

Change homes, move office, earn tax break

NOT ALL MOVING COSTS QUALIFY. Even if you don't itemize your income tax deductions and claim the standard deduction, if you are one of the more than 25 million taxpayers who changed homes in 2007, you may be entitled to big tax savings for your household moving expenses as an "adjustment to gross income."

To qualify, you must also have changed your job location in 2007. It doesn't matter if you work for the same employer, changed employers, became self-employed, or started your first job.

You must meet the job-location-change rule to be eligible for moving-cost deductions. Either spouse can qualify, but part-time work does not count.

THE JOB-LOCATION-CHANGE TEST. If you changed your residence location, but you also didn't change job locations, you are not eligible to deduct household moving costs. The simple job-location-change test requires your new job site to be at least 50 miles further away from your old home than was your old job location.

To illustrate, suppose the distance from your old home to your old job location was 10 miles. Your new job must be at least 50 miles further away from your old home. That's 10 plus 50, or 60 miles, in this example from your old home to your new job location.

If you passed this first test to qualify for the moving-expense tax deduction, then you must also pass a more difficult test.

THE WORK-TIME TEST. Your second and final test to qualify for the moving-expense tax deduction requires you to stay in the vicinity of your new job site and work full time at least 39 weeks during the 52 weeks after your residence move. However, time spent searching for a new job doesn't count and you need not continue working for the same employer or at the same location.

If you are self-employed, this test requires you to work at least 78 weeks full time in the vicinity of your new qualifying job location during the 104 weeks after the household move.

The purpose of this tougher test is to prevent self-employees from deducting moving costs if, after moving, they work only a few hours each week. But this work-time test is waived for job layoffs, disability, or the taxpayer's death.

DON'T PANIC IF YOU DON'T MEET THIS TEST BY APRIL 15, 2008. Most taxpayers who meet the job-location-change test won't meet the work-time test before their tax returns are due by April 15, 2008. That's all right. Uncle Sam understands.

If you meet the 50-mile additional-job-distance test but you haven't yet met the work-time test by April 15, 2008, you have a choice if you expect to continue working in the vicinity of your new job site.

Your first choice is to claim the moving-expense tax deduction and then, if you later become ineligible, you can amend your tax returns and pay the additional tax.

Your second choice is to not claim the moving-expense tax deduction but, when you later meet the work-time test, then file an IRS Form 1040X to claim the moving-expense deduction, which will probably result in a tax refund for you. Most tax advisers suggest making the first choice because if you don't claim the moving-expense deduction when filing your tax returns you might forget to later amend your tax return to claim a tax refund.

INDIRECT MOVING EXPENSES ARE NOT TAX-DEDUCTIBLE. If you have read this far, you probably want to know how much is deductible. To answer that question, it is critical to understand there are indirect and direct moving expenses. One is deductible; the other is not.

An indirect moving expense, which is not deductible, involves costs related to the move but not part of the actual household move.

Examples of indirect, nondeductible expenses include pre-move inspection-trip airline fares, meals enroute during the move, and real estate sales or lease commissions. Also, the costs of moving your butler, cook, maid, chauffeur, nurse, and nanny are nondeductible indirect moving costs.

NO LIMIT ON DEDUCTIONS FOR DIRECT MOVING COSTS. The good news is there is no limit to your direct moving-cost deductions. Examples of deductible direct household moving costs include costs of hiring a moving van, in-transit storage up to 30 days, pet shipping expense, moving insurance, and even expenses for transporting your "personal effects" such as your yacht, horse and recreational vehicle.

If you fly from your old location to your new city, the airline, train or bus fare is deductible. Or, if you drive from your old home to your new home, you can deduct actual out-of-pocket automobile expenses, such as gasoline and oil, but not auto repairs and depreciation.

Or, you can elect the standard 18 cents per mile for moves in 2008, plus parking and tolls. In addition, costs of lodging -- but not meals -- enroute are deductible.

EMPLOYER REIMBURSEMENTS MIGHT AFFECT MOVING-COST TAX DEDUCTIONS. If your employer reimburses you for direct moving costs for which you have receipts, there is no additional taxable income because the deductible moving costs are offset by the employer reimbursement.

However, if your employer gave you a flat moving-cost allowance, the excess allowance exceeding your deductible direct moving costs is taxable income. Employer reimbursement for nondeductible indirect moving costs, such as a pre-move house-hunting trip, is taxable income for the employee.

Members of the U.S. Armed Forces have special rules that do not include moving and storage expenses furnished by the military or cash reimbursements for expenses actually paid. There is also an income exclusion for moving and storage costs incurred by a spouse and dependents of the Armed Forces member even if they do not reside with the military member before or after the move.

However, reimbursements in excess of actual moving costs are included in the service member's gross income, but moving expenses exceeding reimbursements are tax deductible. Further moving-cost deduction details are available from your tax adviser.

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