Moving expenses – what's deductible and when? (June 2010)

A number of factors converged to make the real estate market of the spring of 2010 one of the busiest in recent memory. House prices have been on the rise for some time, interest rates (and therefore mortgage rates) are expected to increase in the second half of this year, and more stringent rules on qualifying for mortgages took effect in April 2010. In addition, both Ontario and British Columbia are moving to a harmonized sales tax effective July 1, 2010, meaning that there will be increased tax payable on a number of services associated with buying or selling a home. As well, springtime is, in any year, typically the busiest season for real estate sales and consequently the time when most moves take place. Whatever the time of year and whatever the motivation behind the sale, selling one's home and moving qualifies as one of life's more stressful experiences. Nonetheless, it's an experience which most families will go through at least once. In addition to the upheaval of leaving behind a home, a school, and a neighbourhood, the financial outlay associated with moving can be considerable. While our tax system can't do anything to help with the non-financial costs of moving, it does, in some circumstances, minimize the financial hit by providing a deduction from income for moving expenses incurred.

It's important to know that not all moves will qualify for such tax relief. The tax rules provide that, where a taxpayer moves to be at least 40 kilometres closer to his or her place or work (for example, a taxpayer who moves from Toronto to take a job in Vancouver or Regina), most moving costs will be deductible from employment or business income earned at the new location. The 40 kilometre distance is measured using the shortest route normally available to the travelling public, which in most cases would mean the distance by road. And, moving to be closer to work doesn't have to mean moving to a new company: a job transfer to another city while continuing to work for the same employer will qualify, assuming the 40-kilometre criterion is met.

The list of expenses which may be deducted is fairly comprehensive, but not all moving related costs are deductible. Under the Canada Revenue Agency's (CRA's) administrative policies, as outlined in their Form T1-M, *Moving Expenses Deduction* (available on the CRA Web site at http://www.cra-arc.gc.ca/E/pbg/tf/t1-m/t1-m-09e.pdf the following are considered eligible moving expenses:

- traveling expenses, including vehicle expenses, meals and accommodation, to move the taxpayer and members of his or her family to their new residence (note that not all members of the household have to travel together or at the same time);
- transportation and storage costs (such as packing, hauling, in-transit storage, and insurance) for household effects, including items such as boats and trailers;
- costs for up to 15 days for meals and temporary accommodation near either the old or the new residence for the members of the household;
- lease cancellation charges (but not rent) on the old residence;
- legal fees incurred for the purchase of the new residence, together with any taxes paid for the transfer or registration of title to the new residence (but excluding GST or HST and property taxes;
- the cost of selling the old residence, including advertising, notarial or legal fees, real estate commissions, and any mortgage penalties paid when a mortgage is paid off before maturity; and
- the cost of changing an address on legal documents, replacing driving licences and non-commercial vehicle permits (except insurance), and utility hook-ups and disconnections.

It sometimes happens that a move to the new home has to take place before the old residence is sold. In such circumstances, the taxpayer is entitled to deduct up to $5,000 in costs incurred for the maintenance of that residence while it is vacant and efforts are being made to sell it. Specifically, costs including interest, property taxes, insurance premiums, and heat and utilities expenses paid in relation to that residence may be deducted.

It may seem from the foregoing that virtually all moving-related costs will be deductible; however, there are some costs for which the CRA will not permit a deduction to be claimed, as follows:

- expenses for work done to make the old residence more saleable (e.g., home staging costs, furniture or art rental charges, cleaning costs etc.);
- any loss incurred on the sale of the old residence;
- expenses for job or house-hunting trips to another city (for example, costs to travel to job interviews or meet with real estate agents);
- expenses incurred to clean or repair a rental residence to meet the landlord's standards;
- costs to replace such personal-use items as drapery and carpets; and
- mail-forwarding costs.

To claim a deduction for any eligible costs incurred, supporting receipts must be obtained. While the receipts do not have to be filed with the return on which the related deduction is claimed, they must be kept in case the CRA wants to review them.

Anyone who has ever moved knows that there are an endless number of details to be dealt with. In some cases, the administrative burden of claiming moving-related expenses can be minimized by choosing to claim a standardized amount for certain types of expenses. Specifically, the CRA allows taxpayers to claim a fixed amount, without the need for detailed receipts, for travel and meal expenses related to a move. Using that standardized, or flat rate method, taxpayers may claim up to $17 per meal, to a maximum of $51 per day, for each person in the household. Similarly, the taxpayer can claim a set per-kilometre amount for kilometres driven in connection with the move. The per-kilometre amount ranges from 47.5 cents for Saskatchewan to 61.0 cents for the Yukon Territory. In all cases, it is the province or territory in which the travel begins which determines the applicable rate. These rates were in effect for the 2009 taxation year; the CRA will be posting the rates for 2010 on its Web site early in 2011, in time for the tax filing season.

Any moving-related expenses can be deducted from employment or self-employment income (but not investment income or employment insurance benefits) earned at the new location. Where a move takes place late in the year, it's possible, especially where the move is a long distance one, that such expenses will exceed income earned at the new location during the calendar year. In such cases, it's possible to carry forward the excess expenses, and deduct them from income earned in subsequent years.

Generally, these rules apply to moves made from one location to another within Canada. While it's possible to deduct expenses arising from moves from Canada to another country, from another country to Canada, or between two locations outside of Canada, the rules governing deductions in such situations are far more restrictive.

The rules governing the deduction of moving expenses are outlined in some detail on the CRA's T1-M form, and on the CRA Web site at http://www.cra-arc.gc.ca/tx/ndvdls/tpcs/ncm-tx/rtrn/cmpltng/ddctns/lns206-236/219/menu-eng.html.

Any questions not answered by this article or on the Web site can be directed to the CRA's individual inquiries line at 1-800-959-8281.