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TAXSTRATEGY

Moving House?

The upside

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A friend of mine was complaining about the headaches associated with an upcoming move to a new home. Not only was there the pain of packing up and then unpacking (complete with kids and pets), there was the complaint from the financial perspective: the actual costs of moving, such as the moving truck, movers, time away from work, and if you are in Ontario, the land transfer tax (which is more than doubled if you live in the City of Toronto). Of course, the tax nerd in me piped up with a silver lining: Did she know that there are actual tax deductions available when you move out of town for work or school? Of course, neither was relevant for her, but that did not stop me from giving her an

impromptu tax lesson, much to her chagrin. So I figured that perhaps I would focus my energy on a more receptive audience. So for all my readers out there, read on in just in case you happen to find yourself moving and meeting some of the below criteria. And, thank you in advance for letting me embrace my tax nerd side.

When to Deduct

Generally, a deduction for moving expenses is potentially available in most situations where you move to a new work location (even if you stay with the same employer) or if you move to attend a post-secondary institution on a full-time basis. If you are moving for work or business, the deductions can only be used to offset the income earned for the year from employment at the new work location, or from carrying on business at the new work location.

There are similar limitations on the deductions for students. Although deductions may be claimed if the student moves to take a job (this includes a summer job) such that it qualifies as a move to a new work location, if a student is claiming the deductions, they can only be taken against taxable scholarships and research grants expenses as a result of a move to attend a post-secondary school full-time.

The move must be considered an “eligible relocation” which means as follows:

a. The move is to enable you to carry on a business or be employed in the new work location, or, in the case of a student, relates to full-time attendance at the post-secondary level;

b. You ordinarily resided in your old home and will ordinarily reside in your new home;

c. Generally, both the old home and new home are in Canada (unless you are absent from Canada, but still a tax resident); and

d. The move must bring you at least 40 kilometres closer to your new place of work or school. Historically, the rule was that the distance between your old home and your new home was to be measured “as the crow flies”; but a tax case (Gianakopoulos) came out years back indicating that the correct approach would be to use the shortest normal route open to the public (including ferries and

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rail lines, where applicable).

Deductible Expenses

If you meet the above rules, then you can deduct certain expenses incurred as part of your move. CRA Form T1-M will need to be filed with your tax return when claiming the expenses. This form, as well as the relevant section of the Income Tax Act, itemizes a number of expenses that will be deductible:

- Travel costs (including reasonable amounts for meals and lodging) in the course of moving you and members of your household;
- The cost of transporting or storing household effects in the course of moving — including items such as boats and trailers;
- The cost of meals and lodging near the old or new home for you and members of your household, for a period of up to 15 days;
- The cost of cancelling a lease for the old house (if you rent);
- Selling costs in respect of the sale of the old house (if you own), including real estate commissions (this would also include, for example, mortgage penalties for early discharge, legal fees); and
- Where the old home is being sold because of the move, the cost of legal fees relating to the purchase of a new home, as well as any tax, fee or duty (other than any goods and services tax or value-added tax); this includes transfer or title registration taxes (as I noted above, this is all the more important if you happen to be buying in Toronto since you will have land

transfer tax at both the provincial AND municipal level).

• Certain costs of maintaining a vacant former home (including mortgage interest, property taxes, insurance premiums and the cost of utilities), to a limit of \$5,000. Note: there must be reasonable efforts made to sell the old home. What this means, well we're not sure. But there is a 2007 case (Lowe) where the court found that reasonable efforts to sell were not made when the owner told only his family and friends that the property was for sale and also said that he did not want to sell the house until his probationary period at a new job had expired. However, aside from the result, the decision offers no insight as to how "reasonable efforts" should be interpreted.

• Costs of revising legal documents to reflect the address of your new residence, replacing drivers' licenses and non-commercial vehicle permits (excluding any cost for vehicle insurance) and connecting or disconnecting utilities.

The Tax Act does state that costs relating to the purchase of a new home (other than the legal fees noted above) are not eligible.

The above list has generally been viewed as all that you could claim as part of the moving expenses. However, a case that came out in 2010 (Van Zant) seemed to suggest otherwise. In fact, the Court in this case stated that since the definition of moving expenses in the Income Tax Act uses the word "includes" when listing the above items, this list is not meant to be exhaustive. In the case at hand, the taxpayer attempted to deduct a long list of expenses, including,

among other things, costs of cartons and tapes used for packing, costs of phone cards, costs of a table fan and lights for her motor home which she used as temporary living space, and my favourite, the cost of alcohol (although the case does not expand on what basis alcohol was claimed; as someone who has experienced the pains of moving, a bottle of wine or two would definitely have helped ease the pains of packing).

Although the judge did not allow all of the expenses claimed by the taxpayer, the case is of interest for the very fact that moving expenses may not necessarily be limited to the list noted above (and per the relevant tax sections in the Tax Act).

How to Claim

With respect to moving expenses, you can choose to claim meal and vehicle expenses using one of two methods. First, you can claim these expenses in accordance with actual receipts and records of the expenses incurred. Alternatively, meal and/or vehicle expenses can be calculated using a simplified method. In the case of meals, a flat rate per meal is claimed. For vehicle expenses, a record must be kept of the number of kilometres driven in the course of moving. The amount that may be claimed for vehicle expenses is determined by multiplying the number of kilometres travelled in the course of moving by a flat per kilometre rate. Information on the current rate per meal and per kilometre is available from the CRA's "Tax Information Phone Service" (T.I.P.S.) at 1-800-267-6999, or on their web page at: www.cra.gc.ca/tips.

Note – you should calculate your expenses using both methods before filing. The differences between the two methods can be dramatic. If you file using actual receipts, CanRev usually will not permit an amendment to the tax return.

Of course, no deduction would be complete without certain restrictions:

☛ As noted above, in the

year of relocation, expenses can be deducted only against income made in the new location. However, undeducted moving expenses can be applied to next year's tax return against future income in the new job or business. (This would be particularly helpful if the move was late in the year.)

☛ Of course, moving expenses that are paid for or reimbursed by the employer are

not deductible (and additionally, such reimbursements are not included in the income of the employee). However, an employee may, if desired, include partial reimbursements in income, and then deduct moving expenses that are eligible for deductions. This will be beneficial if eligible moving expenses exceed the amounts paid by the employer. ☐