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# *Getting More From Your Home Sale Program*

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# Today's Presenters



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# HOME SALE PROGRAM OVERVIEW

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# Overview

- Employers have been offering relocation benefits to their employees for decades in an effort to get their talent to be willing to uproot their lives and move to a new location where their work is required
- The employees' relocation benefits should allow them to easily move while maintaining a high level of performance at work along with a proper work/life balance
- Many employees request home sale assistance to move as they are not willing or able to incur the expenses involved with selling a property (avg. 7-8% of the home sale price)
- Reimbursement of home sale expense by an employer is considered taxable income to the employee unless the employer utilizes a properly structured home sale program via a Relocation Provider per Revenue Ruling 72-339





# Revenue Ruling 72-339

The ruling upon which a properly structured home sale program is based...

- requires a process in which there are **two separate and distinct home sale transactions**—one from the employee to the company/relocation service provider and then from the company/relocation service provider to the outside buyer
- tax benefit comes from the fact that there are **no costs incurred** in the sale from the employee to the company/relocation service provider.
- home sale **costs are incurred by the company/relocation service provider** (once it becomes the owner of the home) in the sale to the outside buyer.

**The intent of Revenue Ruling 72-339 is that the costs incurred in the home sale are not the obligation of the employee.**

# WERC 11 Key Elements

**The Worldwide ERC has published 11 key elements that are recommended to support a properly structured Home Sale Assistance Program:**

- 1** An employee (“EMPLOYEE”) wishing to take advantage of the Buyer Value Option or Amended Value Sale who lists their home with a real estate broker must include a suitable exclusion clause in the listing agreement where the listing agreement is terminated upon the sale of the home to either the employer or the relocation company.
- 2** Under no circumstances should the EMPLOYEE accept a down payment from any potential buyer.
- 3** Under no circumstance should the EMPLOYEE sign an offer presented from any potential buyer.
- 4** EMPLOYEE enters into a binding contract (“Contract of Sale”) with their employer or the Relocation Company (“PURCHASER”).
- 5** After the execution of the Contract of Sale with PURCHASER and after EMPLOYEE has vacated the home, all of the burdens and benefits of ownership pass to the PURCHASER.

# WERC 11 Key Elements (cont.)

- 6 The Contract of Sale between EMPLOYEE AND PURCHASER at the higher price is unconditional and not contingent on any event, including the potential buyer obtaining a mortgage commitment.
- 7 Neither EMPLOYEE, nor the employer in the case of a relocation company transaction, exercises any discretion over the subsequent sale of the home by PURCHASER.
- 8 PURCHASER enters into a separate listing agreement with a Real Estate Broker to assist with the resale of the property.
- 9 PURCHASER enters into a separate agreement to sell the home to a buyer.
- 10 PURCHASER arranges for the transfer to the buyer.
- 11 The purchase price eventually paid by the buyer has no effect on the purchase price paid to the EMPLOYEE.

# Types of Home Sale Assistance

**Home Sale Assistance:** Assistance on closing sale of home sale

## Buyer Value Option (BVO)

- Home remains on market until a bona-fide offer secured
- Once offer secured, Relocation Provider purchases home from the Employee and sells home to a Buyer on the Employers behalf


## Appraised Value Option (AVO)

- Guaranteed Purchase Offer (GPO) typically based on 2 appraisals; appraised values averaged to become the GPO (buyout)
- Offer available in accordance with employers policy – either immediately or after pre-determined marketing period expires
- Offer amended if a bona fide offer secured before/after buyout



# HOME SALE PROGRAM OPTIONS

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# Direct Reimbursement

The Employer reimburses the Employee for some or all of their home sale closing costs, including real estate commissions. The reimbursement of these costs are considered taxable income to the employee by the IRS.

## Pros

- No risk of home ownership to the Employer

## Cons

- Often employee receives little support throughout the home sale – low quality experience
- Costly program when gross up for the reimbursement is included
- Potential to push Employees into a higher income tax bracket
- Unpredictable costs



# Two-Transaction Programs

Relocation home sale programs are called two-transaction programs because of how the sale is managed. There are two separate home sale transactions—one from the employee to employer (or their RMC) and a second from the employer to the outside buyer.

## Pros

- Employee receives support throughout the home sale
- Employee may receive equity “in whole” (i.e. without deductions for commission and closing costs) via a guaranteed purchase offer (GPO)

## Cons

- Potential for increased risk of the Employer owning the home via a GPO acquisition or Amended Sale Fall Thru

# Home Sale Programs

These programs manage the home sale process for the employer and shelter the relocating employee from tax liability for the payment of the closing costs and commissions. The closing costs and real estate commission must still be paid, but with these programs, these costs and commissions are no longer considered taxable income to the employee. This can save the employer a tremendous amount in tax gross-ups over direct reimbursement.


## Two approaches to program administration...

- Any expenses and taxes related to the home sale are passed through the relocation management company (RMC) and on to the employer. The employer assumes the risk of ownership of unsold homes.
- All costs and taxes related to the home sale are included in the fee estimated at the start of the transaction. The employer is not exposed to the risk of owning unsold homes.



# HOME SALE PROGRAMS IN ACTION

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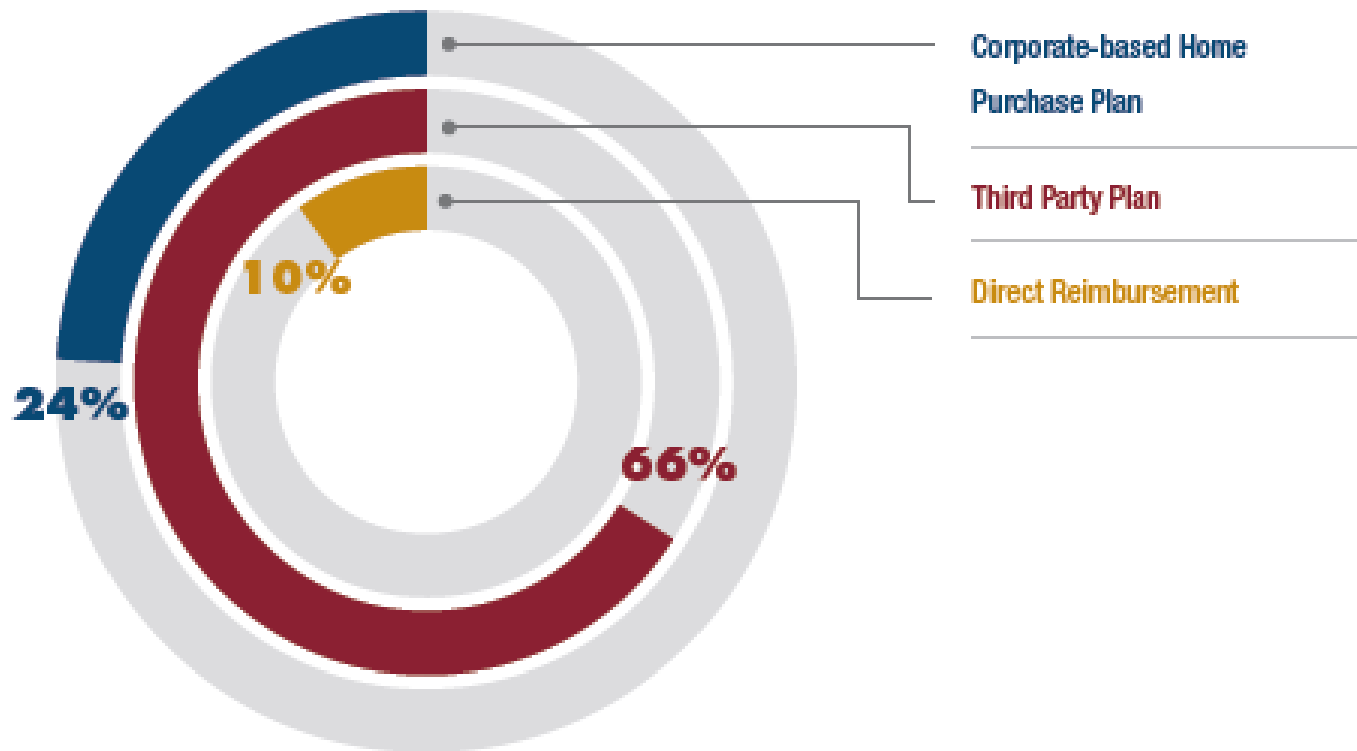
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# Popularity of Home Sale Assistance Types

Highest Policy Level	%
Appraised Value Offer only (AVO)	23%
Buyer Value Offer only (BVO)	37%
AVO and BVO	37%
Direct reimbursement	3%

**60%**  
**AVO**

# How Home Sale Assistance is Delivered



# Most Challenging Aspects of Hiring



Dual careers and family issues (51%)



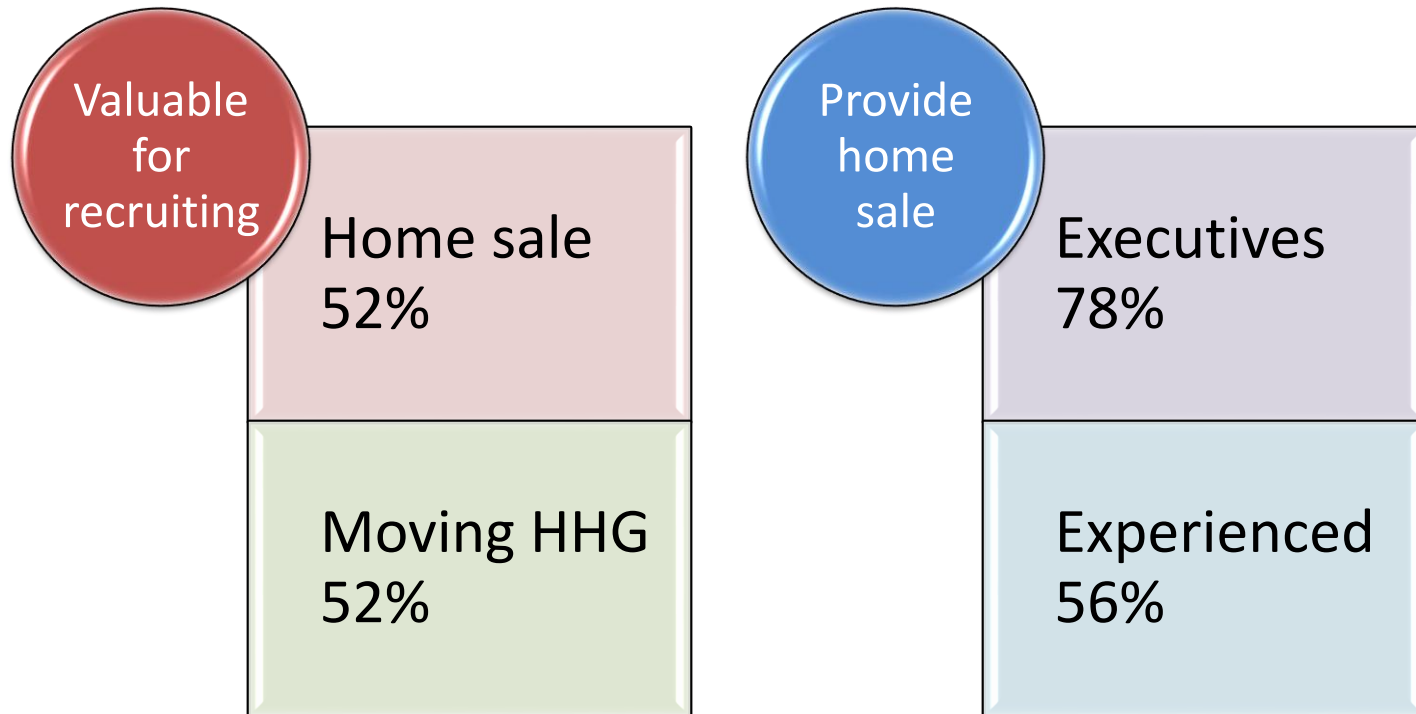
Inadequate supply of qualified candidates (60%)



Competition for talent (78%)



# Home Sale for New Hires



# Best Practice Processes

## List Price

- Order 2 Broker Market Analyses (BMA)
- Order 3<sup>rd</sup> BMA if first 2 not within 5%
- Average 2 closest BMAs
- List home within 105% of average

## Appraised Value

- Order 2 appraisals
- Order 3<sup>rd</sup> appraisal if first 2 not within 5%
- Average 2 closest appraisals to establish guaranteed offer

# Marketing List Price Restriction

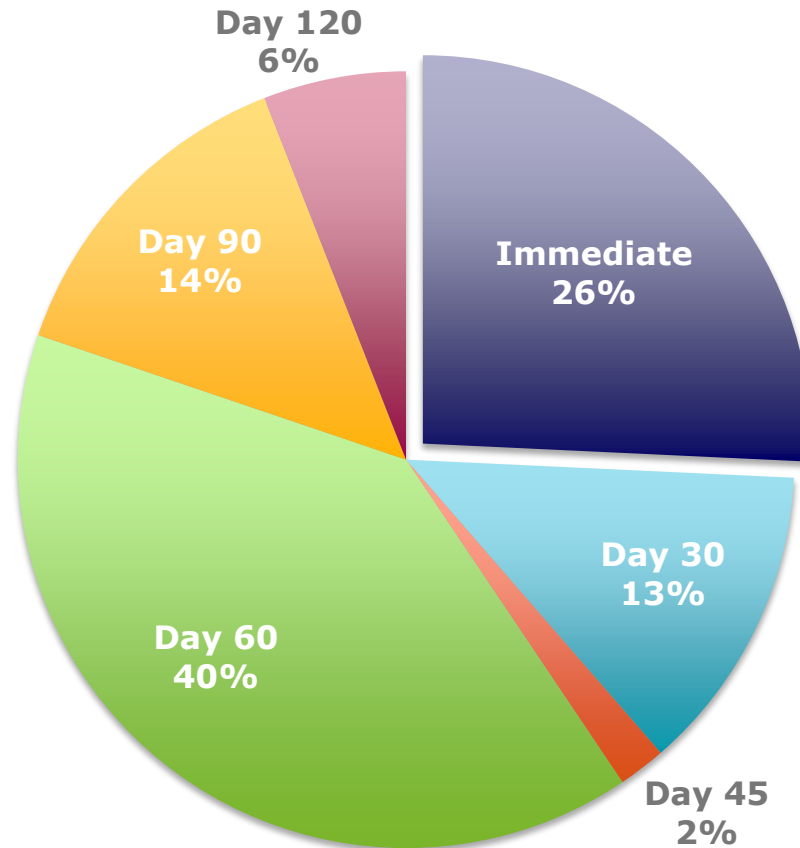
## Appraised Value Offer

List Price Restriction	% of Companies
None	11%
100%	1%
103%	6%
105%	74%
107%	3%
108%	1%
110%	4%

## Buyer Value Offer

List Price Restriction	% of Companies
None	19%
102%	3%
105%	72%
110%	6%

# Day Appraisals Ordered



# Delayed Appraisals

**Still competitive while making benefits of delayed appraisal program attainable including:**

- Reduced home sale costs and risk of homes entering inventory
- Reduced likelihood employees will be required to resolve and disclose 2 sets of inspections (1 from company and 1 from buyer) by allowing more time and opportunity to sell to a buyer before appraisals and inspections ordered
- More satisfied transferees when homes sell to buyers

# Homes in Inventory

- Home did not sell to buyer, but still must be sold
- Number days to sell inventory home: 14–233 with median of 93
- Average monthly carrying cost for home in inventory: 1.5% (includes loss-on-resale, acquisition expenses, carry costs, closing costs)





# Offer period

Offer up to 60 days for employee to accept or reject guaranteed offer

## 60 days

In line with best practices and allows employee additional marketing days after guaranteed offer delivered, increasing chances of obtaining an offer from a buyer

## >60 days

Avoids guaranteed offer becoming outdated by time employee chooses to accept it

# Trends

## Appraised Value Offer/Guaranteed Buyout

- Require employee to reduce list price within 105% (or less) of the guaranteed offer once received
- Require employee to accept offers within 95 or 97% of guaranteed offer; employee still receives 100% of guaranteed offer

# Cost Control

## Home Sale Incentive

- 1-2% or split 1-2%
- Cap the incentive
- Require employee to follow all home marketing requirements
- Must provide bonus whether home sale closes or not; two home sale transactions must be separate and distinct
- No gross-up (87% per SIRVA stats)



# Cost Control

## Fix-Up Allowance

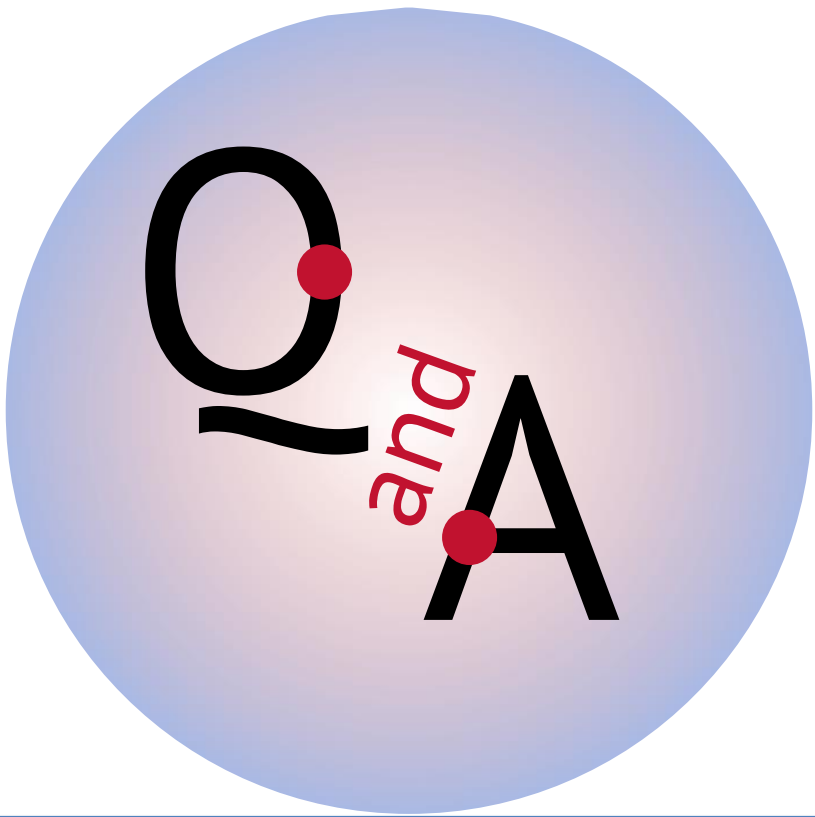
- Dollar amount
- 1-2 % of BMA value
- Home improvement projects cost about 20-25¢ on the dollar; other 75-80¢ spent go directly back into home through increased value
- Key for adding value is to repair, replace or remove anything that could turn buyers away
  - Curb appeal
  - Kitchen/bath updates
  - Paint
- Grossed-up



# In Summary

- Offer home sale assistance for competitiveness and help obtain needed talent
  - Appraised value
  - Buyer value
  - Direct reimbursement
- Follow IRS guidelines and WERC 11 Key Elements
- Engage in best practices
  - 105% list price cap
  - Mandatory marketing period
  - 60-day offer period
- Institute cost control measures and incentives

# Questions & Answers





# Thank you for attending!

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