

A Reprint from *Tierra Grande*

Moving expenses present excellent tax-savings opportunities. Three types of tests need to be met to obtain moving-related deductions — a “start of work” test, two distance tests and a time test. A different set of rules applies to members of the armed services and retirees.

Start of Work Test

The taxpayer must begin working in the new location within one year of the move, but it is not necessary that employment be obtained before the move. Thus, if the move occurred on Sept. 3, 2008, the taxpayer must start the new job by Sept. 3, 2009.

Certain exceptions allow the one-year period to be extended. For example, if the taxpayer delayed moving to the new location so that a child could complete the school year, the one-year period would be waived.

Distance Test No. 1

The distance from the new home to the new job location must be less than the distance from the previous home to the new job location. This rule is waived if the taxpayer spends less time or money traveling from the new home to the new job. For example, if the new home location enables the taxpayer to carpool (and carpooling was unavailable previously), the commuting costs may be less even though the distance to work has increased.

Assume a salesperson working at a small retail clothing store in Houston was spending \$75 per week driving to work. Carpooling was not an option. She finds a new sales job at a large clothing store. She moves her residence so that she may carpool to work with her new coworkers. By doing this, her weekly commuting costs are cut to only \$20. If she does not meet Distance Test No. 1, it is waived because her commuting costs were reduced.

Distance Test No. 1 is also waived if the taxpayer is required to live at a new location as a condition of employment. This could be the case for some government or private-sector security personnel.

Distance Test No. 2

A second distance test is applied to make certain the taxpayer’s new job location requires relocation. This test requires the taxpayer’s travel to the new job *without the move* to increase by at least 50 miles. Specifically, the test is met if the distance from the old residence to the new job is at least 50 miles greater than the distance from the old residence to the old job. Note that the location of the new residence is not a factor.

Time Test

The taxpayer-employee must be employed on a full-time basis at the new workplace for 39 weeks during the first 12 months following the move. For self-employed individuals, the requirement is 39

weeks during the first 12 months and for a total of 78 weeks during the first 24 months after they arrive in the general area of the new employment. Either the taxpayer or the taxpayer’s spouse can satisfy one of the two time tests, but weeks worked by one spouse cannot be added to weeks worked by the other spouse.

Taxpayers sometimes deduct a moving expense expecting to meet the time test during the next tax year(s), but then fail the time test. For example, assume a moving expense is deducted on the 2008 tax return for a move occurring on Nov. 1, 2008. However, the taxpayer is self-employed and is not employed for 78 weeks during the first 24 months after the move.

The taxpayer can either report the moving expense deduction as “other income” in the year the test was failed (2009 or 2010), or file an amended 2008 tax return.

Deductions

All moving expenses that are deductible are “above-the-line deductions,” meaning they are deductible regardless of whether the taxpayer itemizes their deductions. The cost of one trip from the old residence to the new residence per vehicle is allowed.

Actual expenses for gas and oil or a standard mileage rate must be used. For the second half of 2008, the standard mileage rate reflects the higher costs of oil and gas. The rate is 19 cents per mile through June, and 27 cents per mile through December.

The benefits of deducting moving expenses can be sizable, but the rules and calculations can be complicated. Consultation with a tax accountant or tax attorney is recommended. ♣

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THE TAKEAWAY

Deductions for moving expenses can ease the tax burden, but taxpayers must meet a “start of work” test, two distance tests and an employment time test to be eligible.



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