the travel voucher settlement for such expenses takes place. If an employee's reimbursement for moving expenses is

## Relocation Allowances

## § 302-17.5

spread over more than one year, he/she will have more than one Year 1.

(f) *Year 2.* The calendar year in which a claim for the RIT allowance is paid.

(1) Generally, Year 2 will be the calendar year immediately following Year 1 and in which the employee files a tax return reflecting his/her tax liability for income received in Year 1. However, there may be instances where the employee's claims submission and/or payment of the RIT allowance is delayed beyond the calendar year immediately following Year 1. (Year 1 will always be the calendar year that reimbursements are received; see paragraph (e) of this section.) Year 2 will be the calendar year in which the RIT allowance is actually paid.

(2) The RIT allowance is calculated in Year 2 and paid to cover the additional tax liability (resulting from moving expense reimbursements received in Year 1) not covered by the WTA paid in Year 1. If an employee's covered taxable reimbursements are spread over more than one year, he/she will have more than one Year 2.

(g) *Federal withholding tax rate (FWTR).* The tax rate applied to incremental income to determine the amount to be withheld for Federal income tax from salary or other compensation such as moving expense reimbursements. Because moving expense reimbursements constitute supplemental wages for Federal income tax purposes, the 20 percent flat rate of withholding is generally applicable to such reimbursements. (See § 302-17.7(c).) Agencies should refer to the Treasury Financial Manual, TFM 3-5000, and applicable IRS regulations for complete and up-to-date information on this subject.

(h) *Earned income.* For purposes of the RIT allowance, "earned income" shall include only the gross compensation (salary, wages, or other compensation such as reimbursement for moving expenses and the related WTA (see paragraph (n) of this section) and any RIT allowance (see paragraph (m) of this section) paid for moving expense reimbursement in a prior year) that is reported as income on IRS Form W-2 for the employee (employee and spouse, if filing jointly), and if applicable, the net earnings (or loss) for self-employ-

ment income shown on Schedule SE of the IRS Form 1040. Earned income may be from more than one source. (See § 302-17.8(d).)

(i) *Marginal tax rate (MTR).* The tax rate (for example, 33 percent) applicable to a specific increment of income. The Federal, Puerto Rico, and State marginal tax rates to be used in calculating the RIT allowance are provided in appendices A through D of this part. (See § 302-17.8(e)(3) for instructions on local marginal tax rate determinations.)

(j) *Combined marginal tax rate (CMTR).* A single rate determined by combining the applicable marginal tax rates for Federal (or Puerto Rico, when applicable), State, and local income taxes, using formulas provided in § 302-17.8(e)(5).

(k) *Gross-up.* Payment for the estimated additional income tax liability incurred by an employee as a result of reimbursements or payments by the Government for the covered moving expenses listed in § 302-17.3.

(l) *Gross-up formulas.* The formulas used to determine the amount of the gross-up for the WTA and the RIT allowance. The gross-up formulas used herein compensate the employee for the initial tax, the tax on tax, etc. Note that the WTA gross-up formula in § 302-17.7(d) is different than the RIT gross-up formula prescribed in § 302-17.8(f).

(m) *RIT allowance.* The amount of payment computed and paid in Year 2 to cover substantially all of the estimated additional tax liability incurred as a result of the covered moving expense reimbursements received in Year 1.

(n) *Withholding tax allowance (WTA).* The withholding tax allowance (WTA), paid in Year 1, covers the employee's Federal income tax withholding liability on covered taxable reimbursements received in Year 1. The amount is computed by applying the withholding gross-up formula prescribed in § 302-17.7(d) (using the Federal withholding tax rate) each time that a Federal withholding obligation is incurred on covered moving expense reimbursements received in Year 1. Grossing-up the Federal withholding amount protects the employee from using part of