

Canadian Tax Planners Newsletter

May June 2007

In the next two editions of the Canadian Tax Planners Newsletter, we shall review tax planning opportunities and issues related to moving. This month we shall focus on moves within the country and our next edition will review moves to and from Canada. If individuals are emigrating from Canada, the tax issues can be quite complex, as it may involve a deemed disposition of capital property resulting in the payment of a departure tax. There are tax planning alternatives in such moves, but individuals must also consider the tax rules and possible tax treaties of the other country involved in the move.

Topics to be covered in our review of moving expenses include:

- tax motivated moves
- deductions available to individuals
- special rules applicable to students
- corporate transfer of employees
- developing a tax effective strategy for corporate transfers
- immigrating to Canada
- tax issues that arise when a resident moves out of Canada

Tax Motivated Moves

The most common reasons for moving are related to employment opportunities, family issues or retirement. However, if the levels of income are significant, individuals and corporations can reduce their taxes by moving to a lower tax jurisdiction. This could involve moving to another province or a relocation outside of Canada. If an individual moves from Canada, it is important to understand CRA's definition of a Canadian resident. It is possible that an individual can move to another country and be subject to tax from both Canada and the new country of residence. This normally does not result in a significant level of double taxation due to the tax credits that should be available.

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If individuals make an inter-provincial move, they will pay tax on their entire year's income based upon the province of residence on the last day of the year. Due to family and employment considerations, individuals rarely move between provinces just to reduce their total tax bill. However if one is moving, the timing of the move can impact a family's total tax liability. For example, if an individual was moving from a low tax rate province, such as Alberta, to a higher rate province such as Ontario near the end of 2007, there would be a tax saving if the move was made in early 2008. By moving in 2008, all of the individual's 2007 income would be subject to Alberta, rather than Ontario income tax. If the individual became a resident of Ontario on December 15, 2007, the entire year's income would be subject to tax at Ontario's higher marginal rates. Likewise, if the move was from Ontario to Alberta, it may be prudent to move in late 2007, rather than early 2008.

The tax savings resulting from a move between tax jurisdictions may be greater in the year of death, especially if capital assets are not transferred directly to a surviving spouse. In addition to the differences in marginal tax rates, one should also consider provincial probate fees that are levied on the value of the estate. This may be complex, especially if the assets are located in various jurisdictions. As a result, it may be prudent to have your situation reviewed by a lawyer familiar with the taxation of estates.

Deductions available to Individuals

If an individual moves more than 40 kilometres for reasons of employment or self-employment, certain expenses can be claimed as a deduction for income tax purposes. The following expenditures would qualify as legitimate expenses:

- transportation and storage costs
- travel expenses including vehicle expenses, meals and accommodations
- costs for meals and temporary lodging near either the new or former residence for a period of up to 15 days
- the cost of cancelling a lease on the old residence
- if the home was sold as part of the move, one can also deduct legal fees for the purchase of the new home, plus land transfer taxes. GST and property taxes would not be deductible
- the cost of selling the former home, including real estate commissions, mortgage penalties, legal fees and advertising
- utility hookups and disconnections
- cost of changing one's address on legal documents, such as a drivers license

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