SIRVA

Home Sale Overview

Best practices for Managing Your Relocation Home Sale Program

Worldwide
Relocation & Moving

Which relocation home sale program is right for your company?

A home sale benefit is often one of the most expensive components of a relocation policy. The benefit is designed to cover the employee's cost to sell their home when they relocate. Having the right home sale program can improve the overall relocation experience while minimizing your company's cost of owning homes purchased from employees, tax liability, administrative burden and overall relocation costs. To help make the decision a little simpler, we've broken down the options so you can compare plans and see for yourself what suits you, your company and your relocating employees.

Three relocation home sale program types to consider:

- Direct Reimbursement
- Cost-Plus
- Fixed-Fee

Here's a closer look at each program and how they work.

Direct Reimbursement

In a direct reimbursement, the employer reimburses the relocating employee for all, or a portion of, the home sale expenses they incur in connection with the sale of their home. This can include reimbursing the employee for listing costs, marketing costs, real estate commissions and closing costs.

With this program, it is important to note that **the IRS considers the reimbursement of these costs as income and therefore subject to tax.** For example, if you reimburse a relocating employee $25,000 for all home sale related costs, the relocating employee is only going to receive approximately 60 percent of this sum after taxes (assuming the total of all federal, state and local taxes approximately equate to a 40% total tax bracket for the employee).
Most companies go a step further and "gross-up" the reimbursement (pay an additional amount to cover the taxes), essentially reimbursing the relocating employee more than they paid out of pocket, so the employee still breaks even after paying taxes on the reimbursement.

PROs

- The employer is not involved with the home sale, meaning virtually no risk or home ownership challenges.

CONs

- While the employer may manage other parts of the program, the employee is typically left to manage the entire home sale alone.
- Often the most expensive option due to gross-up costs and employee home value variances.
- Potential to push the employee into a higher income tax bracket especially with gross-up

Making Sense of Relocation Home Sale Programs

Relocation home sale programs have been developed to provide employers with a tax efficient means to provide their employee the home sale benefit. Cost-Plus and Fixed-Fee 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.

Both types of 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.

While the home sale relocation program eliminates the tax impact to the employee, the employer must still account for the costs of sale and the risk related to owning homes acquired from relocating employees.

With Cost-Plus programs, expenses and taxes related to the home sale are passed through the relocation management company (RMC) and on to the employer, so end costs may vary dramatically from the original estimate. With Fixed-Fee programs, all costs and taxes are included in the fee estimated at the start of the transaction, eliminating unpredictable cost spikes.

> *"Having the right home sale program can improve the overall relocation experience while minimizing your company's cost of owning homes purchased from employees, tax liability, administrative burden and overall relocation costs."*

Cost-Plus Relocation Home Sale Programs

Cost-Plus programs offer a range of flexibility in how the home sale is managed by and for the relocating employee. The home sale can be based upon a guaranteed buyout by the relocation company, so the employee receives their equity and is no longer responsible for the home sale process. Programs may also be designed without a guaranteed buyout where the relocating employee sells the home only when they locate a buyer.

There are two types of cost-plus programs: Buyer Value Option (BVO) and Appraised Value Option (AVO). The key difference between these two options is related to how the home sale price is established. In both plans, until the home is completely transferred to its final buyer, costs related to that home are the responsibility of the employer.

With Cost-Plus programs, the relocation company manages the process but the real risk and cost of ownership remain with the employer. If the home sale falls through or is acquired in a buyout, the ownership maintenance and repair cost, as well as the risk of the loss on resale, are all borne by the employer.

PROs

- Employee is supported through the entire home sale process.
- Guaranteed buyout programs are available as options to ensure the employee receives their equity "in whole."
- Employee reimbursement is insulated from taxes.

CONs

- Unpredictable costs—all costs incurred by the relocation company associated with the transaction are passed back to the employer.
- Increased risk of the employer owning the home should sale fall through.
- The employer may receive an unpredictable number invoices.
- Employer involved in administration of the program.

Fixed-Fee Relocation Home Sale Programs

With Fixed-Fee (or fixed cost) programs, the relocation company acquires the home and removes the employer from home ownership risk.

In a fixed-fee program the relocating employee searches for a buyer within a certain marketing period. When a buyer is found the two-transaction process is utilized to complete the transaction. Similar to the Cost-Plus program, the fixed fee program can work one of two ways: the home sale may or may not have a buyout component. In fixed-fee programs that have a guaranteed buyout, if no buyer is found within the allotted time period, the relocation company purchases the home for the average price established by two appraisals and continues to market the home until a buyer is found.

In the fixed-fee program the employer is charged a single fee based upon a percentage of the relocation management company's (RMC) acquisition price with the employee. Therefore, the RMC also assumes the risk of cost variability and loss on any given transaction. Because the fee is pre-established as a percent of home value, if there is an increase in transaction cost due to fall through, a buyout or from additional transaction costs it is the RMC, not the employer, that bears the risk of these additional costs.

Since costs and taxes are bundled into one invoice, a fixed-fee program can alleviate managerial burden by minimizing risk, providing predictable costs and streamlined billing.

PROs

- Employer can more easily budget home sale costs based on the fixed percentage of the home value.
- Enables the employer to minimize risk of unforeseen costs from issues like unsold houses, taxes, transfer fees, etc.
- The employer is not exposed to the risk of owning the home

CONs

- Available through only a select number of relocation companies. If you are in the market for this level of service and risk removal it is prudent to procure these services with careful analysis and specifically request a fixed-fee program.

Your SIRVA Representative Can Help You Choose

We recognize there is a myriad of questions when it comes to choosing the program that's right for you, your organization and your relocating employees. Your SIRVA representative can help you work through the options to ensure your mobility program runs smoothly every time.

About SIRVA, Inc.

SIRVA is a leading partner for corporations to outsource their mobility needs, relocating and moving their executives and staff globally. SIRVA offers an extensive portfolio of mobility services across approximately 170 countries providing an end-to-end solution to deliver an enhanced mobility experience and program control and security for customers.

SIRVA has a portfolio of well-known and recognizable brands including Allied, northAmerican, SMARTBOX, and Allied Pickfords. For more information please visit www.sirva.com.