PERSONAL Newsletter

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IN THIS ISSUE

Deductibility of Moving Expenses

If you move your residence to a new location, you may be eligible to deduct your moving expenses from income earned at the new location. Income earned at the new work location includes both income from employment and from carrying on business, and may include income from more than one employment or business at the new location.

The general rule is that moving expenses are deductible if:

1. You move your residence in order to earn salary, wages, or self-employment income in a new location in Canada, even if you will be working for the same employer (although in some circumstances the "in Canada" requirement may be waived—see "In Canada" Requirement below);
2. Your move results in your new residence being at least 40 kilometres closer than your former residence to your new place of work or business (via the shortest normal route open to the travelling public);
3. You ordinarily resided in the former home before the move and you ordinarily resided in the new home after the move; and
4. You cease your business or employment at the former location.

Moving expense deductions may also be claimed by individuals who were unemployed immediately before moving to a new employment or business for relocations within Canada. Students, under certain circumstances, may also claim moving expenses (see Special Rules for Students).

The deduction for moving expenses is claimed on line 21900 of the T1 return. Your claim for moving expenses is calculated on form T1-M, Moving Expenses, which should ensure that you pick up the relevant items and calculate the claim correctly. Do not file Form T1-M with your tax return, but keep it on hand together with supporting receipts or other documentation of all eligible expenses should the Canada Revenue Agency ("CRA") ask you to verify your claim. The CRA does not specify a period through which the form and receipts should be kept. Three years from the date of notice of assessment of the return on which the claim is made is a reasonable minimum; longer if the statutory reassessment period is kept open for some reason.

"In Canada" Requirement

A taxpayer who is, throughout all or part of a year, absent from Canada but resident in Canada for tax purposes is not subject to any of the "in Canada" requirements.

A move to and/or from a foreign location will qualify, and the new income location need not be in Canada. Taxpayers absent from but resident in Canada include both factual residents who may live abroad but are not considered to have severed ties with Canada, and deemed residents.

What Expenses Are Deductible?

Moving expenses are limited to reasonable amounts paid for moving yourself, members of your household, and your household effects from your old to your new residence. Travelling costs from your former to your new residence are eligible. These include meals and lodging for yourself and your family while en route. Transportation and storage costs for moving your household effects from your former house to your new residence are also eligible. These include packing, hauling, in-transit storage, and insurance. If you stayed in temporary quarters, the cost of up to 15 days temporary board and lodging near your former or your new residence is eligible.

Where you include the costs of using your personal automobile for travel related to moving, the CRA gives you two options. The traditional method of costing the use of a car is to keep full records of automobile expenditures and then prorate the costs of deductible mileage over total mileage for the year. This is always acceptable, and is required if you deduct mileage for business or employment use. However, if you do not keep such records, the CRA is prepared to accept a record of mileage associated with the move and allow you a per kilometre deduction. Similarly, the CRA is prepared to accept meal deductions at a flat rate without supporting receipts; actual "reasonable" costs may be claimed if supported by receipts.

The costs of selling a former residence, including advertising, notarial or legal fees, real estate commissions, and a mortgage penalty incurred because the mortgage was paid off before maturity, are eligible. The cost of selling your former residence will not include expenses for any work done to make the property more saleable, or a loss incurred on the sale of your former residence. The CRA will allow individuals to deduct of the costs of selling the former residence even if immediate action was not taken to sell the residence, due to specific circumstances. However, according to the CRA, "individuals must be able to explain the reasons for the delay and demonstrate that the costs were actually incurred because of the move. On the other hand, the selling costs of the old residence are not eligible if it is determined that the individual intended to keep the old residence as an investment or until its market value increased. In general, the more time that passes between the move and the sale of the old residence, the less likely it is that the selling costs were incurred because of the move."

Any costs that you have incurred for cancelling an unexpired lease on your former residence, not including any rental payments for a period during which you occupied the residence, are eligible as a moving expense. In a technical interpretation, the CRA expressed the view that rental payments required to be made under a lease at the taxpayer's former residence until the end of the lease term (but after the taxpayer's move) were not lease cancellation payments because they did not have the effect of terminating the lease. As such, they did not qualify as eligible moving expenses.

If you or your spouse or common-law partner have sold your old residence, you may also deduct the cost of any taxes other than a goods and services tax, or any other value added tax ("VAT") on transfer or registration of title to a new residence. As a result, you cannot deduct Québec sales tax, nor any harmonized sales tax imposed by certain provinces. The exclusion would also seem to pick up any of the European or other VATs imposed by many other countries.

The following expenses also qualify for deduction:

- if you and your family have moved out of your old residence (so that it is no longer "ordinarily occupied" by you or anyone else who ordinarily resided with you at the old residence immediately before the move) and you have not rented it out, and are making reasonable efforts to sell it, you may deduct expenses incurred on the old residence for the period for which those conditions are met for interest, property taxes, insurance premiums, heating, and utilities to a maximum of $5,000; and
- the cost of revising legal documents to reflect your new address, of replacing driver's licences and non-commercial vehicle permits (but no deduction is allowed for vehicle insurance costs), and of connecting or disconnecting utilities.

No deduction is allowed as a moving expense for losses incurred as the result of damage to household possessions during a move. Other ineligible expenses include:

- expenses for work done to make your old home more saleable;
- any loss from the sale of your home;
- travel expenses for house-hunting trips;
- travel expenses for job hunting in another city;
- the value of items movers refused to take;
- expenses to clean or repair a rented home;
- expenses to replace personal-use items such as tool sheds, firewood, drapes, and carpets;
- mail-forwarding costs (such as with Canada Post);

- costs of transformers or adaptors for household appliances; and
- mortgage default insurance.

When Are Moving Expenses Deductible?

Moving expenses paid must first be deducted in the year of the move from income at the new location and may be deducted only to the extent of income earned at the new location. However, if your moving expenses were greater than income earned at the new location in that year, the difference may be carried forward and deducted from such income in the following years.

According to the information sheet that forms part of T1-M, the form on which moving expenses are claimed, these are the necessary steps:

> *If your moving expenses were paid in a year after the year of your move, you can claim them on your return for the year you paid them against employment or self-employment income earned at the new work location.... This may apply if your old home did not sell until after the year of your move. If this is the case, the CRA may ask you to submit this form with the receipts and explain the delay in selling your home. However, you cannot carry back moving expenses to a prior year.... If you are employed or self-employed and your net moving expenses (line 26) paid in the year of the move are more than your net eligible income (line 28) earned at the new work location in that same year, you can carry forward and deduct the unused part of those expenses from the employment or self-employment income you earn at the new work location and report on your return in a future year.*

You are not required to move in the year you commence work at a new location. Moving expenses may be claimed provided you commence your new employment (or education) within a reasonable period of time either before or after the move, and there should be an explanation in cases of inordinate delay.

Additional Rules Including Payments and Reimbursements by Employer

TNo moving expense that is paid by your employer may be claimed as a deduction.

Where an employer gives an employee a non-accountable allowance for moving or pays or reimburses an employee for only part of the moving expenses, the employee may deduct all eligible moving expenses but must include the employer's payments in income, whether or not they are paid to the employee directly. Alternatively, if an individual does not include the amount of a partial reimbursement or allowance, it is the CRA's practice to allow the individual to deduct the amount of the expenses in excess of the allowances or reimbursements.

Where an employer pays or reimburses an employee for reasonable moving expenses which are not eligible for the moving expense deduction, the CRA has taken the view that the reimbursement is normally not a taxable benefit. However, if the employer reimburses an employee for the loss on the sale of the employee's house incurred in the course of the move, specific rules apply. Basically, for moves that bring the employee at least 40 kilometres closer to the new work location, the first $15,000 of the reimbursement is tax-free while 1/2 of any excess is taxable. For other moves, the entire reimbursement is taxable.

Special Rules for Students

If you have been in full-time attendance at a university or other post-secondary educational institution in Canada, and you move within Canada to take a job, including summer employment or to start a business, you may claim a moving expense deduction under the same general rules as those for persons who have been earning income. In other words, the moving expenses can be deducted against such employment or business income.

However, if you move to attend full-time courses at a university or other post-secondary educational institution in Canada and not to work or carry-on business, you may deduct moving expenses only against scholarships, fellowships, research grants, and similar awards that are included in your income. Most scholarships and fellowships are now tax-exempt, meaning that the moving expense deduction for many students is limited.

Students leaving Canada to study full-time at a post-secondary educational institution abroad are also entitled to deduct moving expenses from scholarships, fellowships, research grants, and similar awards, but only to the extent that these amounts are included in income. Similar rules apply to foreign students coming into Canada to study at a post-secondary educational institution.

In all cases, moving expenses of a student may only be deducted if the move results in the student residing at least 40 kilometres closer to the educational institution.