

Effects of Public Law 115-97 “Tax Cuts and Jobs Act of 2017”, Effective January 1, 2018, on DoD Civilian Employees Performing a Permanent Change of Station (PCS) Move

**Background:** Prior to passage of Public Law 115-97, certain employee relocation allowances were exempt from Federal income taxation. With passage of the new law, all civilian moving expense allowances, except one, are now taxable. The exception to the new taxation applies to the agency relocation services company (RSC) home sale program, when residences of transferees are purchased under an RSC supplier contract and then sold in a separate independent transaction. The costs of those residential sales continue to be governed by Internal Revenue Service (IRS) Revenue Rule 2005-74 and are not taxable income to employees. DFAS has been paying civilian relocation claims under the old tax laws and notifying reimbursement recipients that taxes have not been withheld from these payments under the new tax law and that future adjustments for tax withholding may be necessary.

**Implementing Guidance for DoD Civilian Employee Travel:** The General Services Administration (GSA) promulgates the Federal Travel Regulation (FTR). The FTR enumerates the travel and relocation policy for all Title 5 Executive Agency employees. On May 14, 2018, the GSA published GSA Bulletin FTR 18-05, which provides implementing guidance to Government agencies regarding changes to relocation allowances based on the recent Federal tax law changes. However, the bulletin does not apply to reimbursements paid in 2018 for travel expenses that were incurred in a prior tax year. GSA advised that it will issue regulations covering reimbursements for travel conducted in a previous tax year once the IRS advises how the new tax law applies to these payments.

**Travel System Implementation:** With the exception of the Air Force, all Civilian PCS travel claims for the DoD are processed and paid using the Integrated Automated Travel System (IATS). A new version of IATS is currently being programmed and tested to accommodate the new tax requirements; however, finalized systemic programming and implementation cannot occur until the IRS and GSA publish complete guidance on the new tax law implementation. Once that guidance is received, it will take approximately 30 business days to fully test and deploy the new IATS version.

**What Functionality Will the New Version Possess?:** IATS will process Civilian PCS travel claims IAW the new tax law. Additionally, IATS will identify all previously computed and paid Civilian PCS settlement claims requiring a tax adjustment and compute the tax withholding on the newly-taxable entitlements.

The Withholding Tax Allowance (WTA) will be applied to the recomputed tax withholdings of travelers who claimed WTA on their original voucher. The WTA is designed to cover the FITW from the Civilian PCS moving expense reimbursement and provide an immediate offset to the FITW on the payment. As a result, the WTA allows the employee to receive the same reimbursement that would have been received had the FITW not been required. The WTA does not cover state, local, Medicare, or Social Security taxes.

Accordingly, once the vouchers are reprocessed to apply the new tax law, taxes will likely be owed even by employees who claimed WTA. Once the travel settlement office has processed the claim and assigned the lines of accounting to it, the system will generate a Due U.S. settlement voucher for the new tax liability, along with a collection letter for the amount of taxes owed. These will be forwarded to those affected employees by mail.

**Impact to Civilian Employee Travelers:** Any previously paid Civilian PCS allowances that are taxable in accordance with the new law will be recomputed to determine the taxes due, and a debt will be established for the resulting tax liability.

How will resulting employee tax debts be addressed by DFAS?: Once the travel settlement office recomputes the initial Civilian PCS claim to calculate the tax liability and establish the debt, the employees will be provided due process by the DFAS Accounts Receivable (AR) department. The AR office will notify employees by mail of the debt resulting from application of the new tax law, and will provide employees the opportunity to remit payment.

Will employees who elected to receive WTA on their initial travel voucher submission be required to request additional WTA for the taxes owed under the new tax law?: No. If the employee elected to receive the WTA payment on their initial Civilian PCS travel claim, DFAS will compute the WTA owed on the newly-taxable reimbursements without any further action by the employee.

Who should employees contact at DFAS with questions regarding their claims once IATS implements the new software to recalculate their previously paid Civilian PCS vouchers?: When a debt is established as a result of the new tax withholding, the employee will receive a debt notification letter which will contain contact information. If they have questions prior to debt notification they may contact the DFAS Rome Customer Service number, 1-888-332-7366.