COMPLIANCE-CONSCIOUS?

Don't forget about mobility expenses

By Peter Fonseca, CRP

If I had to describe today's mobility industry in two words, I'd say "compliance-conscious."

Immigration has become more complex and regulated, duty of care is more critical than ever, and tax statutes are being upheld more strictly in countries around the world. Therefore, there's a lot of auditing around these segments.

However, another component has been emerging in the context of compliance—mobility expense management. Previously, mobility-related expenses mostly hovered below the radar as auditors homed in on broader targets, such as business expenses and corporate taxes. Yet mobility expenses are different from the average business expense and also require special tax treatment. These expenses entail a myriad of processing codes and varying tax approaches.

How these expenses are managed affects everything from an employer's finances and tax liability to its talent acquisition and retention. As such, more companies are conducting thorough audits and ensuring compliance to mobility policies, supplier contracts, and relocation taxes.

Are you doing your due diligence? An effective audit starts with the right auditor and covers what matters.

YOU DON'T KNOW WHAT YOU DON'T KNOW

"You don't know what you don't know" is the best way I can think of to explain the importance of using an auditor who understands the nuances of relocation. Only a mobility professional will know the questions to ask and where to dig to get to the root of an issue. Whether internal or external, auditors must be familiar with the company's mobility policy and understand the many facets of relocation, including policy exceptions and employee tax implications.

OBJECTIVITY IS CRITICAL

In addition to knowledge, there's an attribute that's just as pivotal—objectivity. When an internal member of a mobility team conducts an audit, a portion of the knowledge and skills is usually there, but the objectivity may be missing. It's rarely intentional, but distance brings perspective. Deep-seated processes and practices may not be scrutinized, and even obvious errors may be overlooked.

When engaging an external party, the same applies. How close are they to the process? Sometimes the entity conducting the audit is the same one executing the mobility services. They may have close ties to the suppliers as well. Mobility is an interdependent industry, so it's not uncommon for a consultant or management company to have a financial connection to a van line or temporary housing provider. Such affiliations may compromise an auditor's focus and invite inadvertent oversights.

This is why many companies are hiring third-party relocation management expense companies to conduct audits. Yet some mobility departments hesitate to do so based on the perceived additional costs, as well as the perceived hassle of adding yet another provider to the mix. However, a thorough and well-executed audit can quickly produce a return on investment, saving time and money in the short and long term.

THE 3 MOST CRITICAL COMPONENTS OF THE AUDIT

The most significant audit discoveries originate from three core components of relocation expense management:

1. The corporate mobility policy.
2. Supplier contracts.
3. Domestic relocation tax compliance.

Policy Compliance

Mobility policies are put into place to solidify best practices, ensure transferee satisfaction, and keep costs in check. Despite these good intentions, deviations occur. What's more, to accommodate the needs of various transferees, many employers offer multiple policies, which makes compliance more difficult to track. However, an effective audit will unveil occasional and ongoing compliance issues, as well as policy exceptions that went undocumented.

One of the more common issues is an overextension of services. For example, while living in temporary housing, a transferee may purchase a home, only to have the close date delayed. Policy dictates a maximum temp housing stay of 60 days, but the transferee needs an additional 15 days. The transferee communicates this to his or her counselor; however, the counselor doesn't submit an exception for approval by the organization but authorizes the payment of these additional days to the internal accounts payable department. This type of situation contributes to excess spending that—while justifiable—now becomes a cost outside of policy that cannot be properly reported.

Just like any other policy, mobility policies are subject to interpretation. Some policies include qualifiers rather than numbers. For example, one policy may allow transferees to stay up to three nights in a "reasonably priced" hotel, and another one may agree to reimburse transferees "up to $150 a night" for three nights. The transferee, the location, and the situation will likely affect what the transferee considers to be a "reasonable" price. However, an audit will draw out these situations to determine whether the policy needs to be adjusted with clear spending limits.

Finally, an objective party can provide invaluable context to mobility policies. A third-party auditor likely knows what other employers are doing and what is considered the new normal. This is especially critical as employers strive to attract and retain employees amid a shrinking pool of talent.

Contract Compliance

Mobility contracts can be complex and difficult to audit. Each supplier has its own distinct agreement, which means that contracts pile up quickly, and suddenly an audit seems like an insurmountable task. An auditor should not be distracted by the details but focus on the fees.

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Fees get a little tricky because they may be plentiful and sometimes confusing. When scanning invoice data, it's easy to get lost in a blur of line items. However, the goal is to understand and discern the various charges in order to identify errors and duplicates.

During one audit, our company found distinct red flags on a number of file fees submitted by a supplier. Upon examination, we discovered monthly fees were being applied to files that had been inactive for a number of months. This simple error stemmed from the supplier's system, which had not flagged the files as inactive, and reoccurring fees continued to be invoiced. While there were only a couple of dozen inactive files, the costs added up quickly. A $300 monthly fee for 20 files resulted in $36,000 of erroneous charges over the course of six months.

The most common errors arise from monthly or annual anniversary fees. As more organizations automate their billing functions, it becomes nearly impossible for accounting systems to manage the various scenarios that may trigger fees. Without constant monitoring, some fees may be unnecessarily applied or billed in incorrect amounts. Typically, invalid fees are applied to transferees who are on long-term assignments and require ongoing services.

Domestic Relocation Tax Compliance

A few years ago we discovered something unusual while conducting an audit. The company had numerous relocations, yet none of their mobility expenses included airfare. It turns out the transferees were using corporate credit cards to book flights, and the charges were being lumped into the category of "travel expenses." There was no process in place to audit the charges to the relocation policy, nor to designate them as employee income for tax purposes.

The oversight was discovered after the tax year ended, and to rectify the situation, the employer had to painstakingly review all mobility-related expenses and issue a Corrected Wage and Tax Statement (W-2c) for every transferee. The time and cost implications alone were significant; the frustration felt among transferees was impactful.

This example is not unusual, because many companies use the same processes and platforms to manage relocation expenses and business expenses. The transferee is then solely responsible for identifying the expenses as income on his or her tax returns—and some never do, because they aren't aware of the tax implications.

Tax reform adds another layer of complexity, as the tax rules have changed at the federal level and for all but the nine states that do not have an income tax on earned income. For 34 of the remaining 41 states (plus the District of Columbia) and on federal tax returns, moving expenses can no longer be excluded from income, except for military moves, which increases an employee's tax liability. A relocation expense expert can help companies adjust their practices to mitigate the liabilities and educate transferees to avoid surprises.

BE IN THE KNOW

When reviewing compliance, don't limit yourself to specific segments of your mobility operations. Expand your review to include policy, contract, and domestic relocation tax compliance. The best insights surface when the audit is conducted by a knowledgeable, objective party who does not hesitate to root for answers. ***M***

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