By now, most clients are already well aware that the new tax bill has been signed. It contains elements that have a major impact on relocation.

The most impactful change is the loss of the Moving Expense deduction. Code section 217 will no longer create a tax payer deduction for the Qualified Moving Expenses of HHG costs and Final Move expenses.

Therefore, beginning in 2018, these formerly non-taxable employee reimbursements and payments to third party vendors will become taxable income to the employee. Going forward these expenses should be treated just like other taxable relocation expenses – reported as earnings to the employees, subject to income and payroll taxes, and reported on their annual W-2 as wages. Keep in mind that most van lines usually take 30 days from delivery to prepare invoices.

Those employees who have completed their Final Move and not yet sought reimbursement should be aware that submission for these expenses after January 1, 2018 means the payment will most likely need to be treated as taxable benefits. We suggest you discuss this with your tax professional.

There is some good news with the tax bill change. The supplemental rate has decreased which will provide some relief for companies who utilize this rate in their tax assistance policies.

Notice 1036 updates income-tax withholding tables that reflect the changes in tax reform made by the Act, and employers are now free to use them. The new tables reflect the increase in standard deduction, repeal of personal exemptions and changes in the tax rates, in an effort to allow many employees to keep existing W-4 withholding forms in place with their employer without needing to revise them. The IRS says that the revisions are also aimed and avoiding over-and under-withholding of taxes as much as possible.

When employees will note the difference in their paychecks depends how quickly company payroll departments can update their payroll system tax tables.

Also clarified in this publication is the Supplemental Withholding Rate. The Supplemental Rate is 22% for wages at $1 million or less. Any supplemental wages in excess of $1 million will require withholding to be at the highest current income tax rate of 37%.
Elimination of the tax protection of a household goods move will impact clients as well as their transferring employees. Clients may need to consider grossing up this benefit but will more than make up for the increase in cost by the other proposed corporate tax savings they will realize. Coordination of a relocation adds the most value aside from tax savings; employees coordinating their own move reduces their productivity and engagement in their new role, whereas engaged employees outperform others by up to 202%.

The Van Line Industry\(^1\) is experiencing major changes due to regulations, market factors, and technology:

**Electronic Logging Device (ELD)** - Starting on December 18, 2017, all drivers with applicable tractors must install and operate ELDs. This replaces the outdated and cumbersome log-book that drivers have been using for decades.

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1. gmsmobility.com
**ELD Benefits**

- Limits the hours a driver can be behind the wheel, which should reduce the number of Tractor Trailer accidents.
- The device does all of the work and drivers no longer need to keep a log.
- The Federal Motor Carrier Safety Administration (FMCSA) will be able to track and report on driver trends and statistics with greater accuracy.

**ELD Disadvantages**

- Drivers are not allowed to drive/work for more than 11 hours in a 24 hour period. There is also mandatory rest time per week. These new restrictions will lengthen the time it takes for the driver to make it to destination, which may increase other costs such as per diem’s, corporate housing, and rental cars.
- ELDs start tracking with the pre-trip inspection, which had not typically been included in log books. This will reduce the length of time a driver will be on the road.
- When the ELD notifies the driver that they are done for the day, they must stop immediately or be subject to fines from not just FMCSA, but also their own van lines.
- Routes with heavy motor vehicle traffic will be greatly impacted because ELDs measure total time on the road whether the driver is moving or at a stand-still on the freeway. Traffic jams will cause drivers to time out faster.

Average truck speeds have been trending downwards on many metro area interstates. The top congested freight-significant locations experienced even greater speed reductions. Several areas in Houston account for four of the top 10 most congested locations.

**Did You Know?**

Even prior to the July 1st HOS changes, qualified drivers were scarce with an estimate shortage of 20,000 to 25,000 for-hire truckload drivers.

Source: UniGroup
Driver and Labor Shortage - Over 40% of HHG van operators (drivers) are over 50 years old, and are aging out of the business at a very high rate due to the physical demands of the job. The industry has been facing this problem for the past 10 years, and continues to be challenged in attracting more talent. According to the American Transportation Research Institute (ATRI), only 4.4% of drivers are in the 20-24 year age range.

Small Shipment Program - To combat driver and labor shortages, the HHG industry is experimenting with new methods. A promising solution is the Small Shipment Program.

Small Shipment Programs are ideal for shipments under 4,000 pounds and moving over 1,000 miles. Instead of being loaded into a traditional van line, the shipment is loaded into a lift van (or similar-sized container). Packing, loading, and unloading services are all performed by professional moving crews. Once the shipment is loaded, it is taken to the origin warehouse, then loaded onto a freight carrier and transported to a destination agent. Because the shipment is not on a traditional trailer, it does not have to wait for the driver to “fill up” the trailer. The shipment is sent on a freight carrier directly destined for the transferee’s new home city, expediting transit time.

Although Small Shipment Programs might cost a bit more than traditional moves, they often save money for clients in other areas such as corporate housing and per diems.

Real Estate Market Trends

<table>
<thead>
<tr>
<th>Housing Indicator</th>
<th>2018 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home price appreciation</td>
<td>3.2% increase</td>
</tr>
<tr>
<td>Mortgage rate</td>
<td>4.6% average; rising to 5.0%/30 year fixed</td>
</tr>
<tr>
<td>Existing home sales</td>
<td>2.5% growth; low inventory trend to reverse</td>
</tr>
<tr>
<td>Housing starts</td>
<td>3% growth; 7% growth in single-family home starts</td>
</tr>
<tr>
<td>New home sales</td>
<td>7% increase</td>
</tr>
<tr>
<td>Homeownership rate</td>
<td>Stabilize at 63.9%</td>
</tr>
</tbody>
</table>

In general, incomes continue to lag behind home sale prices, thereby reducing home affordability. Rental costs are rising dramatically, preventing first time home buyers from being able to save for a down payment on a home. Young adults continue to live with parents in many areas due to the high cost of both rentals and home purchases. Additionally, high student loan debt continues to have a negative impact on first time home buyers, reducing their ability to save for a home purchase.
**Inventory** - Inventory is expected to start increasing by the fall of 2018, the first increase since 2015, with most of the increase in the mid to upper-tier price points (includes homes priced above $350,000). Recovery in the starter home market will linger since inventory levels are significantly depleted by first-time buyers.

**Price Appreciation** - Home prices will moderate in 2018, with a forecast of 3.2% growth compared to the average 5.5% in 2017. Entry-level homes will likely continue to see price gains due to a large potential buyer pool and a more limited number of homes available for sale in this price range.

**Millennials** - Millennials may reach 43% of home buyers taking out a mortgage in 2018. The 2018 housing market will continue to present challenges for millennials as student loan debt continues to rise, but with the overall strong economy and their own career development, their incomes are starting to grow, helping them take on bigger mortgages. Younger millennials who are interested in short, quick, and fast results, may continue to focus on starter homes, while older millennials may search for larger homes as they move into family life.

However, an influx of other buyers who are currently renting but prefer homeownership may increase market demand. These buyers are now seven years beyond their financial difficulties and bankruptcies related to the 2007-2009 recession and mortgage crisis, and their return to home buying may lead to higher home prices and multiple offers in some markets.

**Tax Reform** - Tax reform could reduce 2018 sales and price forecasts. Provisions that may come to pass in the tax reform bills that are finally adopted are likely to decrease incentives for mobility and reduce tax benefits for home ownership. Some taxpayers such as renters are likely to see tax cuts. More disposable income for buyers is positive for housing, but the loss of tax benefits for owners could reduce sales and impact prices negatively over time especially in markets with higher prices and incomes.
Rental Markets - The rise of the short-term rental market has created a boom in opportunity for large property owners as well as the single family unit owner. Priorities range from renting a room occasionally for extra cash to renting entire vacation homes at three to five times the local and regional market price since you now can access a global community.

Rental rates have been increasing across urban markets for the past several years. Tiny apartments and mobile living will be a solution to increasing housing density in overpopulated areas. Micro-units, some as small as 200 square feet, are well-designed spaces able to maximize every square inch available. Rent increases of just over 1.7% on average are expected in 2018, with some markets experiencing larger increases.

Markets with the Highest Projected Rental Increases for 2018

1. Seattle, WA: 7.2 %
2. Portland, OR: 6.0 %
3. Denver, CO: 5.9 %
4. Cincinnati, OH: 5.2 %
5. San Francisco, CA: 4.9 %
6. Los Angeles, CA: 4.8 %
7. Sacramento, CA: 4.7 %
8. San Diego, CA: 4.7 %
9. Phoenix, AZ: 4.6 %
10. San Jose, CA: 4.5%

Immigration Policy Trends

Overview of Proposed Policy Changes

Executive Orders

1. Travel Ban - President Trump’s Executive Order “Protecting the Nation from Foreign Terrorist Entry into the United States” blocks entry of some citizens from Iraq, Syria, Iran, Sudan, Libya, Somalia, Chad, North Korea, Venezuela, and Yemen indefinitely. It is important to seek individual guidance prior to travel to any of these countries. The order also requires the United States Citizenship and Immigration Services (USCIS) to conduct interviews for certain immigration benefit applicants whose benefit, if granted, would allow them to permanently reside in the United States. Effective October 1, USCIS began to phase-in interviews for the following:
   • Adjustment of status applications based on employment (Form I-485, Application to Register Permanent Residence or Adjust Status)

Previously, applicants in this category did not require an in-person interview with USCIS officers in order for their application for permanent residency to be adjudicated. Beyond this category, USCIS may be planning an incremental expansion of interviews to other benefit types.
2. **Buy American and Hire American Executive Order** - This Executive Order directs four federal agencies to investigate fraud and abuse of work visa programs, and asked the agencies to propose administrative or legislative reforms to the H-1B program. Notably, reforms could include adjusting the wage scale for H-1B workers, and charging employers a larger fee for the H-1B petition filing.

3. **USCIS Approval Policy Update: Premium Processing** - The USCIS is conducting a closer review of visa extensions. Adjudicators will conduct independent reviews of each petition rather than deferring to the prior visa determination. Every petition will be examined and processed as if it is a completely new petition. It is important to know that the current re-implementation of premium processing entails closer scrutiny and may lead to an increase in processing time and denials.

4. **Requests for Evidence** - An unusually high number of Requests for Additional Evidence are being issued for H-1B cases. Also, unannounced visits to collect information as part of compliance review are on the rise.

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**Immigration Enforcement**

**What You Need to Know**

In the first 100 days after President Trump's inauguration, immigration arrests rose nearly 40% over the prior year.

The budget sent to Congress requests $4.6 billion for immigration law enforcement, including $300 million to hire 1,500 officers and $7.2 million to hire 40 new immigration-focused prosecutors.

**Best Practices/Be Prepared**

Be prepared for the government to keep a much closer eye on your company's operations as they relate to immigration patterns:

- Listen to legal counsel and carefully follow all instructions they provide
- Perform internal self-audits with assistance from legal counsel to ensure that all proper paperwork has been collected and maintained in accordance with the applicable regulations
- Ensure your company's documentation is up to date and reflects ongoing changes in your organization
- Create a plan of action in case a government officer arrives to your work site unannounced
- Appoint a representative who will call legal counsel in the event of an unannounced work site visit
- During a site visit, determine who will speak to the government officer, and what information should be shared with the government officer
- Working with your legal counsel, determine if other areas in your company must be addressed to comply with increased immigration enforcement
Global Immigration Challenges

The global talent pool is critical to business needs. Fifty-five percent of employers expected their company's foreign national headcount to increase in 2017. This is a significant increase from the 34 percent increase reported for 2016. Additionally, Fifty-nine percent expect their demand for work authorizations and/or business visas in areas outside of the U.S. to increase next year.

**Biggest U.S. / Inbound Challenges**

- Gathering Documents: 31%
- Fear of Missing a Deadline: 15%
- Foreign National Anxiety: 13%
- Fielding Questions: 12%
- Fielding Questions: 12%
- Attorney Responsiveness: 12%
- Other: 5%

**Biggest Global / Outbound Challenges**

- Different Regulations in Each Country
- Maintaining Accurate Records
- No Challenges
- Business Traveler vs. Work Permit
- Not Sure

Source: Envoy
Destination Services are experiencing shorter bundled service requests of 1.5 to 3 days of full service. Robust 5 to 7 days of full service programs are being reserved for VIP expatriates. Also, requests for desktop and virtual home search programs continue to increase.

Global Trends Across Services

Clients continue to provide CORE services to transferees, and those clients seeking to attract the highest quality talent are expanding their services with additional flexible benefit packages. CORE services include visa and immigration assistance, HHG move tax considerations, corporate housing, and destination services. Additional flexible benefit packages are determined on a case by case basis, with consideration for specific country nuances and requirements. Clients are also focused on providing a broad range of pre-decision services as well as other business services including outplacement and employment assistance for spouses and partners.

REFERENCES