

All moving expenses are considered taxable income and subject to income and employment taxes (Federal, State, FICA). The relocation stipend can be paid either through the e-Reimbursement tool (with a 30% *estimated* tax withholding) or processed via payroll after an employee's start date using additional pay (the stipend will be taxed according to the employee's W-4 election). **Note: a relocation stipend should be paid no more than 30 days in advance of the employee's relocation date.**

To determine whether to pay the relocation stipend using the e-Reimbursement tool or as a lump sum using additional pay, as soon as you know that a relocation is being offered, reach out to the incoming employee and ask when they would like to receive the money (most people want the stipend as soon as possible which means paying via e-Reimbursement).

Things to consider:

- How quickly does the employee want to receive the relocation stipend (e-Reimbursement is quicker)
- Are they ok with the initial *estimated* tax of 30% being withheld from their relocation amount, which will be refunded later in the form of a paycheck deduction (e-Reimbursement option) OR do they prefer to wait and receive the relocation stipend via payroll so that it's taxed at the correct W-4 dictated rate (additional pay option)
- Is the employee a Nonresident Alien - NRA (applies to any e-Reimbursements that must be paid with a [wire](#) due to an international home/shipping address and when there is a currency conversion rate that may not be in the employee's favor).

e-Reimbursement

You can use the e-Reimbursement tool to pay a relocation stipend to an incoming employee who is not yet set up in HRS or who has a future start date in HRS (meaning they have an EMPL ID but do not yet have a NETID and therefore can't access our systems). In this instance, you will need to create a non-employee profile for them first. Instructions are [here](#).

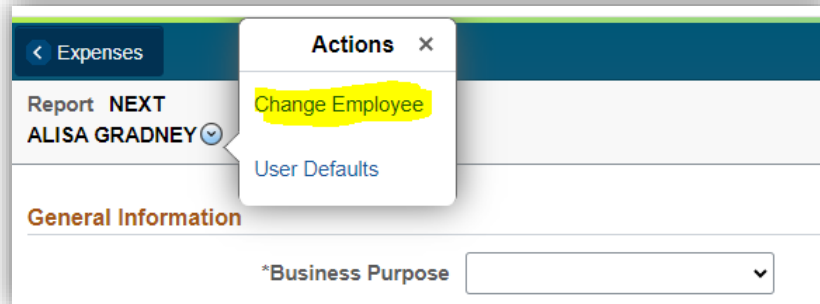
How taxes are calculated in the e-Reimbursement tool

When relocation stipends are paid through e-Reimbursement, employees have an *estimated* tax (30%) withheld which is then **refunded as a deduction** once the employee starts receiving their paychecks. Once the employee starts receiving their paychecks, the original relocation stipend amount is split up among two paychecks (e.g. a \$1400 relocation stipend will show up as \$700 on each paycheck) and is taxed as income according to the employee's W-4 election. The 30% estimated tax that was previously taken as part of the e-Reimbursement will show up on the paychecks as a deduction (a negative number that functions as a refund). For a more detailed explanation, scroll down to the "Behind the Scenes" portion of this document.

Completing the e-Reimbursement

Go into [SFS](#) and select the Expenses tile, then select the Create Expense Report tile.

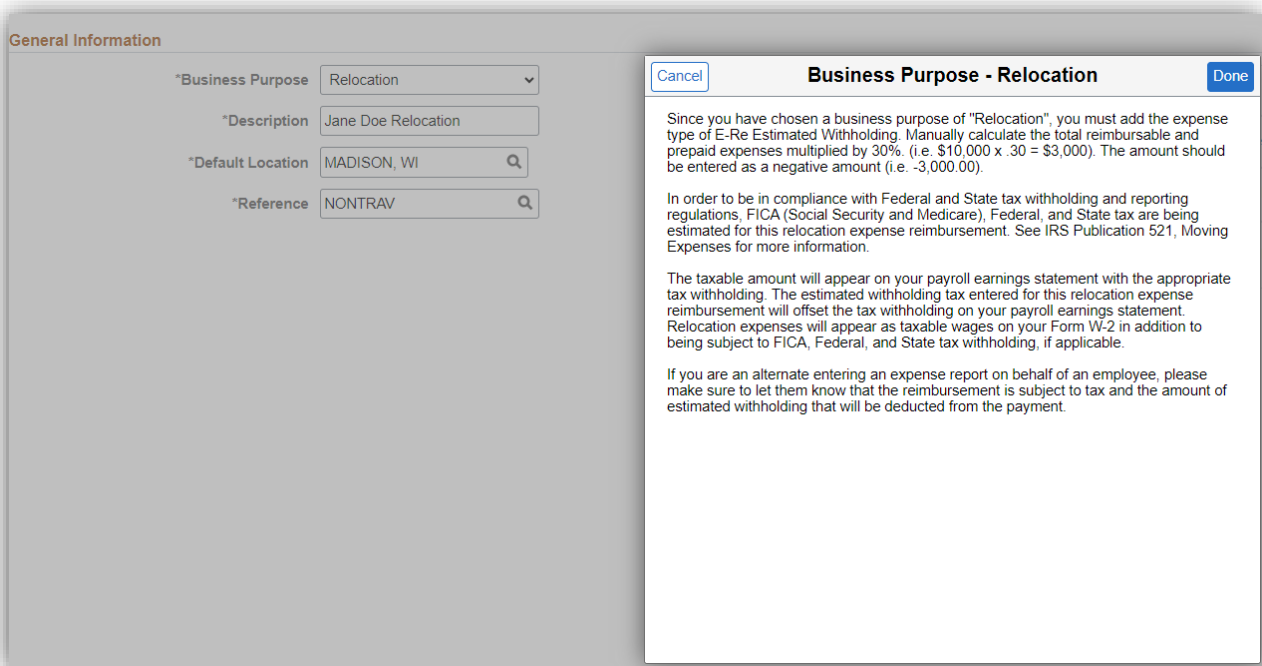
Next to your name (top left corner) select “change employee” and then look for the name of the person that’s getting the relocation stipend (you should have created a non-employee profile for them and thus can serve as their alternate). This step ensures that the expense report is not in your name.



1. General Information

Business Purpose: Relocation*

*When you select Relocation in the dropdown, you will get a pop up explaining how to calculate the estimated tax withholding of 30%, see below screen shot



Description: (example) Jane Doe Relocation

Default Location: Madison, WI (or the employee HQ city)

Reference: NONTRAV (when you select this, the Date of departure/return fields will disappear)

Attachments: Attach the offer letter which authorizes the relocation stipend as a supporting document.

Accounting Defaults: add the correct funding string that will be used to pay the relocation stipend.

Justification: (example) Relocation stipend for [employee name, EMPL ID** and start date] to relocate from [origin] to [destination] on [date of relocation in MM/DD/YY format] to assume the role of [position].

**If known. If the employee is not yet set up in HRS, you can note that too.

2. Expense Details

Select “Add Expense Lines” from the Expense Report Action dropdown.

You will create two lines, one for the relocation stipend amount and one for the estimated tax withholding.

The screenshot displays the 'Relocation-Stipend - 09/13/2024' entry in an expense report system. On the left, a summary table shows a total of 1,400.00 USD for one item on Friday, September 13, 2024. The main form on the right contains the following details:

- Date:** 09/13/2024
- Expense Type:** Relocation-Stipend
- Description:** Relocation
- Payment Details:**
 - Reimbursement Method: Personal Funds
 - Amount: 1,400.00 USD
- Additional Information:**
 - Originating Location: NEW YORK, NY
 - Expense Location: MADISON, WI
 - Accounting: [Field with a right arrow]
- Exceptions:** Non-Reimbursable (set to No)

The E-Re Estimated Withholding amount should be a negative number.

Note: a red-flag warning will appear indicating “Negative expense amount – Credit reference information required.” Click the box Credit Reference Required in the Section “Exception Comments” at the bottom of the page. Enter the following text: **Required e-Reimbursement withholding.**

Total (2 Items) 980.00 USD

Friday, September 13, 2024

E-Re Estimated Withholding Required withholding	-420.00 USD
Relocation-Stipend Relocation	1,400.00 USD

E-Re Estimated Withholding - 09/13/2024

Expense Entry Errors
Correct the following errors prior to submission:

- Negative expense amount -- Credit reference information required.

When you see this error, click the box Credit Reference Required in the Section “Exception Comments” at the bottom of the page.

*Date 09/13/2024

*Expense Type E-Re Estimated Withholding

Description Required withholding

Payment Details

*Reimbursement Method Personal Funds

*Amount -420.00 USD

Additional Information

Accounting 1 >

Receipt Split

Exceptions

Non-Reimbursable No

Exception Comments

Credit Reference Required No Comments >

Cancel **Exception Comment** Done

Date 09/13/2024

Expense Type E-Re Estimated Withholding

Expense Amount -420.00 USD

Credit Reference Comment

Expense amount is negative. Provide credit reference information.

Required e-Reimbursement withholding

Once you submit the e-Reimbursement and it is approved, the employee will receive a check in the mail (unless they are an NRA in which case it's a wire) for the relocation stipend minus the 30% estimated tax.

Behind the Scenes

e-Reimbursement does not pay any taxes; instead it puts the 30% estimated tax withholding amount into an account. When the relocation stipend is loaded into HRS, a deduction refund matching this estimated tax amount (30%) is also put onto the employee's check under the Deductions section of their pay statement. Taxes are then withheld in HRS on the full amount of the relocation stipend (it is listed as a separate line item and is taxed together with the gross income) while the deduction (the estimated 30% tax) offsets their taxes. The deduction is listed as a negative number on the paycheck, indicating a "refund".

On the 2nd day of the month following the reimbursement payment, all data for the previous month is reported to Payroll. These payments are then taxed at the 30% estimated rate and reported as a deduction on the next two available payroll checks. The relocation stipend is then taxed in HRS at the correct amount according to the employee's W4.

Example:

A newly hired employee is promised a \$1400 relocation stipend. During the e-Reimbursement process, we withhold a 30% estimated tax (\$420) making the final e-Reimbursement check they receive a total of \$980.

Once the individual is on payroll and we have their W-4 on file, we can tax the relocation stipend at the correct rate. During the first 2 months*** of employment, on two consecutive paychecks, the employee will see line-item Tax Fr - Moving Exp Reimb for \$700 listed on their paycheck (\$1400 divided by 2 – remember the total relocation amount is split between two paychecks). The relocation stipend amount of \$700 is taxed as wages earned (it's not added to gross income and then taxed but rather taxed as a separate line item). In the deductions section of the paycheck, the employee will see line-item AP Estimated Tax Refund listed as a negative amount of -\$210 (this is the 30% estimated tax of \$700). Even though the employee will see a higher percentage of tax withheld on these two paychecks (because they are being taxed on income AND the relocation stipend), the deduction of -\$210 (per paycheck) offsets the taxes as a sort of refund.

***not necessarily the first two paychecks, it could be the 3rd and 4th paycheck etc, depending on when the e-Reimbursement data is reported to Payroll.

Additional Pay

If the employee chooses to receive their relocation stipend via payroll, complete the steps for an additional pay (SoE HR has a [form](#) online which needs to be filled out).

Note: Relocation stipends may be split between multiple pay periods to reduce the tax impact from one large payment.

Additional Resources

Business Services Procedure on Processing Relocation Stipends

<https://businessservices.wisc.edu/documents/3079-1-processing-a-relocation-stipend-procedure/>

Relocation Policy

<https://policy.wisc.edu/library/UW-3079>

Fringe Benefits

<https://businessservices.wisc.edu/accounting/tax-compliance-and-reporting/fringe-benefits/>

HR Email 2024

<https://uwmadison.app.box.com/file/1646885804804>