The Tax Treatment of Moving Expenses

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THE TAX TREATMENT OF MOVING EXPENSES

No matter what the circumstances, moving to a new home in a new location is disruptive and stressful for all concerned. Selling a home and purchasing a new residence, as well as moving a family and all of its household goods can also be very expensive, particularly where the move is a long-distance one.

Nonetheless, just about everyone will experience such a move at some point (and sometimes at many points) during their lifetime. And, while there's little or nothing the tax system can do to mitigate the stress and disruption and general upheaval caused by moving, it can and does offer a deduction from income for many of the myriad costs

involved in pulling up stakes and moving to a new location. The rules governing the availability and mechanics of that deduction, in a variety of circumstances, are outlined below.

When are moving expenses deductible?

Although it's common to refer to the "moving expense deduction" as though the cost of all moves were tax-deductible, that's not the case. The circumstances in which moving costs can be deducted in the computation of taxable income for the year are actually quite specific: the good news is that those circumstances are such that most Canadians can qualify for the deduction at some point.

Specifically, the costs of a move become tax deductible where that move brings a taxpayer at least 40 kilometres closer to his or her new place of employment or self-employment. Put less technically, the moving expense deduction is available for taxpayers who move to take a job (or run a business) and, after the move is made, the taxpayer's new place of residence is at least 40 kilometres closer to his or her new place of work or self-employment than the former residence. For purposes of the moving deduction, "new" employment can include a job transfer, in which an employee continues to work for the same employer, albeit at a new location. Post-secondary students who move to attend school or to take summer employment may also qualify for the moving expense deduction – the rules which apply to them are summarized below.

The measurement of the 40-kilometre requirement has been the subject of some dispute in the past, but it is now settled that that measurement is to be made using the "shortest normal route available to the travelling public" – usually the distance needed to travel by road.

What moving expenses can be deducted?

As anyone who has ever moved knows, the list of expenses which must usually be incurred to make that move is a lengthy one. Fortunately, most such expenses (and even a few unexpected ones) which individuals and families must incur in the course of making that move will qualify for the moving expense deduction. That list includes the following expenses, as outlined in the Canada Revenue Agency (CRA) Guide T1-M, *Information About Moving Expenses*.

- **Transportation and storage costs—** Taxpayers can claim transportation and storage costs (such as packing, hauling, movers, in-transit storage, and insurance) for household effects, including items such as boats and trailers.

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- **Temporary living expenses**—Costs incurred for a maximum of 15 days for meals and temporary accommodation near the old and the new residence for the taxpayer and members of his or her household can be claimed.
- **The cost of cancelling a lease**—Taxpayers can claim the cost of cancelling the lease for their old residence. However, it's not possible to claim rental payments for any period prior to the cancellation of that lease, whether or not the taxpayer occupied the residence during this period.
- **Incidental costs related to the move**—Taxpayers can claim the cost of changing their address on legal documents, replacing driver's licences and non-commercial vehicle permits (not including insurance), and the cost of utility hook-ups and disconnections.
- **Costs to maintain the old residence when vacant**—Taxpayers can claim up to $5,000 in costs for interest, property taxes, insurance premiums, and the cost of heating and utilities expenses paid to maintain their old residence when it was vacant after they moved, and during a period when reasonable efforts were being made to sell that residence. The costs must have been incurred when the old residence was not ordinarily occupied by the taxpayer or any of his or her family members, and cannot be claimed for a time period during which the old residence was rented.

- **Costs involved in selling the old residence**—Taxpayers can claim the cost of selling their old residence, including advertising, notary or legal fees, real estate commissions, and mortgage penalties incurred when the mortgage was paid off prior to maturity.

Part of every move is the travel required to get the taxpayer and his or her family to the new location, most often by driving there. Particularly where the move is a longer-distance one, the expenses involved in doing so can add up. The general rule, however, is that "travel expenses" incurred for that purpose can be included in moving costs eligible for the moving expense deduction.

The range of costs included in "travel expenses" is actually quite broad, and encompasses vehicle expenses, meal costs, and the cost of accommodations for the taxpayer and his or her family.

When claiming travel expenses, a taxpayer can keep all receipts for such expenses incurred and claim the actual amount spent. There is, within the usual limit of "reasonableness", no limit on the dollar amount of such travel expenses which may be claimed. For taxpayers who don't want the headache of remembering to obtain and keep dozens of receipts for gasoline, hotel costs, and meal expenses, there is an alternative. Such taxpayers can use the simplified method, in which a flat rate for vehicle costs and meal expenses is claimed, based on the number of kilometers driven and the number of days during which such meal expenses are incurred.

The flat rate for meal expenses is $17 per meal per person, to a maximum of $51 per day per person and is the same regardless of the taxpayer's province of residence. The available per-kilometre flat rate for vehicle expenses depends in all cases on the province in which the move begins, as set out below:

Table of Per-Kilometre Rates

Province or Territory	*Per-Kilometre Rate*
Alberta	44.5
British Columbia	48.5
Manitoba	47.0
New Brunswick	49.0
Newfoundland & Labrador	52.0
Northwest Territories	61.5
Nova Scotia	49.5
Nunavut	61.0
Ontario	55.0
Prince Edward Island	48.5
Quebec	50.5
Saskatchewan	46.5
Yukon	60.5

The flat-rate figures for both meal and vehicle costs are the most recent such figures released by the CRA, and apply to the 2015 taxation year. The Agency releases new figures for each succeeding taxation year, usually during the spring tax-filing season following that year.

While use of the simplified method removes the need to keep detailed travel records and receipts for meal costs incurred, taxpayers should note that the CRA might still ask them to provide some documentation. For instance, where the flat per-kilometre rate is claimed for vehicle expenses, the taxpayer will still need to keep track of the number of kilometers driven during the year related to the move.

What's not deductible as a moving expense?

The list of expenses which can be claimed for purposes of the moving expense deduction is lengthy and, it may seem, comprehensive. There are, however, some moving-related expenses which can't be claimed, and the distinction between what is and what is not deductible isn't always intuitive. However, the CRA will not allow claims made for any of the following moving-related expenses:

- expenses for work done to make the taxpayer's old residence more saleable;
- any loss from the sale of the former home;
- travel expenses for house-hunting trips before the move;
- the value of items movers refused to take, such as plants, frozen food, ammunition, paint, and cleaning products;
- travel expenses for job-hunting in another city;
- expenses to clean or repair a rented residence to meet the landlord's standards;
- expenses to replace personal-use items such as toolsheds, firewood, drapes, and carpets;
- mail-forwarding costs (such as with Canada Post);
- costs of transformers or adaptors for household appliances;
- costs incurred in the sale of the old residence if the taxpayer delayed selling for investment purposes or until the real estate market improved; and
- mortgage default insurance.

What's not deductible as a moving expense?

Once a move has been planned and carried out, and the bills for associated moving costs are received, the question of how and when such costs can be deducted comes up. The general rule is that eligible moving costs incurred in the course of an eligible move can, once paid, be deducted from income earned (whether from employment or self-employment) at the new location during the same year, and any claimable moving expense deduction reduces such income on a dollar for dollar basis. In other words, where a claim is made for eligible moving costs, taxable income is reduced by that amount, meaning a reduction in tax payable for the year.

Of course, moving is expensive and it is possible, especially where a move takes place late in the calendar (and tax) year, that deductible moving expenses will exceed the amount of income earned at the new location during that year. In such cases, the taxpayer can carry the excess amount not claimed and deduct it from income from the same source in the following year.

Moving expenses of post-secondary students

Post-secondary students move — a lot. Most such students move, at a minimum, twice a year — once to the student residence, apartment, or house near their university or college, and usually back to the family home at the end of the academic year. In some instances, as is the case for co-op students, moves can be even more frequent — as much as every four months for at least four years.

Whether they attend university or college, as a regular student or one enrolled in a co-op program, the rules governing the deduction of moving expenses by students are the same, and very similar to those governing taxpayers who are already in the workforce. For instance, eligible students seeking to claim a deduction for moving expenses are bound by the same 40-kilometre requirement as other taxpayers. In other words, any move made by a student must bring that student at least 40 kilometres closer to their educational institution or place of employment or self-employment in order for the eligible costs of that move to be deductible. There are, however, some differences.

First, only full-time students are eligible to claim a moving expense deduction, and for this purpose, full-time is defined as taking at least 60% of the usual course load for the program in which the student is enrolled.

Second, where students are moving to attend a post-secondary institution, eligible costs incurred for that move can be deducted only from income received from scholarships, fellowships, bursaries, study grants, and artists' project grants or awards, and only where such income is required to be included in income for tax purposes.

Where students are moving to take a summer job or to run a summer business, moving costs incurred to move to the new work location will be eligible under the general rules – that is, such moves must meet the 40-kilometre requirement and, where that requirement is met, eligible costs incurred can be deducted only from income earned at the new work location.

It is clear that the restriction which allows students moving to attend school to deduct such costs only from taxable scholarship and similar income can result in those moving costs exceeding the amount of such income received in that year. Where that happens, a student can carry forward the unused part of those moving expenses and deduct them in a future year, but only from taxable scholarship and related income received in that future year. The corollary, however, is not true – it is never possible to carry back moving expenses incurred and claim them in a prior year.

Moving expenses of post-secondary students

While many moves take place because an individual seeks out and accepts a job offer in a new city, or moves to attend post-secondary education, it's equally often the case that a move is required because of a transfer or promotion with one's current employer. Where, in the latter case, an employee bears all of the costs of the move any moving expense deduction is calculated under the usual rules outlined above. Often, however, an employer is willing to create an incentive for the employee and his family to endure the upheaval of a move by offering to pay some or all of the associated costs. Where that's the case, the employee can't claim any

costs which are paid or reimbursed by the employer and, in addition, the question of whether the payment by the employer of those costs creates a taxable benefit to the employee arises.

Here again, the CRA has formulated an administrative policy to outline what does or does not constitute a taxable benefit to the employee in such circumstances. The CRA's policy provides that the following moving expenses paid by an employer (whether directly or through reimbursement of the employee) do not create a taxable benefit to that employee.

- the cost of house-hunting trips to the new location, including child care and pet care expenses while the employee is away;
- travelling costs (including a reasonable amount spent for meals and lodging) while the employee and members of the employee's household were moving from the old residence to the new residence;
- the cost to the employee of transporting or storing household effects while moving from the old residence to the new residence;
- costs to move personal items such as automobiles, boats, or trailers;
- charges and fees to disconnect telephones, television or aerials, water, space heaters, air conditioners, gas barbecues, automatic garage doors, and water heaters;
- fees to cancel leases;
- the cost to the employee of selling the old residence (including advertising, notarial or legal fees, real estate commission, and mortgage discharge penalties);
- charges to connect and install utilities, appliances, and fixtures that existed at the old residence;
- adjustments and alterations to existing furniture and fixtures to arrange them in the new residence, including plumbing and electrical changes in the new residence;
- automobile licenses, inspections, and drivers' permit fees, if the employee owned these items at the former location;
- legal fees and land transfer tax to buy the new residence;
- the cost to revise legal documents to reflect the new address;
- reasonable temporary living expenses while waiting to occupy the new, permanent accommodation;
- long-distance telephone charges that relate to selling the old residence; and
- amounts paid or reimbursed for property taxes, heat, hydro, insurance, and grounds maintenance costs to keep up the old residence after the move, when all reasonable efforts to sell it have not been successful.

Generally speaking, any moving-related cost that is paid or reimbursed by an employer and which does not appear on the above list is considered a taxable benefit to the employee and must be included when reporting income for the year in which it is received.

Moving allowance

Employers who aren't prepared to pay the costs of an employee's move, or to reimburse the employee for those costs, may nonetheless be willing to make a contribution in the form of a "moving allowance". And, where that moving allowance meets the CRA's definition of "non-accountable allowance", the employee can, to an extent, receive and use that moving allowance free of tax.

For the CRA's purposes, a non-accountable moving allowance is an amount provided by an employer to an employee for which the employee does not have to submit receipts or otherwise provide details as to the use of the funds. As a matter of administrative policy, the CRA considers that any such allowance in the amount of $650 or less is not taxable to the employee, as long as that employee certifies in writing that moving expenses for at least the amount of the allowance were incurred.

Where a non-accountable moving allowance of more than $650 is provided to an employee, and the employee provides the necessary certification, then the employee will be taxed only the portion of the allowance over the $650 threshold.

Reimbursement of housing loss

An employee may sometimes be reluctant to make a job-related move because the real estate market in his or her current location is such that a loss will certainly be incurred on the sale of the current home. Where that is the situation, an employer will sometimes offer to make the employee "whole" by covering or reimbursing the employee for the amount of any such housing loss incurred. The tax rules governing that eventuality provide that, where the employee incurs and "eligible housing loss" any such reimbursement up to $15,000 is not considered to be a taxable benefit to the employee and so does not have to be included in income for the year. Where the amount of the loss reimbursement is greater than $15,000, one-half of the amount in excess of that figure is treated as a taxable benefit.

So, for example, an employee who was reimbursed by his or her employee for a eligible housing loss of $20,000 on the sale of the current residence will have a taxable benefit for the year of $2,500. The first $15,000 of such reimbursement is not taxed and the taxable benefit is one half of the remaining $5,000 of reimbursement, or $2,500.

Home relocation loan

Where a job transfer requires an employee to move to a location where real estate costs are higher, an employer will also sometimes provide a home-relocation loan to make the transition to that more expensive location somewhat easier. Such loans are usually provided interest-free or at a below-market interest rate, and the provision of such a loan is always a taxable benefit to the employee. The formula for the calculation of the taxable benefit received is based, in effect, on the interest "break" received by the taxpayer.

Where a home relocation loan has a repayment period of more than five years, a "reset" is done at each five-year mark. The balance owing at the end the five-year period is considered a new loan, and the taxable benefit involved is calculated using the prescribed interest rate in effect at that time.

For the first five years that the home relocation loan is outstanding, an employee can also claim an offsetting deduction from the taxable benefit included in his or her income. That offsetting deduction is similarly based on a calculation involving the benefit received by the taxpayer from the low or no-interest loan.

The computation of the taxable benefit arising from a housing relocation loan and of any offsetting deduction can be quite complex. Fortunately for employees who receive such a loan, it's not a computation they have to make. Rather, any taxable benefit and offsetting deduction from a home relocation loan is calculated by the employer and the amounts included on the employee's T4 slip for the year. Nonetheless, an employee whose employer is willing to provide financial assistance with the cost of an eligible move arising from a job transfer is well-advised to seek professional tax advice as to how that assistance is to be structured, in order to create the best possible tax result.