

CIVILIAN PERMANENT CHANGE OF STATION (PCS) TAX LAW CHANGES

On December 22, 2017 Congress passed Public Law 115-97 suspending the tax deduction for civilian moving expenses. The Tax Cuts and Jobs Act (TCJA) of 2017 made most PCS entitlements taxable. Entitlements will now be reported as taxable income to the Internal Revenue Service (IRS).

All PCS expense payments are taxable except the following entitlements:

Long-term storage of household goods for employees with duty assignments outside the continental United States (OCONUS).

Privately owned vehicle shipments to, from, and between OCONUS locations; and Residential sales conducted through the agency relocation services company home sale program

For a full list of taxable entitlements, go to: <https://www.dfas.mil/civilianemployees/civrelo/Civilian-Moving-Expenses-Tax-Deduction.html>

For PCS orders issued prior to January 1, 2018 and reimbursements received for that move in 2018, the Defense Finance and Accounting Service (DFAS) did not apply the TCJA to PCS reimbursements (pursuant to the IRS Notice 2018-75). This means that travelers will not owe a debt to DFAS for additional tax withholding on reimbursements paid by DFAS on orders which were issued prior to January 1, 2018. Only moving expenses paid in 2018 that were previously taxable prior to the enactment of the TCJA will be reflected as income on the Travel W-2.

For PCS orders issued January 1, 2018 through October 29, 2018, taxes were not withheld from the claims in accordance with the TCJA. The delay was necessary because the DFAS travel pay system was not capable of applying different tax treatment to reimbursements now required by the new TCJA. The system changes have now been completed, and DFAS is able to calculate the correct withholding owed under the TCJA during the period of January 1 – October 29, 2018 and has remitted that amount to the IRS on the traveler's behalf.

DFAS sent notifications to the impacted travelers advising them of the adjustment to tax withholding on the PCS reimbursement. Because DFAS was unable to withhold the appropriate taxes from travel reimbursements, travelers will owe a debt to DFAS for withholdings paid to the IRS on the traveler's behalf. A 2018 Travel W-2 has been sent to travelers which reflects the withholdings paid by DFAS to the IRS. Official debt letters were mailed in early February 2019.

Appropriate taxes are being withheld from travel reimbursements for claims processed after October 29, 2018. No debt will be owed to DFAS for additional tax withholdings from reimbursements paid to the traveler by DFAS. However, direct payments of moving expenses to Third Party Vendors may result in tax debts to the traveler.

The IRS considers taxable moving expenses paid directly by the Government to a vendor (moving company, storage company, etc.) to be the traveler's taxable income. The IRS requires DFAS to submit tax withholdings for these payments and report them as income on the traveler's W-2. DFAS pays the vendor and then matches up the vendor payment(s) with the traveler information. DFAS will then compute the tax withholding associated with the vendor payment and will submit that amount to the IRS on the traveler's behalf. This transaction will result in a debt to the traveler who now owes DFAS. DFAS will then issue a debt letter to the traveler to notify them of the debt.

This is a separate process than reimbursements made directly to the traveler and depends upon when the vendor bills the Government. The billing process can take months to finalize. DFAS is currently working with all military service Transportation Management Offices (TMOs) to create a more timely process for these expenses.

Income tax withholding pursuant to the TCJA will be taken out of Civilian PCS reimbursements. Travelers will receive a Travel W-2 in January, following the year that reimbursements were paid/taxes withheld.

Taxes are withheld at these rates:

- 22% Federal Income Tax Withholding (FITW)
- 6.2% Social Security
- 1.45% Medicare

Debt notification packages will include:

Notification of overpayment

Payment Options

- Payment in full within 30 days without fees
- Voluntary Repayment Agreements

Travelers can submit a Relocation Income Tax Allowance (RITA) after filing their Income Tax return for the year in which PCS reimbursement(s) were received. RITA instructions are located on the DFAS Civilian PCS web page:

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

RITA is designed to reimburse most of the federal and state income tax paid as a result of the PCS move. Please note, you are not eligible for RITA if you are:

A new government employee;

Assigned under the Government Training Act; or

Returning from an overseas assignment for the purpose of separation from Government service.

There is an eTutorial on how to file a RITA claim located at:

https://www.youtube.com/playlist?list=PLhx_8nsfXqVj-Pf34sZ8pPVe4MOuxXN5-

Withholding Tax Allowance (WTA) is available to protect the traveler from having to use part of the relocation expense reimbursements to pay Federal income tax withholding; however, it does not cover state taxes, local taxes, Medicare taxes or Social Security taxes. If a WTA is elected, travelers MUST file a RITA claim within the first 120 days of the following calendar year. The WTA is treated as an advance against the RITA and is deducted from any RITA computed in the following year. WTA is elected thru DFAS by filling out the WTA employee agreement form and is submitted with the PCS claim.

If the marginal Federal tax rate is expected to be less than 22%, electing WTA may result in the traveler owing a debt to the Government in the following year, as the RITA entitlement may be less than the WTA the traveler received. Travelers may wish to decline WTA to avoid or limit possible overpayment. Important: when WTA is elected at the

beginning of a move and the election form is submitted with the first claim, it applies to all future taxable reimbursements. Travelers cannot select specific entitlements to apply WTA. Once it is elected all future taxable reimbursements will have WTA applied.

Resources:

Civilian PCS Web Page: <https://www.dfas.mil/civilianemployees/civrel/Civilian-Moving-Expenses-Tax-Deduction.html>

Federal Travel Regulation (FTR): https://www.gsa.gov/cdnstatic/FTR_Amendments_Through_2018-01.pdf

Frequently Asked Questions: <https://www.dfas.mil/dfas/civilianemployees/civrel/Civilian-Moving-Expenses-Tax-Deduction/Frequently-Asked-Questions.html>

DFAS Customer Care Center:

Email: DFAS-CIVREL-Questiononly@mail.mil

Civilian PCS Phone Options: 888-332-7366 option: 1; 1

Civilian relocation Questions: <https://www.dfas.mil/AskDFAS.html>