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INCOME TAX RULES REGARDING MOVING EXPENSES

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Moving expenses are often overlooked as a tax deduction in computing income. Depending on the circumstances moving expenses which are incurred to either start a new job or business or attend a post secondary institution are tax deductible. Furthermore, one may also deduct moving expenses if one is immigrating to or emigrating from Canada.

What follows is a discussion concerning the deductibility of moving expenses as they relate to individuals who move to either commence employment at a new location or start a new business. Rules relating to the deductibility of moving expenses as far as attending a post secondary institution or moving to or from Canada are not discussed.

Work Related Moving Expenses

Where an individual has changed their residence (within Canada) and commences to carry on a business or is employed at a new location, the "eligible moving expenses" incurred in moving from the old residence to the new residence may be deducted. In order to be considered as an "eligible relocation", the new residence must be at least 40 kilometers closer to the new place of work/business than the previous residence was. The 40 kilometer distance is measured as the shortest public route available. If the difference is less than 40 kilometers, the moving expenses are not deductible.

- An employee or a self-employed taxpayer may deduct eligible moving expenses to the extent that:
- in the case of an employee, they are not paid for by the employer;
- they were not deductible as moving expenses in computing income for the preceding taxation year;
- they have not been deducted based upon any other provision of the Income Tax Act;
- they do not exceed income for the year from employment and carrying on a business at the new work location;
- any reimbursement or allowance received for such expenses has been included in computing income for the year.

Eligible moving expenses must first be deducted in the year of the move from income earned at the new work location. Any excess may be deducted from such income in the following year. Thus an individual who moves in December will not be penalized by not having income during the year of the move as they may deduct the expenses against his or her income of the following year.

If the employer is paying the moving expenses, the taxpayer may be assessed a taxable benefit, depending how the payments are structured. Generally, if the employer pays an allowance without the taxpayer accounting for the use of the funds, the Canada Revenue Agency (CRA) considers the payment to be a taxable benefit, however the employee is permitted to deduct the actual moving expenses incurred. If the employer reimburses the employee for moving expenses which have been accounted for, or pays an accountable advance, the payment is not considered a taxable benefit.

Employees who receive additional benefits from their employers as assistance in defraying financing caused by a move related to their employment, must include these benefits in income. In addition any reimbursement or compensation provided to an employee as assistance for financing the purchase of a new residence is taxable. In the course of an eligible relocation, if an employee receives an amount from the employer as compensation for a loss incurred on the sale of the employee's old residence, half of any amount exceeding \$15,000 is taxable.

Eligible Moving Expenses

To be deductible, moving expenses must have been paid by the taxpayer on account of expenses incurred in the course of moving from the old residence to the new residence and they must be reasonable under the circumstances. The Canadian Income Tax Act (the legislation) defines eligible moving expenses to include:

- traveling costs, including reasonable amounts for meals and lodging, in the course of moving the taxpayer and members of the household;

- transportation and storage costs for household effects;
- costs for up to 15 days for temporary board and lodging near either residence;
- costs of canceling a lease for the old residence;
- selling costs in respect of the sale of the old residence, including advertising, legal fees, real estate commission and mortgage prepayment or discharge fees incurred on the sale, but not including expenses for work done to make the property more saleable or any loss on the sale;
- legal fees in connection with the purchase of the new residence, as well as land transfer taxes (other than GST) or taxes on the registration of title to the new residence, if the taxpayer or spouse is selling or has sold the old residence as a result of the move;
- mortgage interest, property taxes, insurance premiums and costs associated with maintaining heat and power , to a maximum of \$5,000, payable in respect of the old residence left vacant as a result of the move;
- the costs of revising legal documents to reflect the taxpayer's new residence, replacing driver's licenses and automobile permits , and obtaining utility connections and disconnections.

Expenses other than those listed above incurred in respect of the acquisition of a new residence (including house-hunting expenses) are not deductible.

Other Issues

It is always a question of fact whether the reason for a move was to commence carrying on a business or be employed at a new location. However the legislation does indicate that eligible moving expenses can be claimed as a deduction provided the taxpayer begins the above either before or after the move. Furthermore, if an employee is transferred by the employer, or a self employed individual relocates their business, eligible moving expenses may be deducted by the taxpayer.

Generally, CRA considers the taxpayer to have changed their residence where it obvious the taxpayer, including members of his or her household, and their possessions ordinarily reside within the new residence. The taxpayer would demonstrate this, by either selling renting or advertising for sale or rent the old residence.

Please remember the Income Tax Act may be changed at any time by the federal government. The information above is accurate as of the date of writing but please review the government website or discuss your situation with your accountant to ensure the proper amount of taxes are being paid. If you do not have an accountant, we would be happy to refer you to our partners, Newport Group of Chartered Accountants, part of Bell Spagnuolo Professional Services (www.newportgrp.com).

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