



# Putting the spotlight on taxable commissions and rebates

Keeping service fees in the non-taxable column

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# Traditional RMC revenue models needlessly increase gross-up costs for employers

The most sweeping US tax legislation since the Tax Reform Act of 1986 was signed into law on December 22, 2017. The Tax Cuts & Jobs Act ushered in many changes to our tax code, some of which impacted the mobility industry directly. The most significant change for mobility was the elimination of the exclusion from taxable income of household goods (HHG) shipment and final move expense reimbursements or payments.

## Recognizing tax changes that affect your bottom line

The elimination of the exclusion is significant in that these expenses are now subject to income taxation and, as such, increase the tax assistance (gross-up) costs for employers. A side effect of this change is the spotlight it has put on the commission or rebate portion of HHG invoicing.

Traditionally, relocation management companies (RMCs) have earned a “commission” when booking HHG shipments with a carrier

on behalf of their clients. These commissions are paid from the carrier to the RMC as rebates after the fact, with the commission amount embedded in the gross amount of the invoice. The commission is part of the overall fee structure the client pays to the RMC for outsourcing the mobility function.

Fees paid to RMCs for services are not considered taxable income to the employee but are treated as business expenses. As a business expense, fees are not subject to gross-up, saving the employer additional tax assistance expenses. Unfortunately, with HHG expenses now taxable, the portion of the invoice which represents the fee is also now taxable, unnecessarily increasing gross-up expenses for the employer.

In the comparison table below, we can see that including the RMC commission amount in the gross HHG charge increases the overall expense to the employer due to the need to gross-up the entire amount.

### Example Pricing

	Pre-2018 Model	2018 Model	Commission as Fee Model
HHG Transportation Charges	\$10,000.00	\$10,000.00	\$9,400.00
Commission Amount	-	-	\$600.00
HHG Total Invoice Amount-Carrier	\$10,000.00	\$10,000.00	\$10,000.00
Gross-Up Rate	-	50%	50%
Gross-Up Amount Total Expense to Employer	\$0.00	\$5,000.00	\$4,700.00
Employer	\$10,000.00	\$15,000.00	\$14,700.00
Rebate to RMC	\$600.00	\$600.00	\$600.00

Properly classifying commissions as a “fee for services rendered” and splitting those fees out separately on partner invoicing saves on gross-up expense. Service fees are business expenses and not taxable income to the employee.

## Recommendations

- ① Understand the commissions earned by your RMC – Commissions are simply another way employers compensate RMCs for the work that they do. These amounts do not come out of supplier profits but are simply added on. Many taxable reimbursements have embedded commissions:
  - ❑ HHG transportation charges
  - ❑ Auto shipment
  - ❑ Third-party HHG services
  - ❑ Temporary lodging
  - ❑ Spousal counseling
- ② Work with your RMC to properly classify commissions and rebates as service fees and reduce the gross-up expense.
- ③ Consider switching from a commission-based compensation model to a purely fee-based model in your mobility program. This will save on gross-up expenses and allow greater visibility and confidence in the accuracy of amounts paid to your RMC for services.

## Conclusion

Properly classifying the commission amount as a “fee for services rendered” and separating it out on the carrier’s invoice saves the client the gross-up expense component. A service fee is a business expense and not taxable income to the employee.\*



"Relocation company service fees are universal and are not considered taxable. Rev. Rul. 2005-74, 2005-2 CB 1153, specifically includes among the costs paid by the employer a fee to the relocation management company, and holds that none of the costs are taxable. This is in keeping with years of private letter rulings to the same effect.

In numerous IRS audits of relocation programs, agents have accepted the argument that service fees should be excluded from the costs that are considered taxable to employees, even if the actual costs associated...are found to be taxable.

This treatment of fees acknowledges that the fees are paid for administration and delivery of a benefits program, not for specific taxable benefits to employees. Seeking to tax the fees would be akin to seeking taxability, for example, of fees paid to benefits administrators for maintaining a company’s 401(k) or health plans."

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