Imagine that you are sitting in a relocation course and the instructor asks you to explain the difference between the actual direct loss of tangible personal property payment and the substitute personal property payment. Does an answer come to mind? Or, like many, have you heard about these payments but don't fully understand how they work?

Simply put, the aim of both of these payments is to allow a business owner to claim a moving payment for an item of personal property without actually moving it to a replacement location. A business, farm or nonprofit may use either of these payments when it elects to not move personal property. (To simplify things, this article will only refer to businesses.) There may be various reasons for not moving personal property. The owner may be going out of business and no longer needs it. Perhaps the item doesn't work or is outdated and the owner wants to modernize the operation.

These payments can provide an advantage to the business owner, as well as the displacing agency. The business is permitted to claim a payment for the items it does not want to move, and the Uniform Act regulations are structured so that payments cannot exceed what the agency would have spent to move the personal property. In some situations, the amount may even be less than what the moving expense would have been.

So how does the business owner decide whether to use one of these alternate payments, and which one may be more appropriate? The relocation agent should discuss these options during the personal interview to assess whether the owner should consider them, and the agent should continue to provide information as part of advisory services. The following are some issues to consider before establishing the payment type.
Replacing or Not Replacing

Will the business replace the personal property not relocated with a similar item at the replacement location? This is the key difference between the two payments. The direct loss payment is intended for items of personal property that the business does not want to move and will not replace at the new site. It is for those items no longer needed or wanted by the business. An owner can use this payment for almost any type of personal property, such as unwanted machinery and equipment (including equipment in storage or not being used), furniture, inventory that the business simply does not want to move and even damaged inventory. An owner planning to discontinue the business could also take a direct loss payment for all the personal property at the displacement site.

On the other hand, the substitute personal property payment is intended for items the owner will not move, but will promptly replace with a similar item at the replacement site. The substitute property payment can offset the cost of the newer item, which provides a real benefit to the business. This payment can also be used for all types of personal property the owner does not want to move. Unlike the direct loss payment, the item must be used as part of the business operation. As such, the owner cannot elect this payment for equipment that is in storage or not being used.

Direct Loss Payments

While both of these payments are limited to what the moving expense would have been for the item, the regulations have different provisions for estimating those expenses. In the case of a direct loss payment, the Uniform Act regulations refer to “the estimated cost of moving the item as is,” which requires some important distinctions about what can be included in the move cost estimate.
First, for a piece of equipment that is in storage or not being used by the business, the estimate cannot include the cost of reconnecting it. This is a logical exclusion since the item is not currently connected to any utilities and the estimate should reflect the “as is” condition and installation at the displacement site. Second, if the equipment is being used in the business operation, the estimated move cost should reflect the cost to install the equipment as it currently exists. It cannot include the cost of upgrades or improvements to the equipment that are required by codes that apply at a replacement location. Again, the “as is” condition cannot consider code modifications that are not in effect at the displacement site.

So let’s say the owner has a drill press that is in storage. The estimated cost to move it would only include the cost to haul it to the replacement site. If the drill press were in use, the estimate would include disconnect, hauling and reconnect expenses. However, if new codes required a safety cut-off switch installed at the replacement site, this expense would not be included.

**Substitute Personal Property Payments**

The substitute personal property payment is used when items are currently in use as part of the business operation. In this instance, the move cost would include reinstallation at the replacement site. The difference between reinstallation costs for a substitute personal property payment and the direct loss payment is that code modifications that would have been required for the substituted item can be included in the move estimate. So if the owner were substituting a drill press currently in use, the estimated move costs would include the cost to disconnect, haul it, reconnect and install the code-required safety cut-off switch.

**A Further Look**

This article is only intended to provide an overview of the differences between the direct loss and substitute personal property payments. It is certainly not a full explanation of either payment or how to calculate them. For the full Uniform Act regulations, see 49 CFR 24.301(g)(14), (g)(15), (g)(16) and Appendix A, 24.301(g)(14).

Through its licensing agreement with IRWA, O. R. Colan Associates, LLC/ ORC Training has developed an online training course that provides detailed information about these payments, along with the cost of the sale, low value/high bulk payments and related nonresidential expenses. IRWA Course 507: Specialized Nonresidential Payments is available online for those who want to learn more about computing these payments through interactive exercises, videos and case studies. For more information, visit the IRWA University online at www.irwauniversity.org.

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