Moving expenses—what's deductible and when? (June 2011)

While interest rates remain low, an increase in those rates and, therefore, in the cost of carrying a mortgage is clearly on the horizon. In addition, changes made by the federal government to mortgage lending rules for Canada Mortgage and Housing Corporation (CMHC) insured mortgages which took effect earlier this year had the effect of making it more difficult for first-time buyers, especially, to get into the real estate market. One of those changes reduced the maximum allowable amortization period for mortgages from 35 years to 30 years, meaning an increase in the required monthly payment, even if interest rates are unchanged. That change, combined with the anticipated increase in mortgage interest rates, made for a busy late winter and early spring real estate season, as first time home buyers took advantage of the opportunity to get into the market in advance of the changes. Even without these changes, spring and summer are, in any year, typically the busiest season for real estate sales and, consequently, the time when most moves take place. For any number of reasons, therefore, a lot of people will be moving this summer.

Whatever the time of year and motivation behind the purchase or sale and purchase, 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 and general stress 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 of work (for example, a taxpayer who moves from Toronto to take a job in Vancouver or Regina or Ottawa), 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. A deduction is also available where someone who is unemployed moves to start a new job, again assuming that all other required criteria are 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) administrative policies, as outlined in their Form T1-M, *Moving Expenses Deduction*, 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 to maintain the old residence while efforts were being made to sell it may be deducted. If any family members are still living at the old residence, or it is being rented, no deduction is available.

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;
- any loss incurred on the sale of the old residence;
- expenses for job-hunting 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. Those amounts were unchanged from 2009 to 2010, the latest year for which figures are available.

Similarly, the taxpayer can claim a set per-kilometre amount for kilometres driven in connection with the move. The per kilometre amount ranges from 46.0 cents forSaskatchewanto 60.5 cents for theYukon Territory. These rates were in effect for the 2010 taxation year—the CRA will be posting the rates for 2011 on its Web site early in 2012, in time for the tax-filing season. The per-kilometre rates allowed by the CRA for travel during 2010 are actually, in some cases, lower than those allowed for 2009. It is in all cases the province or territory in which the travel begins which determines the applicable rate.

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 is 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 withinCanada. While it's possible to deduct expenses arising from moves fromCanadato another country, from another country toCanada, or between two locations outside ofCanada, 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. That form was updated and reissued by the CRA late in 2010, and the current version of the form can be found on the CRA Web site at http://www.cra-arc.gc.ca/E/pbg/tf/t1-m/t1-m-10e.pdf. Additional information on the tax treatment of moving costs is available on the same 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 the form or on the Web site can be directed to the CRA's individual enquiries line at 1-800-959-8281.