



UNDERSTANDING THE DIFFERENCES

By Carole Johnson

Canadian and U.S. relocation policies hold a number of major differences in benefits and practices that need to be recognized

Companies often use the same relocation policy for both American and Canadian transferring employees. Yet despite our countries' similarities, there are several important differences between U.S. and Canadian relocation benefits and practices. If left unrecognized, they can result in substantially increased relocation costs.

Cross border moves have many of the same provisions found when moving employees within Canada or the U.S. However, cross border programs should incorporate the applicable international provisions as well as those of the appropriate local country ones.

Even though two individuals may work for the same company and speak the same language, there are bound to be cultural differences between the two countries' relocation practices. Relocation policies must reflect the culture relevant to each country in the relocation policy. Individuals developing a new policy will need to rely on local human resource departments to provide assistance on procedures and processes differences. For instance, the same company may be more paternal and more flexible in Canada than in the U.S., or vice versa.

Tax issues also play a critical role in program benefits. In Canada, if guidelines of the Canada Revenue Agency (CRA) are met, expense reimbursements are generally not considered taxable income if it can be shown that reimbursements are directly related to relocation expenses incurred. Some financial assistance for the new location purchase, portions of the loss on sale coverage and various lump-sum payments/bonuses, spouse/partner assistance and new location appraisals and/or inspections are considered taxable to the relocating employee.

In the U.S., however, if Internal Revenue Service (IRS) guidelines are met, only certain items can be excluded from income that relate to the physical move to the destination area, such as the household goods shipment, 30 days of storage and most in-transit expenses. Tax assistance is a critical component of a U.S. policy. As well, there is no goods and services tax in the U.S.

Relocation benefits

In general, the relocation benefits in the U.S. and Canada are very similar. However the tax ramification of expenses creates some benefits to be administered differently.

It is common in U.S. policies to provide one month's salary to cover items not included in the policy. Allowances are often capped at \$5,000 to \$8,000 (USD), depending on the employee's professional level. Tax assistance may be provided if the allowance is a small flat dollar amount or if the policy does not include many of the standard benefits.

Unlike Canadian employees U.S. employees cannot deduct specific miscellaneous expenses connected with the move such as the cost of changing an address on legal documents, replacing driving licenses and arranging utilities. When it comes to tax assistance, U.S. companies commonly provide tax assistance on all relocation reimbursements with the exception of the miscellaneous allowance, home sale incentives and deductible/excludable expenses.

Canadian policies, on the other hand, most often provide for the reimbursement of actual expenses, up to a maximum amount in certain categories, rather than utilizing lump-sum programs, which are popular in the U.S. These U.S. lump-sum payments typically include expenses for temporary living and home finding. Some companies also include the miscellaneous allowance and the

final move trip. The lump-sum payment is typically tax assisted.

Renter benefits are more generous in Canada -- most Canadian companies offer up to three months' lease-breaking expenses while the U.S. companies more commonly provide for two months.

In terms of homeowner benefits, the type of home sale program is a critical component when moving individuals within the U.S. American companies typically utilize the appraised/amended 11-step process to cover home-sale closing costs to avoid incurring taxable income to the employee. It is generally not necessary for most moves within Canada to apply this type of homesale program.

The U.S. appraisal process is basically the same. Disclosure of property issues is critical. Financial incentives paid to employees to market and sell their homes are more common in U.S. programs. Some companies have been reintroducing the Equity Protection provision back into the program.

U.S. companies commonly require employees to adhere to specific marketing guidelines to avoid taking homes into inventory. This includes the use of an approved network agent, list price restrictions, mandatory marketing time and acceptance of buyers' offers below the guaranteed offer price.

More differences

Another difference is that U.S. mortgage companies generally do not allow a loan to be transferred to another property. Pre-payment penalties apply primarily to subprime mortgages, so companies typically do not cover this expense.

There are hundreds of lending institutions in the U.S., and each may offer several different mortgage products. Fees vary between lenders, and mortgage interest is deductible on federal tax returns. Most companies reimburse reasonable and customary home-

purchase closing costs, plus one mortgage point to previous homeowners only. Expenses are most often offered for up to one year.

As well, companies often establish a relationship with one to three national lenders to provide the direct bill feature of covering closing costs. When it comes to mortgage interest differentials, companies have for the most part eliminated this provision over the past few years.

Mortgage-subsidy programs for employees moving to higher-cost areas are popular in the U.S. Most cost-of-living assistance is provided over a three-year period in the form of a mortgage subsidy with payments that decline over a three-year period (100 percent, 66 percent, 33 percent). When calculating the high-cost allowance, companies often include all expenses. There may be cases where the housing is more costly but other expenses — state taxes, utilities, food, and so on — may be less, balancing the difference. When a COLA is provided, many include a threshold of three to five percent before the employee is eligible for assistance.

It is true that when it comes to U.S. and Canadian relocation policies and benefits, the variations found in some of the provisions may be managed through the use of an addendum to the current policy. However, employees feel more valued if their benefits are reflected in their own culture and language and represent their country's practices and customs. ❄



Carole Johnson is director of policy consulting at Prudential (?). As a native of Canada, she has a special interest in Canadian relocation practices, supporting the Prudential Relocation Canadian Region.

Please note: This article is not intended to provide thorough information or counsel on the tax laws of Canadian and U.S. relocation expenses. The information provided is intended for use as a guide only and not as an interpretation of the tax laws.

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