

Household Goods Storage: Taxes on storage over 30 days

Fast Facts

- ▶ *The IRS considers payments for household goods stored more than 30 days for civilian relocations as taxable income.*
- ▶ *DFAS is implementing system changes to collect and remit any taxes to the IRS throughout the tax year.*

*Last Updated on 02/10/2015
by Travel Pay Operations*

Overview

Many entitlements paid to federal employees who undergo a civilian relocation move are considered taxable income. Some entitlements paid directly to the employee are easy to identify and are captured as wages and compensation on the employee's W-2. Other compensations, paid to third parties on behalf of the employee, are more challenging to capture and properly report since these payments occur outside of payroll and entitlement systems.

A payment for the temporary storage of household goods (HHG) in excess of 30 days in conjunction with civilian relocation is an entitlement that the Internal Revenue Service (IRS) considers taxable income. If the employee arranges and personally pays for the temporary storage, the reimbursement is made through a travel entitlement system and taxes are deducted and reported as taxable income to the IRS.

However, if the employee turns their household goods over to a government transportation office to arrange for storage in excess of 30 days, the payment made to the third party storage facility is not captured and reported as taxable income, nor are any taxes deducted/reported to the IRS.

Goal

DFAS is implementing procedures to properly capture and report these types of compensations to affected employees, as well as collect and remit any taxes due throughout the tax year versus at the end of the year. A completion date is yet to be determined.

Outcome

For payments made in tax year 2014, DFAS developed a procedure to cross-reference third party transportation files with civilian relocation travel payments. This resulted in numerous employees receiving a W-2 that identified the household goods storage entitlement in excess of 30 days paid in-full to a third party as taxable income. These W-2s include the amount paid to the third-party storage facility beginning with the 31st day of storage. Also, the appropriate amount of taxes has been remitted to the IRS on behalf of the employee and the W-2 includes those taxes. As a result, the employee is in debt for the amount equal to the taxes paid to the IRS. DFAS will notify the approximately 200 affected employees.

For the current tax year and beyond, employees affected will need to plan on paying back the amount of taxes paid on their behalf to the IRS. The temporary storage of household goods in excess of 30 days may be unavoidable. The knowledge of any potential effect will give the employee the ability to make properly informed decisions and minimize issues as they move to their new duty station.





DEFENSE FINANCE AND ACCOUNTING SERVICE

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MAR 10 2015

MEMORANDUM FOR CLIENT EXECUTIVE LIAISONS

SUBJECT: Compensation/Tax Remittance for Household Goods (HHG)

Many entitlements granted to civilians undergoing a Permanent Change of Station (PCS) are deemed taxable by the IRS. These taxable benefits are considered compensation, and the traveler receives a W2 for this compensation.

Short term storage of HHG in excess of 30 days is a taxable entitlement. Travelers who pay for the movement and storage of HHG that subsequently file for PCS travel reimbursement have taxes withheld and remitted to the IRS on their behalf. However, if the move was arranged through a government transportation office, the payment made to the third party storage facility was not previously captured as compensation to the traveler, and no tax was withheld.

For payments made in tax year 2014, Defense Finance and Accounting Service (DFAS) developed a procedure to cross reference third party transportation files with civilian relocation travel payments. This procedure resulted in the employee receiving a W2 that identified the HHG storage entitlement in excess of 30 days paid in full to a third party as taxable income. The employee's W2 includes the amount paid to the third party storage facility beginning with the 31st day of storage, as well as the amount of taxes paid on their behalf to the IRS. This amount is to be included in the employee's income on their Federal and State tax returns. As a result, the employee is in debt for the amount equal to the taxes paid to the IRS. DFAS will notify the approximately 200 affected employees.

For the current tax year and beyond, we need your help informing employees of the tax implications associated with HHG storage. Although the temporary storage of HHG in excess of 30 days may be unavoidable for the employee, the knowledge of any potential effect will give the employee the ability to make properly informed decisions, and minimize issues as they move to their new duty station. We ask that you forward the HHG Impact document attached to this communication for the awareness of the affected services, and for communication to the communities, listed below, that can provide this information to travelers undergoing a civilian PCS. A fact sheet is also attached, which summarizes key points to better inform travelers.

A handwritten signature in black ink, appearing to read "Cynthia B. Garcia", is positioned above the printed name.

Cynthia B. Garcia
Director, Finance Standards and Customer Services

Attachment:
As stated

DFAS-RO PCS Customers
U.S. Army - Client Exec, Michael LaValle
Defense Agencies - Client Exec, Sandra Bryant and Charlayne Martin
Missile Defense Agency
Defense Technical Information Center
Uniform Services University of Health Sciences
Defense Information System Agency
Business Transformation Agency
Defense Media Activity
Defense Threat Reduction Agency
Defense Technological Security Agency
Defense Prisoner of War/Missing Personnel Office
Tricare Management Agency
Center for countermeasures
Defense Advanced Research Projects Agency
Defense Acquisition University
Defense Contract Audit Agency
Defense Contract Management Agency
Defense Commissary Agency
Defense Finance & Accounting Service
Defense Human Resource Activity
Defense Information Systems Agency
Defense Legal Services Agency
Defense Media Activity
Department of Defense Education Activity
Department of Defense Inspector General
Director Operational Test and Evaluation
Defense Security Cooperative Agency
Defense Security Service
Defense Test Resource Management Center
National Defense University
Office of Economic Adjustment
Pentagon Force Protection Agency
DoD Washington Headquarters Service
Navy - Client Exec, Patrick Beckerle:
Naval Air Systems Command (NAVAIR)
Naval Air Warfare Center Weapons Division (NAWCWD) - China Lake
Naval Reserve Officers Training Corp (NROTC)
Naval Sea Systems Command (NAVSEA)
Naval Surface Warfare Center (NSWC) - Crane Division
Naval Surface Warfare Center (NSWC) - Dahlgreen Division
Naval Undersea Warfare Center (NUWC - Newport)
Naval Undersea Warfare Center (NUWC - Keyport)
Space & Naval Warfare Systems (SPAWAR)