Who is RITA and what is WTA?

by Scott Sailor

You may have heard the term RITA and WTA if the Corps has paid to move you. Who is RITA and how is she related to WTA? Actually, RITA isn't a person...it's a permanent change of station (PCS) allowance. RITA stands for Relocation Income Tax Allowance, and the purpose is to reimburse eligible employees for almost all the additional tax liability an employee incurs when they PCS. Remember the term "almost" as we go through the example below. WTA stands for **W**ithholding **T**ax **A**llowance and it's best if you think of WTA as an advance payment of RITA. Some PCS payments are taxable and must be reported as earned income under Federal tax regulations. You probably already figured this one out, but generally if your income increases, your income taxes increase as well.

So which PCS payments are taxable? Taxable PCS payments include: meals enroute, all house hunting expenses, all temporary quarters subsistence expenses (TQSE), all real estate expenses, household goods storage **after** 30-days, miscellaneous expense allowance, relocation services, withholding tax allowance, and RITA. This means that if you received payment for any of the above items you will receive a separate W-2 at the end of the calendar year that includes all of your taxable PCS payments.

Who is eligible for RITA and WTA? The allowance is authorized for employees transferred in the Government's interest between permanent duty stations. Who isn't eligible? The allowance isn't payable to any new appointee, employees assigned under the Government Employees Training Act and employees returning from OCONUS assignments to separate.

How does RITA and WTA work? WTA occurs in Year 1 (the year you receive your taxable PCS settlement) and RITA generally occurs in Year 2 (the year after you received your PCS settlements). It's sort of like luggage you take to the airport. When you leave your house you call it luggage, when you check it at the airport it's called baggage. When the airport loses it, it's called garbage.

Confused? Let's try an example. An eligible employee submits a TQSE claim, which is approved in the amount of $4,000. The employee will receive payment in the amount of $3,580.92. What the heck? How did $4,000 become $3,581, especially when I was suppose to be reimbursed for taxes? Shouldn't I have received more than $4,000? Actually no, remember the word "almost" from above? Read on for the details.

Total TQSE Claim	$ 4,000.00
Plus Withholding Tax Allowance (WTA) at 36.99% (more on this later)	$ 1,479.60
Gross Taxable Settlement Due Employee	**$ 5,479.60**

The above represents the gross settlement the employee is due prior to deducting taxes. If you stayed awake at the beginning of class you will recall that all the above is taxable. The taxes that are deducted are listed below.

Less Federal Income Tax Withholding (FITW) at 27%	$ 1,479.49
Less Medicare at 1.45%	$ 79.45
Less FICA at 6.2%	$ 339.74
Total Taxes	**$ 1,898.68**
Net Settlement Paid to Employee	**$ 3,580.92**

Since the employee was eligible for RITA, the settlement was increased by $1,479.60 via the WTA, which is "almost" all the taxes the employee had to pay. The employee isn't reimbursed for increased Medicare or Social Security taxes. The employee would have received substantially less (only $2,614.00 to be exact) if they weren't eligible for RITA. Also, whether you are under the CSRS or FERS retirement system has an effect on the tax calculation. The above example uses FERS and assumes a 27% withholding rate. An employee can elect a 15% withholding rate when they file their first PCS claim, if this rate better represents their marginal tax rate.

At the end of the calendar year, the employee will receive a W-2 for their taxable PCS settlements. Using the above example, the W-2 would look like this:

Wages, Tips, other Compensation: ($4,000 TQSE plus $1,479.60 WTA)	$ 5,479.60
Federal Income Tax Withheld:	$ 1,479.49
Medicare Tax Withheld:	$ 79.45
Social Security Tax Withheld:	$ 339.74

When the above employee files their tax return at the end of the calendar year, they will include an additional $5,479.60 in earned income and report additional withholding of $1,479.49.

RITA Claim

You might be asking yourself, "If I have already been paid RITA via the WTA during the calendar year, then why do I need to submit a RITA claim after the end of the calendar year?"

The reason you need to submit a RITA claim at the end of the calendar year is because the government needs to make sure they paid you the correct WTA last year. In order to do this, the employee submits a RITA claim, which lists the employee's (include spouse if filing jointly) earned income, schedule SE income, and filing status. A RITA claim is mandatory if you received WTA payments. If you fail to file a RITA claim, you will be billed for all the WTA paid to you in the previous year.

The above example assumes a withholding rate of 27%. If the employee's correct marginal tax rate is 15%, then the government has withheld too much (i.e. you got a bigger tax refund when you filed your federal tax return). Also, since your PCS settlements included WTA payments at the 27% rate, you were paid too much WTA.

Your RITA claim is simply a reconciliation of all your previous year WTA payments. If too-much WTA was paid, then you receive a bill for the difference.

If too little WTA was paid, then you will receive an additional payment.

Some employees may be saying, "I'm actually in the 27% marginal tax rate, but why don't I just elect withholding at the 15% rate to avoid a bill when I file my RITA claim with the Corps?" While an employee can certainly do this, please keep in mind that it will likely result in insufficient withholding from your PCS settlements, which could result in owing more on your Federal income tax return.

WTA Percentages

How did you come up with a WTA percentage of 36.99% in the above example? I thought withholding is either 15% or 27%? Let's time warp back to high school and do a little algebra.

The WTA percentage is calculated by using the following formula known as the "Gross Up" method.

$$Y = \frac{X}{1-X}$$

Where Y = WTA percentage
X = Federal Withholding Tax Rate (can elect either 15% or 27%)

For example, if an employee elects withholding at the 27% rate the WTA percentage is calculated as follows:

$$Y = \frac{.27}{1 - .27}$$

$$Y = \frac{.27}{.73}$$

$$Y = .36986 \text{ or } 36.99\%$$

If an employee elected withholding at the 15% rate, the WTA percentage would be 17.65%.

The Federal Withholding Tax Rate changes from year to year. In 2003 the highest percentage used was 27%. For 2004 the highest percentage is 26%. If no election is made when filing your first PCS claim, withholding will be at the highest rate that is currently in effect (i.e. 26%).